



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item: Subitem-J

Review of City Agencies FY 2027 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 7, 2026. 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 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. In administering federally funded housing vouchers, SDHC is one of 139 Moving to Work (MTW) agencies nationally meaning the agency may request certain flexibilities to advance innovation, increase cost-effectiveness, and provide incentives for self-

sufficiency in the delivery of its housing assistance program.

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 7, 2026. On May 8, 2026, the SDHC Board will review SDHC’s FY 2027 Proposed Budget and make a recommendation on the Proposed Budget to the Housing Authority.

Overview of FY 2027 Budget Proposal

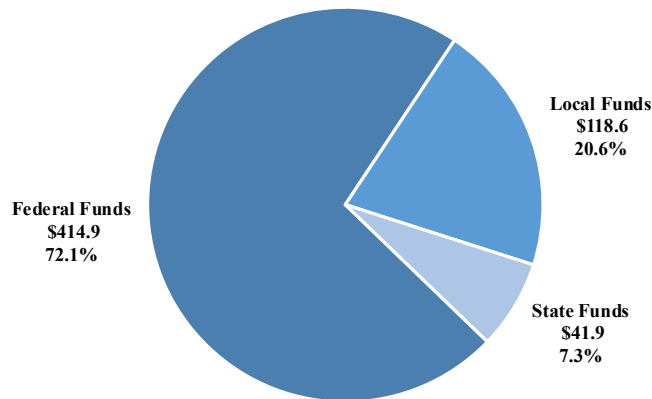
The SDHC FY 2027 Proposed Budget (Proposed Budget) totals approximately \$688.1 million, which is a decrease of \$28.1 million, or 3.9%, from the FY 2026 Adopted Budget. As seen in the table below, the decrease is primarily driven by the removal of one-time capital expenses related to a State Homekey+ acquisition completed in FY 2026, along with cost-containment efforts implemented mid-FY 2026 to better align SDHC operational

Summary of San Diego Housing Commission Budget Changes			
	FY 2026 Adopted Budget	FY 2027 Proposed Budget	Change
Full-Time Equivalent Positions	402.00	361.00	(41.00)
Personnel Expenses Total	\$ 60,175,000	\$ 52,538,000	\$ (7,637,000)
Non-Personnel Expenses			
Housing Program Expense	445,865,000	434,329,000	(11,536,000)
Property Expense	20,866,000	22,224,000	1,358,000
Professional Svcs, Supplies & Other	20,801,000	20,715,000	(86,000)
Debt Payments	7,428,000	7,687,000	259,000
Capital Expenditures	67,788,000	20,993,000	(46,795,000)
Ending Fund Balance	93,195,000	129,567,000	36,372,000
Non-Personnel Expenses Total	\$ 655,943,000	\$ 635,515,000	\$ (20,428,000)
Total	\$ 716,118,000	\$ 688,053,000	\$ (28,065,000)

City Agencies: San Diego Housing Commission

FY 2027 SDHC Proposed Budget- New Revenue \$ in millions

Total New Revenue: \$575.4M



costs with anticipated funding – both changes are detailed later.

The remainder of this report details the major changes in the Proposed Budget from the FY 2026 Adopted Budget through a review of proposed revenues, then expenditures, followed by major initiatives. The report concludes with issues for Council consideration.

Budget by Funding Sources

Of the \$688.1 million in revenue budgeted for FY 2027, \$575.4 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 \$28.7 million, or 4.8%, in new revenue, relative to FY 2026 – primarily due to the removal of one-time funds associated with a Homekey+ acquisition. Setting aside one-time Homekey+ acquisition funds, net new revenue in FY 2027 is expected to be \$8.6 million higher than FY 2026, an increase of 1.5%.

The remaining revenue consists of \$112.7 million in fund balance carried over from prior years (beginning fund balance). Notably,

the largest share, 57.5%, 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 Contingency/Operating and Property/Real Estate Reserve make up 23.4% and 19.1% 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 2026 Adopted Budget.

Federal Funds – \$16.7 million decrease

As shown on the pie chart above, SDHC anticipates receiving 72.1% of its new revenue from the federal government. The Proposed Budget includes \$414.9 million in new federal funding which is a net decrease of \$16.7 million, or 3.9%, compared to the prior year. This decrease consists of many changes, but is primarily driven by:

- \$17.5 million decrease associated with the removal of one-time acquisition funds for

City Agencies: San Diego Housing Commission

the Starling Place State Homekey+ project completed in FY 2026. This decrease includes Homekey+ funds that were initially awarded as federal funds (e.g., Community Development Block Grant funds) and later programmed as local matching dollars. The State Homekey+ program aims to create new affordable housing units for veterans and individuals experiencing homelessness on accelerated timelines.

- \$8.6 million decrease for Emergency Housing Vouchers (EHVs) due to federal program funds being exhausted, to be detailed later.
- \$8.2 million decrease 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,” to be detailed later.

These decreases are partially offset by the following increases:

- \$4.8 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.
- \$4.6 million increase associated with 713 existing housing voucher households moving into the City of San Diego from another agency, also known as “porting in.” This largely maintains FY 2026 levels of port-in households. Typically, SDHC bills initial public housing agencies for households that port-in if there is a lack of available funding and/or vouchers for

SDHC to absorb these vouchers, as is currently the case.

- \$3.5 million increase in HOME Investment Partnerships Program (HOME) funds to reflect City’s annual program income and entitlement. Due to insufficient funds, SDHC did not issue a Notice of Funding Availability (NOFA) for affordable housing in FY 2025.¹ As HOME is typically a NOFA funding source, the additional time between NOFAs resulted in the accumulation of HOME program income. With the issuance of the FY 2026 SDHC NOFA in Fall 2025, an increase in allocated HOME funds is anticipated to support resumed loan activities.

Notably, the budgeted amounts related to voucher funding are subject to change based on future federal funding decisions. At the time of this writing, a final funding determination from HUD has not yet been received but is expected this Spring.

Update on Emergency Housing Vouchers

Established through the American Rescue Plan Act (ARPA) of 2021, EHVs 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 in-stability. As EHVs were funded on a one-time basis, these vouchers were expected to be temporary in nature. In March 2025, HUD provided notification that the last funding allocation for EHVs would be made available in calendar year 2025. As no additional funding will be provided for EHVs, any

¹ As the City’s FY 2026 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.

City Agencies: San Diego Housing Commission

remaining funding from the final allocation will be available to cover costs in 2026. In FY 2027, SDHC anticipates \$4.1 million will be available for this purpose through Fall 2026, after which the EHV program will end. This is an \$8.4 million, or 67.0%, decrease from the prior year. SDHC currently has 368 EHV households. The FY 2026 Section 8 Housing Voucher Administrative Plan approved by the Housing Authority on [October 21, 2025](#), included amendments to provide waitlist priority to EHV holders for Housing Choice Vouchers for up to one year after EHV funds are exhausted.

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 presented by SDHC on [December 11, 2025](#) to the SDHC Board, federal funding has not kept pace with the cost of rental assistance, due to rising rental assistance costs and inadequate federal funding. For instance, the average monthly subsidy for a housing voucher increased by 80.0% from \$876/month in FY 2020 to \$1,576/month in FY 2026 (through end of August 2025), largely to allow vouchers to keep up with rising City rents in recent years. SDHC estimated at that time the gap between federal funding and SDHC’s actual cost to operate the voucher program at \$26.6 million in FY 2026. To help cover this shortfall, the FY 2026 Adopted Budget included a \$24.9 million drawdown from HUD-held reserves.

In [November 2025](#), SDHC proposed changes to how rental assistance is calculated for Housing Choice Voucher households aimed at increasing family contributions, including for households with one or more working adult, to reduce program costs starting in FY 2027 and to put the voucher program on a more financially sustainable path moving forward. For FY 2027, SDHC anticipates fully drawing down its HUD-held reserves following a \$16.7 million withdrawal. Of these funds, \$9.6 million is anticipated to go into the FY 2027 Section 8/MTW Program Restricted Reserve ending fund balance to be available to support the housing voucher program.

Local Funds – \$10.0 million increase

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 20.6% of SDHC’s new revenue in FY 2027. 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 \$118.6 million in new local fund revenue, which is a net increase of \$10.0 million, or 9.2%, compared to the FY 2026 Adopted Budget. This is primarily driven by:

- \$6.0 million increase from City Neighborhood Enhancement Fee (NEF) funds for

City Agencies: San Diego Housing Commission

the Affordable Housing Preservation Fund (Preservation Fund). For the FY 2026 Adopted Budget, Council took action to allocate \$5.0 million from the Neighborhood Enhancement Fund (a fee collected as part of Complete Communities – Housing Solutions) to create the Preservation Fund. The Preservation Fund is intended to acquire and extend the affordability of both naturally occurring and deed-restricted affordable units at risk of converting to market-rate. Due to the timing needed to arrange the transfer of funds from the City to SDHC, the SDHC Proposed Budget reflects this \$5.0 million allocation in FY 2027, along with a \$1.0 million increase in available NEF funds.

- \$5.4 million increase in residential rental income from SDHC-owned affordable housing properties, primarily due to SDHC efforts to re-evaluate rental rates to be competitive with the wider affordable housing rental market. On average, rents are expected to increase by 5% before factoring in inflation. Affected households will be notified 60 days prior to the end of the lease term. This additional rent revenue is also part of SDHC efforts to align operational expenses with revenue sources.

This increase is partially offset by a \$1.6 million decrease from the County of San Diego Behavioral Health Impact Fund to support the rehabilitation costs of the Pacific Village State Homekey project, completed in FY 2026.

The Proposed Budget also includes a reduction of \$198,000 in City funds to operate homelessness programs. As a general note, the SDHC Proposed Budget reflects SDHC funding requests and may not necessarily align

with the City's Proposed Budget, given pending budget decisions. Following the City's FY 2027 budget adoption, any conforming changes would be made to SDHC's budget upon approval by the Housing Authority, as needed. (More information on changes to City funding for homelessness programs can be found in our Office's review of the City's homelessness budget in the [Review of the FY 2027 Proposed Budget](#).)

A total of \$5.5 million in new Affordable Housing Fund (AHF) revenue is budgeted for FY 2027. This revenue level represents a \$311,000, or 6.0%, increase relative to FY 2026 and is consistent with lower overall AHF revenue relative to past years – a trend that began in FY 2023.

Recent Affordable Housing Funds Trends

Under the City's 2019 Inclusionary Housing Ordinance, projects with 10 or more residential units are required to set aside a minimum of 10% of total units for deed-restricted affordable housing for households earning up to 60% of area median income. Projects that do not meet this requirement and that are not otherwise exempt from the Ordinance must pay an in-lieu fee, set at \$25.92/square feet in FY 2026. Revenue collected from in-lieu fees from residential developments and fees charged to commercial developments are deposited into the Affordable Housing Fund. Due to changes in the phase-in of the 2019 Ordinance, the City's recent efforts to incentivize more affordable housing, and general market conditions, AHF revenue tends to fluctuate. AHF revenues peaked at \$27.3 million in FY 2017, with more recent years showing an average 69.3% decline relative to FY 2017. For instance, FY 2023 actual collections totaled \$3.7 million (86.4% decline relative to

City Agencies: San Diego Housing Commission

FY 2027), and FY 2024 brought in \$4.5 million (83.5% decline relative to FY 2027). In FY 2025, two new developments opted to pay the AHF in-lieu fee resulting in \$16.9 million in AHF revenue collection – a seven-year high. Lower AHF revenue in recent years may be attributable to more developers participating in the City’s Density Bonus or Complete Communities programs, which are exempt from the Inclusionary Housing requirements and thereby reduce incoming AHF revenues.

State Funds – \$22.0 million decrease

The remaining 7.3% of SDHC’s new revenue is expected to come from the State. For FY 2027, “State funds” comprise of three main funding sources—Homeless Housing, Assistance and Prevention (HHAP), State Infill Infrastructure Grant fund, and State Homekey+ funds for rehabilitation. The Proposed Budget includes a total of \$41.9 million in State funding, which is a net decrease of \$22.0 million, or 34.4%, compared to the FY 2026 Adopted Budget. This decrease is primarily driven by:

- \$19.7 million decrease due to the removal of one-time funds associated with the Starling Place State Homekey+ acquisition that was completed in FY 2026.
- \$5.0 million decrease in State Infill Infrastructure Grant funds, which promote infill housing development by providing gap financing for infrastructure and other capital improvements necessary for infill projects that include affordable housing. SDHC primarily acts as a pass through for IIGC funds from the State to awarded developers. The State awarded SDHC \$45.0 million in FY 2024, which is to be disbursed through FY 2028. The Proposed Budget includes \$10.0 million for loan disbursements from these grant funds.

- \$715,000 decrease from State HHAP funds, which the City passes through to SDHC to administer some of the City’s homelessness programs.

Decreases are offset by a recent award of CalHOME funds for First-Time Homebuyer mortgage assistance and Accessory Dwelling Unit financing assistance, which total \$5.0 million spread over two years. Of these funds, \$2.1 million is budgeted in FY 2027.

Fund Balance from Prior Years – \$645,000 increase

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 \$112.7 million budgeted in FY 2027 is a net increase of \$645,000 compared to the FY 2026 Adopted Budget. This is primarily driven by:

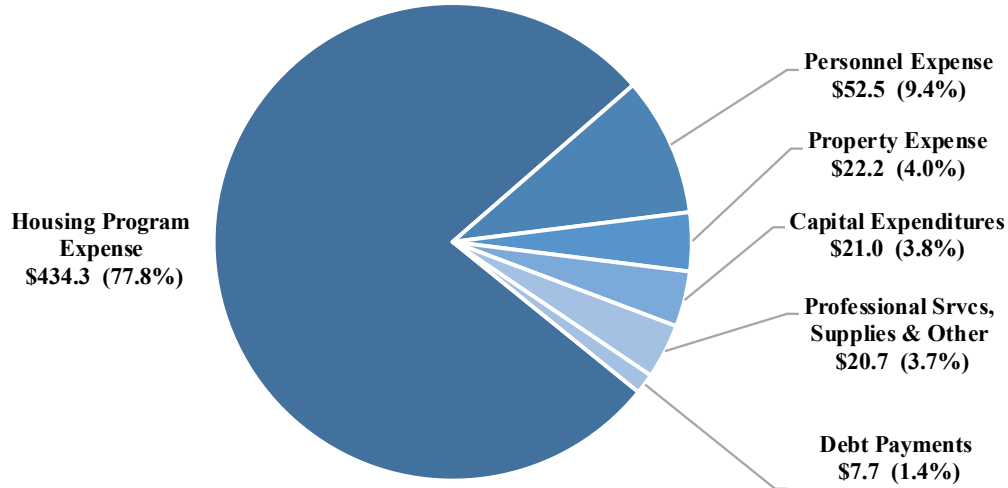
- \$8.1 million increase in the AHF fund balance, which includes loan commitments to affordable housing projects that will be disbursed after projects meet specific project milestones. The lack of a FY 2025 SDHC NOFA also contributed to the accumulation of AHF fund balance.
- \$4.1 million increase in residential rental income generated from SDHC-owned properties available to fund property repairs, maintenance, and general SDHC operations.
- \$3.2 million increase in Section 8/MTW and Special Vouchers Program-Restricted Reserves.

Increases in the fund balance are offset by the following:

- \$6.1 million decrease from the General Contingency/Operating Reserve

City Agencies: San Diego Housing Commission

FY 2027 SDHC Proposed Budget - Expenditures by Major Category
\$ in millions, excludes ending reserves
 Total Expenditures: \$558.5M



beginning fund balances to support expenses incurred in FY 2026, including funding general SDHC operations.

- \$6.0 million decrease in Community Development Block Grant funds, previously allocated by the City Council as part of final budget modifications in the FY 2025 Adopted Budget. SDHC issued a NOFA in August 2025 and ultimately awarded the funds to two project acquisitions, with the remaining \$593,000 directed to support the Starling Place Homekey+ acquisition, as approved by Council on January 26, 2026.
- \$2.1 million decrease in the Property Replacement Reserve.

Budget by Expenditures

The Proposed Budget includes \$558.5 million in proposed expenditures and \$129.6 million in ending fund balances. These consist of

personnel and non-personnel expenses, as shown in the table on Page 1 of this report and in the figure above. These categories are described in more detail below.

Personnel Expenses

The Proposed Budget includes \$52.5 million for personnel expenses, reflecting salaries and benefits for 361.00 Full-Time-Equivalent (FTE) positions. This represents a 41.00 FTE and associated \$7.6 million decrease in overall FTE and personnel expenses. The decrease in personnel expenditures is primarily driven by cost containment efforts to reduce SDHC operational costs in alignment with federal and local revenue sources. As discussed during the Housing Authority meeting on [March 17, 2026](#), SDHC implemented a 14% workforce reduction, eliminating 33 occupied positions and 25 vacant positions. Cost containment efforts also included suspending employee performance incentive payments in FY 2027. The Proposed Budget also includes a

City Agencies: San Diego Housing Commission

4% cost-of-living salary adjustment and a 3% increase in health benefits, consistent with the third (and last) year of current Memorandum of Understanding that went into effect July 1, 2024.

The table below shows a breakdown of FTEs by division.

FY 2027 SDHC Staffing by Division			
Division	FY 2026	FY 2027	Change
Rental Assistance	138.00	123.00	(15.00)
Real Estate	116.00	114.00	(2.00)
Operations Support	97.00	79.00	(18.00)
Homeless Housing Innovations	51.00	45.00	(6.00)
Total	402.00	361.00	(41.00)

Although 58.00 FTEs were reduced due to SDHC cost-containment efforts, the Proposed Budget adds 17.00 new positions to the Real Estate Division to primarily continue SDHC efforts to transition property management services in-house, including the following:

Real Estate Division

- 5.00 Property Managers with 1.00 each at the following SDHC-owned properties: Valley Vista, Kearny Vista, and Hillcrest Inn, and 2.00 for Starling Place
- 3.00 Property Manager Assistants 1.00 each at Valley Vista, Kearny Vista, and Starling Place
- 5.00 Maintenance Techs with 2.00 each at Kearny Vista and Valley Vista, and 1.00 at Hillcrest Inn
- 2.00 Office Specialists with 1.00 each at Kearny Vista and Valley Vista
- 1.00 Maintenance Coordinator

Additionally, 1.00 homeownership advisor will be added to support the Middle-Income First Time Homebuyer Program.

Non-Personnel Expenses

The Proposed Budget includes \$505.9 million in non-personnel expenditures. This is a \$56.8 million decrease, or 10.1%, from the FY 2026 Adopted Budget, mainly driven by the removal of \$45.5 million in one-time funding associated with the Homekey+ acquisition. We address components driving this decrease by major expense category.

Housing Program Expense – \$11.5 million decrease

Housing Program Expense 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 2027 Housing Program Expenses:

FY 2027 Housing Program Expense Breakdown	
Sec 8 / Moving to Work, Housing Choice Voucher	\$ 297,588,000
Homelessness ¹	64,774,000
Special Voucher Programs ²	43,434,000
Loans to be Issued for Affordable Housing	22,287,000
First Time Homebuyer Program Loans	5,342,000
Other Housing Programs/Expenses	905,000
Total	\$ 434,330,000

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 \$434.3 million for Housing Program Expenses, which is a decrease of \$11.5 million, or 2.6%, compared to the FY 2026 Adopted Budget. This is primarily driven by the following:

- \$8.2 million decrease in federal Emergency Housing Vouchers funding, due to the end of federal funding for this program, as previously discussed.
- \$6.2 million decrease associated with SDHC board approved loans awaiting disbursement for affordable housing projects as compared to FY 2026. Previously

City Agencies: San Diego Housing Commission

awarded project loans are disbursed based on projects meeting key milestones.

- \$5.0 million decrease in State Infill Infrastructure Grant funds, reflecting the anticipated loan disbursement activities of previously awarded funds.
- \$2.2 million net decrease in the operations of the City's emergency shelters and Safe Storage programs, including a \$1.9 million decrease for the operation of interim shelters and a \$263,000 decrease for the operation of bridge shelters and Safe Storage programs.

These decreases are offset by the following increases:

- \$4.2 million increase in loans anticipated to be disbursed to projects awarded funds in the FY 2026 NOFA.
- \$3.2 million increase in SDHC's Housing First San Diego initiatives focused on addressing homelessness, which include landlord engagement, prevention, and diversion programs. This includes SDHC's Prevention and Diversion efforts, to be detailed later in this report.
- \$3.1 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 121 new units previously awarded PBVs to be completed in FY 2027.
- \$1.4 million increase in funding for the Accessory Dwelling Unit (ADU) Finance Program, which provides low-interest loans to low- and moderate- income

homeowners to build ADUs on their property. The proposed funding would fund the creation of up to five new ADUs in FY 2027. The ADU Finance Program was initially funded in FY 2023. ADUs built through this program are required to remain affordable for seven years.

Background on Project-Based Vouchers

Budgeted at \$297.6 million in FY 2027, 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 previously discussed, because federal funding has not kept pace with voucher costs, SDHC has closed the housing voucher waitlist as of February 1, 2026, and 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, 121 new PBVs are expected to come online in FY 2027. Additionally, 70 new units previously awarded Veterans Affairs Supportive Housing (VASH) PBVs are expected to go online in FY 2027.

Based on the most recently available data (from January 31, 2026), SDHC rental housing voucher programs serve approximately 16,900 households, with over 81,000 households on the waitlist. For reference, SDHC receives federal funding for approximately 16,800 vouchers, resulting in a voucher utilization rate of 100.4% due to its status as an MTW agency.

City Agencies: San Diego Housing Commission

Capital Expenses – \$46.8 million decrease

The Proposed Budget includes \$21.0 million in capital expenses for FY 2027. This is a \$46.8 million, or 69.0% decrease compared to the FY 2026 Adopted Budget, largely driven by the following:

- \$45.5 million decrease for the removal of one-time funds associated with the acquisition of the Starling Place State Homekey+ project completed in FY 2026.
- \$6.3 million decrease in expenditures to rehabilitate SDHC-owned properties. The Proposed Budget includes \$7.5 million to upgrade elevated exteriors (e.g., balconies, decks, and stairways), elevators, common areas, roofing and solar, HVAC systems, and plumbing components. SDHC anticipates repairs will be completed at various properties based on need and priority.

These decreases were offset by a \$4.7 million increase for the rehabilitation of the Starling Place Homekey+ property, which will occur in FY 2027. Rehabilitation costs will total \$9.7 million.

Property Expense, Professional Services, Supplies, Debt Payments, and Other – \$1.5 million increase

The Proposed Budget includes a total of \$50.6 million in Property Expense, Professional Services, Supplies, Debt Payments, and Other expenses in FY 2027, an increase of \$1.5 million, or 3.1%, relative to FY 2026. This increase is driven primarily by increased expenditures related to routine maintenance associated with new Homekey acquisitions (\$868,000), parking garage and mileage expenses following SDHC's return to office (\$449,000), increased debt due to a balloon

payment on the Smart Corner property (\$433,000), utilities (\$325,000) at SDHC-owned properties, as well as other services (\$466,000) including property management fees for in-house management services at newly acquired Homekey projects. These increases are offset by an \$840,000 decrease in contracted out property management expenses, as well as a \$430,000 reduction for professional consultants.

Ending Fund Balances/Reserves – \$36.4 million increase

SDHC has three reserve categories: Program Restricted Reserves (unspent funds restricted to programs), Property/Real Estate Reserves (set-aside funds to maintain SDHC properties replacement and operating needs, as well as reserves required by lenders), and Contingency/Operating Reserves (to maintain general operations in case of unforeseen or emergency circumstances), which in the FY 2027 Proposed Budget total \$129.6 million.

The Proposed Budget anticipates a net increase of \$36.4 million across the SDHC reserves in FY 2027, primarily driven by a \$17.9 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 2027 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.

The Program Restricted Reserve for MTW and other Federal Reserves is also anticipated to increase by \$10.5 million due to the full drawdown of HUD-held reserves in FY 2027,

City Agencies: San Diego Housing Commission

as previously discussed. Of this amount, \$9.6 million from HUD-held reserves will remain in the ending fund balance in FY 2027. SDHC also anticipates rebuilding the General Contingency/Operating Reserves by \$5.2 million, as well as increasing the Property Reserve by \$2.7 million.

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 and Preservation of Affordable Housing

FY 2027 Notice of Funding Availability (NOFA) - \$22.0 million

SDHC intends to issue a \$22.0 million NOFA for which external affordable housing developers could apply to receive funds to help support the creation of affordable housing. The proposed funding draws from local Affordable Housing Funds (\$9.0 million) and federal HOME funds (\$13.0 million).

Affordable Housing Preservation Fund - \$6.0 million

The SDHC Proposed Budget reflects a \$6.0 million allocation from Neighborhood Enhancement Fee revenue (or NEF, which is a fee collected as part of Complete Communities – Housing Solutions) to support the Affordable Housing Preservation Fund (Preservation Fund). This allocation consists of a \$5.0 million allocation from the NEF that Council approved as part of final budget actions on the City’s FY 2026 Adopted Budget, along with a \$1.0 million increase from NEF. The FY 2026 City allocation was delayed due

to time needed to implement the transfer, which required an agreement between the City and SDHC and will therefore be reflected in the FY 2027 SDHC Proposed Budget. SDHC expects to request Housing Authority approval to authorize the transfer of \$5.9 million from NEF funds to the Preservation Fund prior to the start of FY 2027.

As most recently discussed during the September 4, 2025 Land Use and Housing Committee meeting, SDHC envisions the Preservation Fund will leverage limited City resources with outside investment and other financing tools to acquire and extend the affordability of both naturally occurring and deed-restricted affordable units at risk of converting to market rate.

Homeownership – \$3.4 million

The Proposed Budget sets aside \$3.4 million for First-Time Homebuyer Programs. The proposed funding would support up to 40 first-time homebuyer households. Of these funds, half (\$1.7 million) would provide assistance to middle-income first-time homebuyers, and the remaining half (\$1.7 million) would be for very low and low-income first-time homebuyers. Staff anticipate the full \$3.4 million will be committed, despite challenging market conditions and high interest rates.

Homelessness

Prevention and Diversion Services - \$6.1 million

SDHC budgeted \$6.1 million for prevention and diversion efforts, a \$3.3 million or 112.4% increase compared to the prior year. Prevention and diversion proposed funding includes \$2.9 million from the Affordable Housing Fund, \$337,000 from the federal Emergency Solutions Grant, and an assumed

City Agencies: San Diego Housing Commission

\$2.1 million from State Homeless Housing, Assistance and Prevention (HHAP) grant funds that SDHC requested from the City. However, the City's Proposed Budget includes \$1.3 million, or \$807,000 less than the amount SDHC requested for prevention and diversion. In anticipation of a possible gap in City funding due to the City's budget challenges, SDHC indicated that it has pursued other, new funding sources for Diversion to enable these efforts to proceed. Diversion targets newly homeless households by providing problem-solving support and flexible financial assistance. Prevention targets households at risk of homelessness and assists them to remain housed and avoid homelessness. Both programs could include identifying existing resources and social supports that can provide assistance, as well as offering rental assistance, security deposits, moving costs, and utility payments.

The Proposed Budget also includes approximately \$763,000 in philanthropic funds to support a regional diversion effort, to be known as the Diversion Collective, consisting of up to 20 service providers. SDHC estimates that total funding for the Diversion Collective will be more than \$2.0 million, including funding from philanthropic sources and \$1.1 million recently provided by the County (this is not currently in the SDHC Proposed Budget, but likely will be by the time of Housing Authority budget adoption.)

In-House Property Management Services

The Proposed Budget adds 16.00 FTEs to the Real Estate Division to continue transitioning to in-house property management services at various SDHC-owned properties, as opposed to contracting out for services. According to SDHC, bringing services in-house is intended

to yield better quality, information, and services. In-house services will start at four properties in FY 2027: Valley Vista, Kearny Vista, Hillcrest Inn, and Starling Place. For FY 2027, \$840,000 in savings is associated with this transition.

Issues for Council Consideration

SDHC MTW and Operating Reserves Below Target Levels

In FY 2025, SDHC developed internal reserve policies intended to maintain financial, service level, and housing partnership stability in times of emergencies or unforeseen expenditures. SDHC's internal reserve policy identifies minimum reserve levels and target reserve levels for stabilization (stabilization target), as follows:

- The Property/Real Estate Reserve funds major repairs, capital improvements, replacement of critical infrastructure (in FY 2027, is based on three years of costs associated with work identified in physical needs assessments); ensure sufficient reserves as required by lenders or investors for real estate transactions (recommended at six months of debt service); and SDHC-owned properties (recommended at a minimum of two months of operating expenses).
- 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 (minimum reserve of one month of projected expenses, and recommended stabilization target of two months of projected expenses).

City Agencies: San Diego Housing Commission

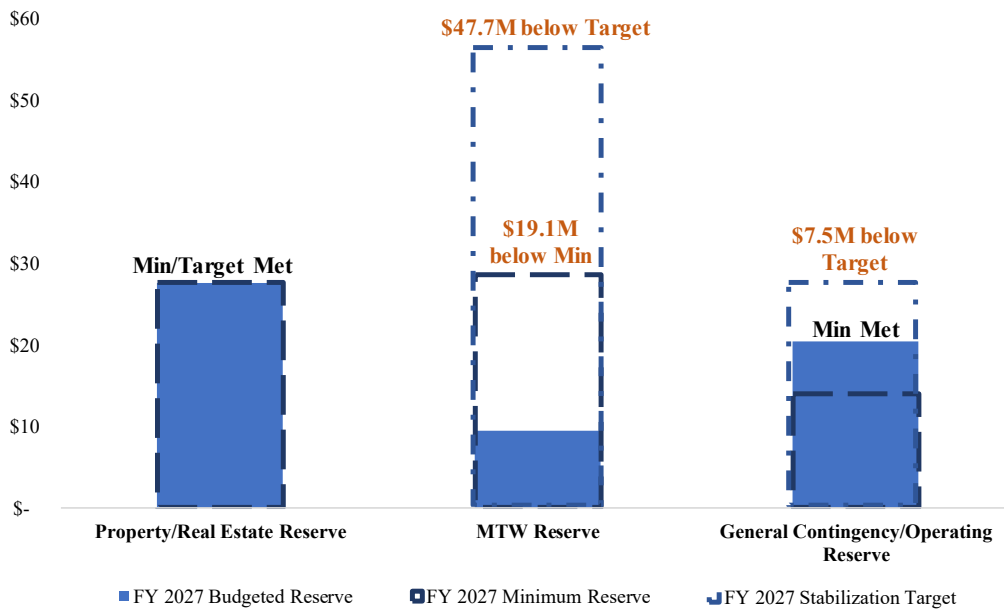
- The General Contingency/Operating Reserve aims to have sufficient general operating funds for administering and operating SDHC housing programs (at a minimum of one month of budgeted expenses, but recommended stabilization target of two months of budgeted expenses)

In the Proposed Budget, SDHC reserves are at varying levels compared to the minimum reserve and the recommended stabilization target, as seen in the figure below. The MTW Reserve (middle bar in the figure below) is budgeted at \$9.5 million, which is \$19.1 million below the minimum reserve level and \$47.7 million below the stabilization target. According to SDHC, if there are disruptions in the flow of federal funds, depending on the length of the disruption, SDHC may not have sufficient MTW Reserves on-hand to continue funding housing assistance payments, due to the below-minimum levels of reserves. As previously mentioned, SDHC is proposing changes to how rental assistance payments are

calculated to increase family contributions, especially for households with one or more working adults, and thereby reducing program costs starting in FY 2027. Additionally, SDHC implemented cost containment measures in FY 2026 to reduce operating costs, including reducing the workforce by 14%, with additional measures anticipated in FY 2027, such as the suspension of performance incentive payments.

The General Contingency/Operating Reserve budgeted at \$20.5 million is also below the stabilization target by \$7.5 million but is expected to be \$6.5 million above the minimum reserve – largely due to the cost containment measures SDHC took starting in FY 2026, as well as efforts to increase rents at SDHC-owned properties to be more in line with wider affordable housing rental market. In contrast, the Property/Real Estate Reserve totals \$27.6 million and meets both the minimum and stabilization targets.

FY 2027 SDHC Budgeted vs Minimum & Stabilization Target Reserve Levels (in millions)



City Agencies: San Diego Housing Commission

SDHC attributes the below-target reserve levels to a confluence of fiscal challenges that affect revenue sources and program expenses, including insufficient federal funding to support SDHC's housing voucher program, increased property maintenance needs as SDHC-owned properties age, and rents at SDHC-owned properties were kept low to best serve low-income tenants. Given that some factors contributing to SDHC reserves not meeting minimum or target levels are unlikely to change in the next few years, such as insufficient federal funding and an aging property portfolio, **Council may wish to better understand SDHC's fiscal outlook, especially in regards to rebuilding the MTW and General Contingency/Operating Reserves, and learn about any additional risks or uncertainties that could impact SDHC's financial stability in the coming years.**

FY 2026-2030 SDHC Strategic Plan

In October 2025, SDHC presented to its Board the [FY 2026-2030 SDHC Strategic Plan](#) (Strategic Plan), which identified priorities as the agency navigates an uncertain funding environment and growing needs. Many of the changes implemented or activities currently underway at the SDHC are identified in the Strategic Plan. For instance, examples of the following initiatives can be found throughout this report: identifying potential cost containment opportunities within SDHC program functions (Initiative 1.1), identifying new revenue streams to support department priorities (Initiative 1.2), exploring the development of a Preservation Fund (Initiative 3.1.3), exploring opportunities to reduce costs and raise net operating income at SDHC-owned properties to sustain long-term property needs (Initiative 3.2.1), and amending MTW activities that promote the long-term sustainability of

housing and rental assistance programs (Initiative 3.4.2).

Of note is Initiative 5.1 to align available resources with the Community Action Plan on Homelessness for the City of San Diego with an emphasis on prevention. Under this initiative, SDHC plans to conduct a comprehensive assessment of SDHC's homelessness and prevention efforts with the pathways for ending homelessness included in the Community Action Plan. Although the assessment has not yet been completed, the Proposed Budget includes additional resources for SDHC prevention and diversion efforts. **Council may wish to learn more about new SDHC prevention and diversion efforts, in relation to the SDHC Strategic Plan, the needs identified in the Community Action Plan, and the current uncertain funding environment.**

FY 2027 Funding for Affordable Housing Preservation Fund

As part of FY 2027 Council budget priorities, a majority of Council supported continued funding for the Preservation Fund. As previously discussed, the FY 2027 SDHC Proposed Budget reflects a \$6.0 million transfer from NEF funds to the Preservation Fund, of which, \$5.0 million was allocated by Council in the City's FY 2026 Adopted Budget. At the time of this writing, an agreement needed to facilitate the transfer of NEF funds from the City to SDHC is still pending but would allow future annual NEF transfers through the budget process. However, as the agreement is not currently in place, there is no NEF transfer to the Preservation Fund contemplated in the City's FY 2027 Proposed Budget. The current balance of NEF funds restricted to affordable housing preservation (per [Council Resolution 313282](#)) is \$8.5 million as of the end of March

City Agencies: San Diego Housing Commission

2026. After the planned \$5.9 million allocation, there would be a remaining balance of \$2.6 million in the NEF, which may increase by the time of final budget adoption on June 9th. **Council may wish to consider allocating any remaining NEF balance to the SDHC Affordable Housing Preservation Fund as part of the City's FY 2027 budget.**