THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2025 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Thursday, May 8, 2025. Our review is attached.

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San Diego Housing Commission

The San Diego Housing Commission (SDHC) was created in 1979 in accordance with State law. SDHC is governed by the San Diego City Council, sitting as the Housing Authority. The Housing Authority delegates many actions to the Housing Commission except those that are expressly retained in the San Diego Municipal Code. For instance, the Housing Authority has final authority over approval of the SDHC budget.

The SDHC's mission is to foster social and economic stability for vulnerable populations in the City through providing affordable housing, opportunities for financial self-reliance, and homelessness programs. SDHC's major programs include 1) providing low-income households rental assistance by operating the City's federally funded housing voucher programs; 2) creating and preserving affordable housing; and 3) addressing homelessness by operating the City's shelter programs and coordinated shelter intake system.

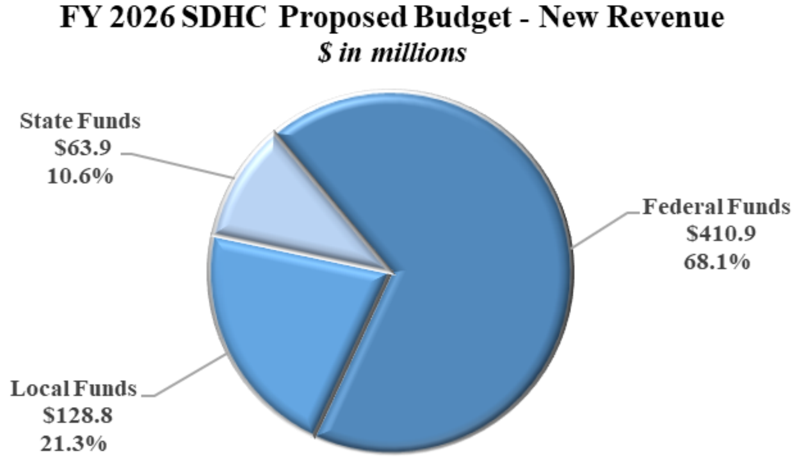
The SDHC has a seven-member board of commissioners that oversees SDHC operations, each appointed by the Mayor and confirmed by the City Council. The Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 8, 2025. On May 9, 2024, the SDHC Board will review SDHC's FY 2026 Proposed Budget and make a recommendation on the Proposed Budget to the Housing Authority.

Overview of FY 2026 Budget Proposal

The SDHC FY 2026 Proposed Budget (Proposed Budget) totals $715.6 million, which is a decrease of $3.3 million, or 0.5%, from the FY 2025 Adopted Budget. As seen in the table below, the overall minor decrease is driven by the removal of one-time capital expenses related to two State Homekey acquisitions completed in FY 2025, offset by increased expenditures for continue funding of federal housing vouchers – both changes to be detailed later.

The remainder of this report details the major changes in the Proposed Budget from the FY 2025 Adopted Budget through a review of the Proposed Budget based first on revenues, then expenditures, followed by major initiatives. The report concludes with issues for Council consideration.

Summary of San Diego Housing Commission Budget Changes			
	FY 2025 Adopted Budget	**FY 2026 Proposed Budget**	**Change**
Full-Time Equivalent Positions	402.00	402.00	-
Personnel Expenses	**$ 58,590,000**	**$ 60,348,000**	**$ 1,758,000**
Non-Personnel Expenses			
Housing Program Expense	425,061,000	443,325,000	18,264,000
Property Expense	18,516,000	20,866,000	2,350,000
Professional Services, Supplies and Other	20,015,000	20,621,000	606,000
Debt Payments	7,431,000	7,428,000	(3,000)
Capital Expenditures	101,909,000	67,646,000	(34,263,000)
Reserves	87,393,000	95,386,000	7,993,000
Non-Personnel Expenses Total	**$ 660,325,000**	**$ 655,272,000**	**$ (5,053,000)**
Total	**$ 718,915,000**	**$ 715,620,000**	**$ (3,295,000)**



Budget by Funding Sources

Of the $715.6 million in revenue budgeted for FY 2026, $603.7 million is *new* revenue from various sources (excluding any carryover funding from prior years), as reflected in the pie chart above. This reflects a net decrease of $1.5 million, or 0.2%, in new revenue, relative to FY 2025 – indicating that new revenues are anticipated to stay steady with FY 2025 levels overall.

The remaining revenue consists of $112.0 million in fund balance carried over from prior years (beginning fund balance). Notably, the largest share, 54.2%, of the beginning fund balance is from the Program Restricted Reserve – with the largest component consisting of funds that are committed to affordable housing projects that have not yet received disbursements. Additionally, SDHC's Operating and Property & Program Reserve make up 24.4% and 21.4% of the beginning fund balance, respectively. Additional discussion on SDHC Reserves can be found later in this report.

The following subsections detail the major changes in the Proposed Budget's federal, State, and local revenue as compared to the FY 2025 Adopted Budget.

<u>Federal Funds – $32.3 million decrease</u>

As shown on the pie chart above, SDHC anticipates receiving 68.1% of its new revenue from the federal government. The Proposed Budget includes a total of $410.9 million in new federal funding which is a net decrease of $32.3 million compared to the FY 2025 Adopted Budget. This decrease consists of many changes, but is primarily driven by:

- $55.5 million decrease associated with the removal of one-time acquisition funds for two State Homekey projects completed in FY 2025. This decrease includes Homekey funds that were initially awarded as federal funds (i.e., pandemic relief) and later programmed as State Homekey funds or local matching dollars. The State Homekey program aims to create new affordable housing units for individuals experiencing homelessness on accelerated timelines.

This decrease is partially offset by the following increases:

- $10.9 million increase in the drawdown of the Section 8/Moving to Work (MTW) Reserve held by the U.S. Department of Housing and Urban Development (HUD), also known as "HUD-held Reserves."
- $9.2 million increase associated with 717 existing housing voucher households moving into the City of San Diego from another agency, also known as "porting in." This is a 59.3% increase from the 450 port-in households reported in FY 2025.
- $2.1 million increase in Section 8/MTW funds from HUD, based on annual HUD adjustment factors such as regional changes in residential rent and utility costs.

Notably, the budgeted amounts related to voucher funding are subject to change based on future federal funding decisions, to be discussed in the "Issues for Council Consideration" section. At the time of this writing, a final funding determination from HUD has not yet been received.

Explanation of "HUD-Held Reserves"

Each month, HUD disperses Section 8/MTW funds for the Housing Choice Voucher program to SDHC based on prior-month actual costs and any additional funds based on when they are needed. The rest of SDHC's allocation is held at HUD, otherwise referred to as "HUD-held reserves." As shared during the update to the Housing Authority on January 14, 2025, SDHC projects federal funding will be insufficient to cover existing rental assistance payments for the remainder of calendar year 2025 into 2026. SDHC plans to use $24.9 million in HUD-held reserves in FY 2026, which is an increase of $10.9 million from FY 2025. The proposed drawdown of HUD-held reserves in FY 2026 would support the continued funding of monthly housing assistance payments provided through Housing Choice Vouchers, as federal funding has not kept pace with the costs of rental assistance.

The drawdown of HUD-held reserves will be requested from HUD as expenses are incurred. After the proposed drawdown, SDHC estimates $13.3 million to remain in ending fund balance in the HUD-held reserve.

<u>Local Funds – $8.0 million increase</u>

The second largest funding source for SDHC consists of various funds generated at the local level called "local funds" which is anticipated to make up 21.3% of SDHC's new revenue in FY 2026. Accounting for the largest share of local revenue, SDHC local funds are generated primarily from rental income from SDHC's affordable housing properties, which is unrestricted revenue. The second largest local revenue source is the City's General Fund, which supports homelessness programs administered by SDHC. To a lesser extent, local funds also include the Affordable Housing Fund, which are derived from fees the City charges on new residential and commercial development to be used for affordable housing.

The Proposed Budget includes a total of $128.8 million in new local fund revenue, which is a net increase of $8.0 million compared to the FY 2025 Adopted Budget. This is primarily driven by:

- $18.4 million increase in City and County funding to support the local match required for a new Homekey+ acquisition proposal, to be discussed later in the "Budget by Major Initiatives" section. Of these funds, the City local match is anticipated to be $11.4 million, and the County share is $7.0 million.

The proposed acquisition is contingent on Council project approval and State award of Homekey+ funds. If the proposal does not proceed, local matching funds would no longer be needed.

- $9.0 million increase from the City's General Funds for homelessness programs (e.g., interim shelters and storage centers). This increase includes full-year operational funding for the 263 replacement beds identified as part of the City's FY 2025 Short Term Action Plan (see IBA Report 24-34 for additional details) and the 210-bed Rachel's Promise shelter for women and children that opened March 2025 on a phase-in basis, along with various other program changes. (More information on this change can be found in our Office's review of the City's homelessness budget in the *Review of the FY 2026 Proposed Budget*.)
- $6.2 million increase in residential rental income and ground lease income.

A total of $5.2 million in new Affordable Housing Fund (AHF) revenue is budgeted for FY 2026. This revenue level represents a $1.1 million, or 18.0%, decrease relative to FY 2025 and is consistent with lower overall AHF revenue relative to past years – a trend that began in FY 2023.

Drivers of Decreased Affordable Housing Funds

SDHC staff notes there is uncertainty regarding future Affordable Housing Fund revenue collection due to a variety of factors. For instance, higher construction costs and interest rates have slowed commercial and residential construction activity. Additionally, the Inclusionary Housing Ordinance changes approved in 2019 could reduce incoming revenue. As of July 1, 2024, changes requiring specified developments to include at least 10% of on-site units as affordable housing or pay a $25.00/square foot in-lieu fee to AHF were fully implemented. During the five-year phase-in period, the required proportion of affordable units to be included in new residential developments was lower than under previous rules, while the fee incrementally increases. Therefore, more developers may have chosen to build units instead of paying the in-lieu fee. Since affordable housing requirements are determined at the time of building permit submission and any in-lieu fees are paid at permit *issuance*, pending projects may still be subject to the phased-in requirements. Furthermore, residential developments can alternatively participate in the City's Density Bonus or Complete Communities programs, which are exempt from the Inclusionary Housing requirements and thereby reduce incoming AHF revenues. AHF revenues peaked at $27.3 million in FY 2017, with more recent years showing at least 83.5% decline relative to FY 2017 – FY 2023 actual collections totaled $3.7 million and FY 2024 was $4.5 million.

<u>State Funds – $22.9 million increase</u>

The remaining 10.6% of SDHC's new revenue is anticipated to come from the State. For FY 2026, "State funds" comprise of two main funding sources– State Homekey+ and Homeless Housing, Assistance and Prevention (HHAP). The Proposed Budget includes a total of $63.9 million in State funding, which is a net increase of $22.9 million compared to the FY 2025 Adopted Budget. This increase is primarily driven by:

- $27.0 million increase from State Homekey+ associated with the previously mentioned Homekey+ project acquisition proposal.

- $2.7 million increase from State HHAP funds, which the City passes through to SDHC to administer some of the City's homelessness programs.

Increases are offset by the removal of one-time funds associated with previous Homekey acquisitions completed in FY 2025, as well as the removal of one-time funds awarded by the State to support the Multidisciplinary Outreach Team.

Fund Balance from Prior Years – $1.8 million decrease

Significant funding is often carried forward into the next fiscal year. Earlier in this report, we described the major components of the beginning fund balance. The total $112.0 million budgeted in FY 2026 is a net decrease of $1.8 million compared to the FY 2025 Adopted Budget. This is primarily driven by:

- $12.3 million decrease from the Operating Reserve beginning fund balances to support expenses incurred in FY 2025, including funding general SDHC operations and various property retrofitting and maintenance needs, such as retrofitting balconies and plumbing repairs.
- $6.8 million decrease in federal HOME funds, which reflects the disbursement of previously awarded developer loans based on when certain project milestones are met.
- $5.6 million decrease in the AHF to reflect expenditures, which may include disbursements of previously awarded developer loans and program expenditures associated with Housing First San Diego, as well as homelessness services funded by AHF.

Decreases in the fund balance are offset by the following:

- $6.0 million increase in the beginning fund balance for federal Community Development Block Grant (CDBG) funds following the City's CDBG allocation for SDHC's next affordable housing Notice of Funding Availability (NOFA) resulting from a permanent shelter proposal at Kettner and Vine not proceeding, based on the City's FY 2025 Adopted Budget.
- $5.3 million increase in Lender-Restricted Operating Reserves.
- $5.0 million increase in Section 8/MTW and Special Vouchers Program-Restricted Reserves.

Budget by Expenditures

The Proposed Budget includes $715.6 million in proposed expenditures. These consist of personnel and non-personnel expenses, as shown in the table on Page 1 of this report. These categories are described in more detail below.

Personnel Expenses

The Proposed Budget includes $60.3 million for personnel expenses, reflecting salaries and benefits for 402.00 Full-Time-Equivalent (FTE) positions. Overall funding levels and FTE positions remain relatively unchanged from FY 2025 levels, with a net increase of $1.8 million, or 3.0%, and no change in FTEs. The increase in personnel expenditures is primarily driven by a 4% cost-of-living salary adjustment and a 3% increase in health benefits, consistent with the Memorandum of Understanding that went into effect July 1, 2024 (retroactively).

The table below shows a breakdown of FTEs by division.

FY 2026 SDHC Staffing by Division	FTE
Rental Assistance	138.00
Real Estate	116.00
Operations Support	97.00
Homeless Housing Innovations	51.00
Total	**402.00**

The Proposed Budget reflects structural reorganizations of SDHC to better align with its current priorities and vision, as presented to the Housing Authority on December 13, 2023. In FY 2025, internal shifts included transferring 5.00 FTEs from the Operations Support Division (OSD), as follows: 3.00 FTEs from OSD's Compliance Team to the Homeless Housing Innovations (HHI) Division to support HHI compliance specifically, 1.00 FTE from OSD's Policy Team to the Real Estate Division to focus on land use, and 1.00 FTE to the Rental Assistance Division to focus on MTW rental assistance.

Non-Personnel Expenses

The Proposed Budget includes $655.3 million in non-personnel expenditures. This is a $5.1 million decrease, or 0.8%, from the FY 2025 Adopted Budget. We address components driving this decrease by major expense category.

Housing Program Expense – $18.3 million increase

Housing Program Expenses is the largest category and includes grant expenses for rental assistance payments, planned affordable housing loans, homelessness programs, and other housing programs. Below is a breakdown of FY 2026 Housing Program Expenses.

FY 2026 Housing Program Expense Breakdown	
Sec 8 / Moving to Work, Housing Choice Voucher	$ 294,521,000
Homelessness[1]	63,416,000
Special Voucher Programs[2]	50,357,000
Loans to be Issued for Affordable Housing	29,941,000
First Time Homebuyer Program Loans	3,942,000
Other Housing Programs	1,148,000
Total	**$ 443,325,000**

Note: Table excludes administrative and other support costs for each program.

[1] Costs for vouchers supporting those who are formerly homeless are included in voucher program lines.

[2] Veterans Affairs Supportive Housing, Mainstream, Family Unification Program, Emergency Housing. Foster Youth to Independence Vouchers

The Proposed Budget includes $443.3 million for Housing Program Expenses, which is an increase of $18.3 million, or 4.3%, compared to the FY 2025 Adopted Budget. This is primarily driven by the following:

- $23.7 million increase in Section 8/MTW Housing Choice Voucher program to largely fund increases associated with the cost of monthly rental assistance payments through Housing Choice Vouchers, as well as increased utilization of Project-Based Housing Vouchers (PBVs), with 373 new units previously awarded PBVs to be completed in FY 2026.
- $4.5 million increase in VASH, Family Unification Program, Mainstream, and Foster Youth in Independence Vouchers. These are considered Special Voucher programs that support unique populations such as veterans, families, adults with disabilities, and transition-age foster youth. In December 2024, SDHC was awarded 75 additional Veterans Affairs Supportive Housing (VASH) vouchers. As of April 2025, all new VASH vouchers have been committed or are pending commitment (i.e., leased, issued, assigned pending eligibility, or committed to project-based development). Of the new VASH vouchers, 40 vouchers are expected to support operations of the recent Homekey+ proposal as project-based vouchers. SDHC was

also awarded 10 Foster Youth to Independence Vouchers and is in the process of awarding these vouchers to ten identified applicants.

- $1.1 million increase in anticipated loans to be issued for programs expanding first-time homeownership opportunities which offer assistance for down payments and closing costs, mostly to low-income households earning up to 80% of area median income. Of this increase, $45,000 is available for first-time homebuyers earning between 80% and 150% of area median income.
- $11.0 million increase associated with SDHC board approved loans awaiting disbursement for affordable housing projects as compared to FY 2025. Previously awarded project loans are disbursed based on projects meeting key milestones.
- $453,000 net increase in the operations of the City's emergency shelters and Safe Storage programs, including a $3.0 million increase for the operation of interim shelters, mostly offset by a $2.5 million decrease for the operation of bridge shelters and Safe Storage programs. As mentioned in our review of the City's Proposed Budget, SDHC and HSSD worked collaboratively with shelter providers to identify non-essential non-personnel expenditure reductions. However, the SDHC Proposed Budget assumes the City will continue funding operations of the 150-bed Rosecrans Shelter, which is proposed to be eliminated in the City's Proposed Budget. In other words, the City's Proposed Budget and SDHC's Proposed Budget differ on continued funding for Rosecrans. If the shelter does not secure other funds and closes in FY 2025, SDHC will have to make conforming changes to its final FY 2026 budget.

These increases are offset by the following decreases:

- $7.3 million decrease associated with the completion of the County Emergency Temporary Lodging program to assist households affected by the January 2024 storms.
- $2.0 million decrease due to the disbursement of loans in FY 2025 previously committed through the Accessory Dwelling Unit (ADU) Finance Program initially funded in FY 2024. The Proposed Budget does not include funding for any new ADU loans in FY 2026.
- $1.4 million decrease in SDHC's Housing First San Diego initiatives, which include landlord engagement, prevention, and diversion programs. The decrease follows lower projections of AHF funding, which is a primary funding source for these programs. SDHC notes that although Housing First initiatives were mainly funded through MTW and AHF in the past, SDHC secured longer-term funding from the San Diego Continuum of Care (CoC), in anticipation of funding changes in MTW and AHF moving forward. In FY 2026, the majority of Housing First San Diego initiatives will be funded with CoC funding.
- $1.4 million decrease for the Multidisciplinary Outreach Team. SDHC anticipates the program will operate with reduced funding in FY 2026, since no City funds were requested to support the program due to the City's limited budget resources. The program received $1.1 million from the General Fund in FY 2025 and is likely to be budgeted with an estimated $600,000 from State grant

funds awarded in the 2023-2024 State Budget. SDHC staff plan to identify other funds to continue this program, but if additional funds are not identified, the program will likely begin ramping down.

Background on Project-Based Vouchers

Budgeted at $294.5 million in FY 2026, federal Housing Choice Voucher rental assistance is SDHC's largest program. This includes both tenant-based vouchers which follow voucher households across rental housing units, and project-based vouchers (PBVs) which are tied to a specific development or housing unit.

As discussed during the Housing Authority meeting on January 14, 2025, because federal funding has not kept pace with voucher costs, SDHC anticipates rental assistance payments to continue exceeding available federal funds through FY 2026. As a result, SDHC does not anticipate awarding any new PBVs under the Housing Choice Voucher program in the next several years. Previously, SDHC awarded a total of 879 PBVs to new developments that will be constructed through FY 2028. Of these, 373 new PBVs are expected to come online in FY 2026.

Based on data from February 28, 2025 (most recently available), SDHC rental housing voucher programs serve slightly under 17,000 households, with over 70,000 households on the waitlist, waiting an average of more than 15 years before receiving a voucher.

<u>Capital Expenses – $34.3 million decrease</u>

The Proposed Budget includes $67.6 million in capital expenses for FY 2026. This is a $34.3 million, or 33.6%, decrease compared to the FY 2025 Adopted Budget, largely driven by the following:

- $79.9 million decrease for the removal of one-time funds associated with the acquisition and rehabilitation of two State Homekey projects completed in FY 2025.
- $1.5 million decrease for the removal of one-time funds to renovate a portion of the SDHC headquarters to serve as a transitional age youth LGBTQ+ shelter, which began operations in April 2025.

These decreases were offset by the following increases:

- $45.4 million increase in funds for a proposed Homekey acquisition, consisting of $27.0 million from State funds, along with $11.4 million for matching funds from the City and $7.0 million from the County.
- $3.1 million increase to rehabilitate SDHC-owned properties. Typically, SDHC prioritizes life and safety issues, regulatory requirements, and urgent property needs. In Fall 2024, SDHC began performing Physical Needs Assessments (PNAs) to evaluate the condition of its real estate portfolio and identify needed repairs on an immediate (for health and life safety concerns), short-term, or long-term basis. The PNAs were completed in February 2025 and will provide a repair schedule over a four-year period. The Proposed Budget includes funding for the more immediate rehabilitation needs identified in the first year of the PNAs, which includes replacement or major repair of roof and gutters, plumbing pipes, boilers, and parking lots, as well as elevator upgrades, tree removal, and interior flooring replacement. SDHC anticipates repairs will be completed at various properties based on need and priority.

Property Expense, Professional Services, Supplies, Debt Payments, and Other – $3.0 million increase

The Proposed Budget includes a total of $48.9 million in Property Expense, Professional Services, Supplies, Debt Payments, and Other expenses in FY 2026, an increase of $3.0 million, or 6.4%, relative to FY 2025. This increase is driven primarily by increased expenditures related to routine and extraordinary maintenance ($1.6 million), security costs ($610,000), and utilities ($272,000) at SDHC-owned properties, as well as higher insurance ($404,000) and software ($397,000) costs. These increases are offset by a $732,000 decrease in other services and supplies, including discretionary budget reductions to legal services ($175,000) and professional consultants ($108,000).

Ending Fund Balances/Reserves – $8.0 million increase

SDHC has three reserve categories: Program Restricted Reserves (unspent funds restricted to programs), Property Reserves (to maintain SDHC properties and required by lenders), and Operating Reserves (to maintain SDHC-owned property and general operations in case of unforeseen or emergency circumstances), which in the FY 2026 Proposed Budget total $95.4 million. The Proposed Budget anticipates a net increase of $8.0 million across the SDHC reserves in FY 2026, primarily driven by a $6.6 million increase in the Program Restricted Reserves due to loans committed or pending award for affordable housing projects that will be disbursed to developers after FY 2026 and hence carry forward to future years. SDHC holds funds in reserve for affordable housing developments until all the financing components are secured and then disperses loan proceeds throughout construction as project milestones are achieved. This process can span multiple years.

Budget by Major Initiatives

Whereas previous sections reviewed the SDHC Proposed Budget based on revenue and expenditures, this section describes the notable initiatives in the Proposed Budget.

Creation of Affordable Housing

Homekey+ Proposal - $45.4 million

The Proposed Budget includes $45.4 million across local, State, and federal funding sources to fund a proposed State Homekey+ project. The State Homekey+ program is a component of the Behavioral Health Infrastructure Bond Act, approved by voters in March 2024 as part of Proposition 1. Modeled after the State's existing Homekey program, the Homekey+ program funds the acquisition and rehabilitation of properties to create affordable housing with supportive services on an expedited timeline for individuals – including veterans and youth – with mental health or substance use challenges who are at risk of or experiencing homelessness, including chronic homelessness. The State Homekey+ program is funded by Proposition 1 bond funds and HHAP Homekey+ Supplemental funding.

The City's Homekey+ proposal would acquire and develop an existing property to provide up to 81 permanent supportive housing units dedicated to individuals experiencing or at risk of homelessness with mental health or substance use disorder challenges. Located in the Serra Mesa neighborhood, the existing property was constructed in 2022 as a 90-unit short-term vacation rental property. SDHC anticipates some units will need to be converted into property management and service provider offices, as well as ADA-accessible laundry rooms. Of the total units, 40 units would be set aside specifically for veterans, as SDHC requested approval from the US Department of Veterans Affairs to use 40 VASH vouchers (of the 75 newly awarded VASH vouchers previously mentioned) as project-based vouchers to help support operations. Residents would be referred through the Coordinated Entry System.

As an initial step towards site acquisition and applying for Homekey+ funds, the SDHC Board approved a purchase and sale agreement at a purchase price not to exceed $37.4 million ($415,000 per unit) on April 25, 2025. Property acquisition is contingent on receiving State Homekey+ funds, which are requested at up to $35.0 million.

At the time of this writing, the City has identified $17.5 million in federal CDBG funds for the City's potential local match, following Council action taken on the FY 2026 HUD Annual Action Plan on April 22, 2025. Of this amount, SDHC budgeted $11.4 million for a City local match, with $6.0 million in remaining funding to be awarded in the next SDHC Notice of Funding Availability (NOFA) for affordable housing developers in Fall 2025, per the FY 2025 Adopted Budget.

FY 2026 Notice of Funding Availability (NOFA) - $22.8 million

SDHC intends to issue a $22.8 million NOFA for which external affordable housing developers could apply to receive funds to help support the creation of affordable housing. SDHC estimates that the proposed funding would create approximately 228 new permanent affordable housing units. The proposed funding draws from local Affordable Housing Funds ($9.8 million), federal HOME funds ($7.0 million), and federal CDBG funds ($6.0 million), made available for the SDHC NOFA per City Council's final action adopting the FY 2025 Adopted Budget. As the City's FY 2025 Adopted Budget reallocated $6.0 million from Affordable Housing Funds initially proposed for the FY 2025 SDHC NOFA, there were insufficient funds remaining ($3.0 million from HOME) to fund a FY 2025 SDHC NOFA.

Homeownership – $3.9 million

The Proposed Budget sets aside $3.9 million for First-Time Homebuyer Programs. The proposed funding would support up to 35 first-time homebuyer household. Staff anticipate the full $3.9 million will be committed, despite challenging market conditions and high interest rates.

Issues for Council Consideration

Program Impacts Due to Federal Funding Uncertainty

On March 15, 2025, a year-long continuing resolution (CR) was signed into law that maintained funding levels for federal housing vouchers through September 30, 2025, which only covers the first quarter of FY 2026. Funding levels in the CR are largely consistent with prior year funding levels. This means that recent increases in residential rents and housing costs assumed for federal Housing Choice and Special Vouchers in the Proposed Budget may not be fully funded. The Proposed Budget incorporates forecasted federal funding levels for the remainder of calendar year 2025 based on a HUD letter released December 6, 2024, but if funding levels in the next federal spending bill are ultimately lower than forecasted, subsequent changes to funding budgeted for the Housing Choice and Special Vouchers would be needed. **Council may wish to ask about the funding options**

available to SDHC to continue funding critical rental assistance payments if federal funding remains insufficient in the foreseeable future.

According to SDHC, future federal MTW allocations will likely be insufficient to cover the full cost of voucher programs, especially as the value of vouchers increased in FY 2025 to account for higher rents in the region. As a result, SDHC plans to rededicate flexible MTW funds currently used for other initiatives.

This has impacted funding for the 93-bed Interim Family/Women's Shelter. SDHC partially funds the program with MTW funds and, during development of the City's FY 2026 Proposed Budget, SDHC requested the City to fund a $308,000 increase to continue shelter operations. Although the City's Proposed Budget does not include these additional funds, SDHC plans to request these funds be included in the May Revision. If these funds cannot be secured, 32 shelter beds serving single parent households would be taken offline.

Additionally, SDHC began discussions with San Diego State University (SDSU) to wind down the Guardian Scholars Program, which SDHC funded using MTW funds. Through the Guardian Scholars Program, SDHC provides rental assistance for up to 100 SDSU students who were at risk of experiencing homelessness, including youth aging out of foster care. SDHC's Proposed Budget provides $200,000 for this program to continue rental assistance for current participants, which is a $400,000 reduction relative to FY 2025. SDHC is in discussions with SDSU to identify alternate funding sources, such as philanthropic funds, to continue program operations.

Update on Federal Emergency Housing Vouchers

Emergency Housing Vouchers (EHVs) became available through the American Rescue Plan Act (ARPA) of 2021. The vouchers are intended to assist those who are homeless, at-risk of homelessness, fleeing or attempting to flee domestic violence, dating violence, sexual assault, stalking, or human trafficking, or were recently homeless or have a high risk of housing instability. As EHVs were funded on a one-time basis, these vouchers were expected to be temporary in nature. For instance, as part of the eventual winddown of the program, HUD issued guidance in July 2023 that EHVs currently in use were not be to reissued to new households when participants leave the program after September 30, 2023.

On March 6, 2025, additional HUD guidance provided notification that the calendar year 2025 allocation would allocate all remaining EHV funds. HUD advised localities to budget use of remaining EHV funds, which are intended to cover at least the remainder of calendar year 2025 but can be used through September 30, 2035, when EHV funds expire. As of April 2025, SDHC provides rental assistance to around 460 households through EHVs. SDHC is awaiting notification of the remaining funds available to support EHVs for 2025 and potentially 2026. **Council may wish to request periodic updates on the remaining funding and transition plan to support EHV households, when this information is available to SDHC.**

Community Action Plan Update

In October 2019, the City Council approved the Community Action Plan on Homelessness (Community Action Plan), which intends to systematically address homelessness. The Community Action Plan includes three goals to achieve in three years, recommended actions, and key strategies. Goals include decreasing unsheltered homelessness by 50% and ending veteran and youth homelessness.

In November 2023, Council heard the Community Action Plan Update (Update), reflecting progress since the initial plan's release and changes due to the pandemic. According to the Update, the City has made progress, but would need to spend an additional $280.0 million annually above current spending levels to address the remaining needs for: 465 to 920 new shelter beds, as well as 2,700 diversion, 1,485 prevention, 3,080 rapid rehousing, 3,520 supportive housing, and 340 low-income housing resources.

To better inform the City on potential allocations of resources, SDHC plans to release another update to the Community Action Plan on May 20, 2025. Additionally, the upcoming release of San Diego's Point-in-Time Count for 2025, expected late May, will assist in identifying the subpopulations most in need of homelessness services. **During Council discussion of the May Update to the Community Action Plan, Council may wish to ask how the SDHC Proposed Budget aligns with the latest Update and whether there are any recommended changes based on the goals of the Update. Additionally, Council may wish to discuss how the City can most strategically use and prioritize limited City resources to most effectively address homelessness.**

SDHC Legacy Housing Program Funds

SDHC's Proposed Budget carries forward at least $4.7 million in beginning fund balances from legacy housing programs that are restricted in use, are not actively collecting significant new revenue, and have not yet accumulated sufficient funds to award to new projects. Examples of these program funds are described below:

- $2.3 million in remaining balance in the Single Room Occupancy (SRO) Hotel Replacement Fund. This Fund was established in the San Diego Municipal Code under the City's SRO Hotel Regulations approved by Council in 1997, which requires a one-for-one replacement when SRO hotels are demolished, converted, or rehabilitated, under certain circumstances. The Fund collects a fee in lieu of providing replacement SRO hotel rooms equal to 50% of the replacement cost of SRO hotel rooms to be demolished or converted. Funds are restricted to the production or rehabilitation of SRO hotel rooms or converting non-residential properties into SRO hotels. Based on available information, the fund balance has largely remained unchanged since FY 2023.
- $2.5 million in remaining balance associated with in-lieu fees generated from the North City Future Urbanizing Area (NCFUA), which includes Black Mountain Ranch, San Dieguito, Pacific Highlands Ranch, Torrey Highlands, and Shaw Ridge/Del Mar Mesa. Council adopted the NCFUA Framework Plan and Implementation Program in 1992 (R-280787), which established higher affordable housing requirements with 20% of units set aside for low-income households in new developments located in NCFUA. At the time, NCFUA consisted of approximately 12,000 acres of agricultural land in the northern part of the City. The Plan also required the City to collect funds in lieu of affordable housing construction to be retained for future construction of affordable units within the NCFUA, which could not be distributed for citywide use. Based on available information, the fund has collected on

average around $150,000 over the past nine years. Since 1992, the NCFUA has been largely developed, and the potential for substantial future revenue growth beyond the $2.5 million in existing funds could be limited.

Given Council's priorities for additional affordable housing and limited available funding for this priority, Council may want to request the City Attorney's Office work with SDHC to identify housing program funds with carrying balances that are largely inactive and present to Council options to spend down any remaining balances. Due to existing restrictions on some funds, future Council action would likely be needed to waive requirements, if possible, and allow use of these funds to support current Council priorities, such as for a future NOFA or affordable housing preservation fund.

Potential Updates to AHF Requirements

A primary source of the City's ongoing affordable housing funds comes from AHF, which as previously discussed collects fees the City charges on new residential and commercial development to be used for affordable housing. The fees collected from commercial development are deposited into the Housing Trust Fund within the AHF. As established by the San Diego Municipal Code (section 98.0504), at least 10% of funds in the Housing Trust Fund must be spent on transitional housing for households lacking permanent housing. Although "transitional housing" is not defined in the Municipal Code, it is typically defined as "programs that provide extended shelter [up to 24 months] and supportive services primarily for homeless individuals and/or families with the goal of helping them live independently and transition into permanent housing. Some programs require that the individual/family be transitioning from a short-term emergency shelter."[1] In recent years, the AHF Plan has allocated up to $434,000 in grant awards to transitional housing programs in the City.

However, continued AHF funding for transitional housing is not aligned with the City's Community Action Plan or general best practices. The City's Community Action Plan calls for moving away from transitional housing due to high cost and poor housing outcomes.[2] Nationally, best practices have shifted to align with Housing First principles, which favors rapid re-housing and other permanent housing initiatives over long-term stays at transitional housing. Lastly, because the City does not operate transitional housing programs, the set-aside requires the City to redirect locally generated funds outside of City operations to cover similar services as those offered by the City.

Hence, Council may wish to revisit the AHF transitional housing set-aside and potentially request the City Attorney's Office to work with SDHC to provide options to remove the AHF set-aside for transitional housing. Removing the set-aside would allow these AHF funds to support affordable housing development, Housing First San Diego programs, and other housing and homelessness initiatives funded through AHF. Alternatively, Council could consider requesting the 10% set-aside be

[1] See 2-1-1 San Diego definition: https://211sandiego.org/housing-information/

[2] See page 11 of the Community Action Plan Update presented to Council on November 14, 2023: "The intentional decrease in transitional housing beds was outlined in the Community Action Plan based on low utilization rates and high costs for lower housing placement outcomes. In addition, between 2019-2023, transitional housing "grant and per diem beds" serving homeless veterans were decreased based on national funding that emphasized more permanent housing options through HUD VA Supportive Housing (VASH) vouchers."

updated to allocate funds to emergency interim housing, but initial research from the City Attorney's Office suggests that such an amendment could require updates to the AHF nexus study, which was last updated in 2013.

SDHC Reserves Policy

Following the FY 2025 budget process, SDHC agreed to review agency reserves and develop written policies regarding targeted reserve levels and allowable uses of reserves. SDHC has since developed internal reserve policies intended to maintain financial, service level, and housing partnership stability in times of emergencies or unforeseen expenditures, as follows:

- The Property & Program Reserve funds major repairs, capital improvements, replacement of critical infrastructure (generally, 5% to 10% of total capital assets value), as well as ensure sufficient reserves as required by lenders or investors for real estate transactions (recommended at two months of debt service).
- The MTW Program Restricted Reserve ensures sufficient funds to prevent interruption in rental assistance payments for both tenant- and project-based vouchers, as well as MTW-funded programs (both recommended at one month of projected expenses).
- The Operating Reserve aims to have sufficient general operating funds for administering and operating SDHC housing programs (recommended at a minimum of one months of budgeted expenses), as well as SDHC-owned properties (recommended at a minimum of two months of operating expenses).

These reserves are in addition to the Program Restricted Reserve for SDHC loans to be awarded or previously awarded that are pending disbursement to affordable housing projects, following projects meeting key milestones.

We consider the development of SDHC internal reserve policies to be a positive step in clarifying the intended use of reserve funds and establishing reserve targets that would help maintain overall stability during unexpected circumstances.