



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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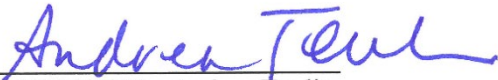
Item: 2

Review of City Agencies FY 2022 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Tuesday May 11, 2021. Our review is attached.



Jillian Kisse
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin
Independent Budget Analyst

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, including the SDHC budget. The Housing Authority has final authority over approval of the SDHC budget.

The SDHC’s mission is to “Provide affordable, safe, and quality homes for low- and moderate-income families and individuals in the City of San Diego and provide opportunities to improve the quality of life for the families that SDHC serves.”

The SDHC has a seven-member board of commissioners that oversees the SDHC’s operations, each appointed by the Mayor, and confirmed by the City Council. On May 6, 2021, the SDHC Board reviewed SDHC’s FY 2022 Proposed Budget and recommended that it be approved by the Housing Authority. The Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 11, 2021.

Overview of FY 2022 Budget Proposal

The SDHC FY 2022 Proposed Budget (Proposed Budget) totals \$584.9 million, which is an increase of \$60.1 million, or 11.4%, over the FY 2021 Adopted Budget.

The SDHC’s major programs include 1) providing low-income households rental assistance; 2) creating and preserving affordable housing; and 3) addressing homelessness.

The following sections detail the major changes of the Proposed Budget from the FY 2021 Adopted Budget that make up the net budget increase of \$60.1 million. We note that a significant amount of funding was added to the SDHC’s budget after its final adoption in June 2020. Therefore, the comparison to the FY 2021 Adopted Budget represents a point-in-time snapshot and does not reflect all funding available to SDHC for FY 2021.

Funding Sources

The Proposed Budget includes a total of \$386.8 million in *new* revenue from various fund sources, as reflected in the pie chart

Summary of San Diego Housing Commission Budget Changes			
	FY 2021 Adopted Budget	FY 2022 Proposed Budget	Change
Full-Time Equivalent Positions	346.00	352.00	6.00
Personnel Expenses	\$ 41,761,000	\$ 44,270,000	\$ 2,509,000
Non-Personnel Expenses			
Housing Program Expense	326,922,000	361,709,000	34,787,000
Property Expense	9,410,000	11,069,000	1,659,000
Professional Services, Supplies and Other	12,120,000	20,158,000	8,038,000
Debt Payments	7,874,000	10,354,000	2,480,000
Capital Expenditures	30,373,000	28,753,000	(1,620,000)
Reserves	96,306,000	108,537,000	12,231,000
Non-Personnel Expenses Total	\$ 483,005,000	\$ 540,580,000	\$ 57,575,000
Total	\$ 524,766,000	\$ 584,850,000	\$ 60,084,000

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below. In addition, there is \$198.0 million in fund balance carried over from prior years, for a total of \$584.9 million. Prior year fund balance largely includes various Program-restricted, Property, and Contingency Reserves, as well as carryforward funding from the Housing Stability Assistance Program (COVID-19 rent relief).

The following subsections detail the major changes in revenue available in the Proposed Budget as compared to the FY 2021 Adopted Budget.

Federal Funds – \$10.6 million decrease

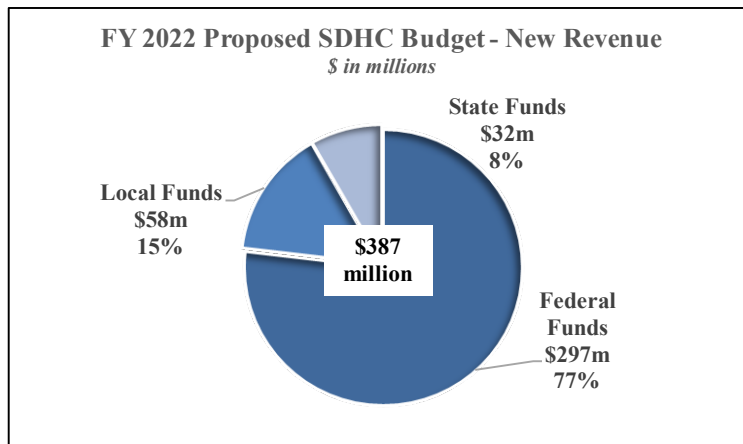
The Proposed Budget includes a total of \$297.3 million in new federal funding which is a net decrease of \$10.6 million as compared to the FY 2021 Adopted Budget. This decrease is made up of many changes, but is primarily driven by:

- \$19.9 million increase in Section 8/ Moving to Work (MTW) revenue largely due to an increase in payment standards discussed further in this report and anticipated emergency vouchers from the American Rescue Plan to support homeless individuals.

Offsetting this increase are the following decreases:

- \$28.2 million decrease in anticipated revenue to be drawn down in unexpended federal Section 8/MTW funds. More funds were drawn down in FY 2021 for rehabilitation projects and Rapid Rehousing than is proposed for FY 2022. This is often referred to as “HUD-held reserves” and is explained further below.
- \$2.9 million net decrease in Community Development Block Grant (CDBG) funds largely due to no additional funds being transferred to SDHC for the Affordable Housing Revolving Loan Fund. For FY 2022, the City plans to place \$10.8 million in CDBG funds in its own affordable housing Notice of Funding Availability instead of transferring it to SDHC as was done in previous years.

Explanation of “HUD-held Reserves”: The U.S. Department of Housing and Urban Development (HUD) disperses Section 8/MTW funds for the Housing Choice Voucher program to SDHC monthly 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.



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Local Funds – \$8.3 million increase

The Proposed Budget includes a total of \$57.8 million in local funds, which is a net increase of \$8.3 million as compared to the FY 2021 Adopted Budget. This is primarily driven by:

- \$8.1 million increase in SDHC Real Estate funds largely due to additional rental income from the acquisition of Hillcrest Inn, as well as the two hotels acquired as part of the State’s Project Homekey in FY 2021. Project Homekey was largely funded with federal Coronavirus Aid Relief Funds to partially finance the purchase or rehabilitation of hotels, motels, and other buildings and convert them into housing for homeless individuals. The State is planning to have another round of Project Homekey.
- \$970,000 increase in administrative fee revenue related to multifamily housing revenue bonds issued for affordable housing projects
- \$906,000 increase in new Affordable Housing Fund revenue attributed to anticipated loan repayments.

We note that a total of \$7.0 million in new Affordable Housing Fund revenue was budgeted in FY 2020 and \$21.6 million was actually received. Revenue received has been well over \$7.0 million over the past several years. However, projections have not been adjusted upward because there is uncertainty on prospective revenue collections due to the Inclusionary Housing Ordinance changes that occurred in 2019 which are being phased in over five years. During the phase in period, the required proportion of affordable units to be included within new residential

development is lower than in previous years. Therefore, SDHC anticipates more developers will choose this option instead of paying the fee into the Affordable Housing Fund.

These increases are offset by the following reduction:

- \$1.7 million net decrease in other local revenues largely driven by a reduction in City funds due to the transfer of the Veteran bridge shelter to Chula Vista.

State Funds – \$7.4 million increase

The Proposed Budget includes a total of \$31.8 million in state funding, which is a net increase of \$7.4 million as compared to the FY 2021 Adopted Budget. This is primarily driven by:

- \$5.0 million increase for the Local Housing Trust Fund Program grant
- \$1.5 million increase in the amount of state grant funds to be transferred from the City to SDHC for administration of homelessness programs.

Fund Balance from Prior Years – \$54.9 million increase

The Proposed Budget reflects a total of \$198.0 million in fund balance being transferred to FY 2022 from prior years. This is a net increase of \$54.9 million as compared to the FY 2021 Adopted Budget. This is primarily driven by:

- \$63.7 million in federal funds being carried over from FY 2021 to FY 2022 from the Housing Stability Assistance Program. The City allocated \$107.3 million for rental relief in FY 2021 for the

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SDHC to administer, which will continue to be spent down.

- \$10.0 million decrease in CDBG fund balance that was used to help finance the acquisition of one of the Project Homekey hotels in FY 2021.

Budget by Funding Use

The Proposed Budget includes \$584.9 million in proposed expenditures and can be broken down between personnel expenses and non-personnel expenses, as shown on the table on the first page of this report. These categories are described in more detail below.

Personnel Expense

The Proposed Budget includes \$44.3 million for personnel expenses, reflecting salaries and benefits of 352.00 Full-Time-Equivalent (FTE) positions.

Proposed personnel expenses are higher by \$2.5 million, or 6.0%, as compared to the FY 2021 Adopted Budget. This increase is largely driven by a 3.5% cost-of-living salary adjustment and an 8% increase in flexible benefits. The Proposed Budget also includes an additional 6.00 FTE positions; three of which would support the Homelessness Response Center and the remaining three would support the anticipated emergency housing vouchers allocated by the American Rescue Plan Act.

Non-Personnel Expense

The Proposed Budget includes \$540.6 million in non-personnel expenditures. This is a \$57.6 million increase, or 11.9%, from the FY 2021 Adopted Budget. This increase is driven by the following significant adjustments:

Housing Program Expense – \$34.9 million increase

Housing Program Expenses is a broad category that includes grant expenses for rental assistance payments, planned affordable housing loans, homelessness programs, and other housing programs.

As shown on the table on the following page, federal Housing Choice Voucher rental assistance is SDHC's largest program, totaling \$177.2 million in FY 2022. There are also special rental subsidy programs that support unique populations such as veterans, families, and adults with disabilities, as well as anticipated emergency housing vouchers for those who are, or are at risk of being homeless provided by the American Rescue Plan Act, totaling \$24.7 million. SDHC voucher programs serve over 15,500 households, although according to SDHC, over 100,000 households are on the waiting list.

The Proposed Budget includes \$361.7 million for Housing Program Expenses which is an increase of \$34.8 million over the FY 2021 Adopted Budget. This is primarily driven by the following:

- \$57.6 million increase for expenditures on the Housing Stability Assistance Program which was not included in the FY 2021 Adopted Budget
- \$10.1 million increase in Section 8/MTW Housing Choice Voucher program primarily for payment standard increases (discussed further below)
- \$6.6 million increase for anticipated American Rescue Plan emergency

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vouchers (note that this is a preliminary estimate).

The \$10.1 million increase for higher payment standards (or the maximum amount of rent a voucher will cover) is related to the Choice Communities Initiative. The Initiative provides families that receive rental assistance with more flexibility on choosing which neighborhood to live, where some communities trigger a higher payment standard due to higher rent.

These increases are offset by:

- \$20.0 million decrease due to the removal of funds set aside for tenant housing subsidies in FY 2021 but not used. SDHC instead received funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES) to support an increase in rent subsidy caused by a COVID-19 related decrease in income.
- \$10.0 million decrease due to the removal of funds set-aside for Rapid Rehousing associated with the acquisition of hotels in FY 2021. Instead of Rapid Rehousing, the hotels are being used for permanent supportive housing and rental assistance is

provided through vouchers.

- \$7.4 million decrease in anticipated loans to be made as compared to FY 2021.

Capital Expenses – \$1.6 million decrease

The Proposed Budget includes \$28.8 million in capital expenses for FY 2022. This is a decrease of \$1.6 million as compared to the FY 2021 Adopted Budget due to a reduction in anticipated acquisition and rehabilitation of properties planned for FY 2022.

Property Expense, Professional Services, Supplies, Debt Payments, and Other – \$12.2 million increase

The Proposed Budget includes a total of \$41.6 million in Property Expense, Professional Services, Supplies, Debt Payments, and Other expenses in FY 2022, an increase of \$12.2 million over the FY 2021 Adopted Budget. This increase is driven primarily by:

- \$6.4 million in operating costs related to the acquisition of the two hotels through the State’s Project HomeKey program and Hillcrest Inn in FY 2021. Increased costs include maintenance, security, utilities, property management staff, and debt

Housing Program Expense Breakdown	
Sec 8 / Moving to Work, Housing Choice Voucher	\$ 177,170,000
Housing Stability Assistance Program (Rent Relief)	57,601,000
Homelessness ¹	47,282,000
VASH ² , Mainstream, Family Unification Program, American Rescue Vouchers	24,726,000
Loans to be Issued for Affordable Housing	34,933,000
Preservation of Affordable Housing	18,800,000
Other Housing Programs	1,197,000
Total	\$ 361,709,000

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

¹ Costs for vouchers supporting those experiencing homelessness are also included within the Sec 8/MTW program

² Veterans Affairs Supportive Housing

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service.

- \$5.3 million for temporary workers, consulting, and advertising for support the Housing Stability Assistance Program.

Reserves – \$12.2 million increase

SDHC has three reserve categories: Program Restricted Reserves (unspent funds restricted to programs), Property Reserves (to maintain SDHC properties), and Contingency Reserves (for unforeseen costs), which in the FY 2022 Proposed Budget total \$108.5 million. The balance is a net increase of \$12.2 million from FY 2021.

The increase is primarily driven by:

- \$16.3 million net increase largely due to the amount of loans committed for affordable housing projects that will not be allocated to developers in FY 2022 and will be carried 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. This process that can take multiple years.

This is offset by:

- \$4.3 million net decrease primarily due to a reduction in the funds set-aside for unforeseen COVID-19 related costs. The FY 2021 Adopted Budget set aside \$14.1 million for this purpose but this will be reduced to \$8.1 million in FY 2022 and will not be limited to costs related to COVID-19.

Notable Inclusions in the Budget:

Homeownership – \$7.8 million

The Proposed Budget makes Homeownership a priority. It includes \$7.8 million for Homeownership made up of a variety of funding sources that can be used for a wide range of affordable housing activities, including providing financing to assist low- to median- income households purchase a home. This is an increase of \$5.0 million over the FY 2021 Adopted Budget and it is anticipated to help 100 first-time homebuyers.

Preservation of Naturally Occurring Affordable Housing – \$16.6 million

The Proposed Budget redeploys \$16.6 million that was not awarded in the FY 2021 Notice of Funding Availability (NOFA), out of the total \$21.6 million. This funding is intended to preserve Naturally Occurring Affordable Housing (NOAH), or market rate rental housing that maintains low rents without being subsidized. The other \$5.0 million included in the NOFA was for deed-restricted affordable housing and has been committed to projects. Providing financing to preserve NOAH is a new activity for the SDHC and it plans to provide additional assistance to applicants in this next go around.

Homelessness Programs – \$120.6 million

The Proposed Budget also includes a total of \$120.6 million for homelessness programs. Of this amount, over half (56%) is MTW funding; over one-third (34%) is funding received by the City that is transferred to the SDHC to administer; and the remaining about 10% is funded with SDHC local and other federal grant funding. These costs are mostly located within the Housing Program Expense category.

We note that the Proposed Budget will need to be amended to reflect the Mayor's proposal of

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\$10.0 million to expand or create various new homelessness programs and to align with the City’s proposed use of state grant funds which will become available in either May or June. We include the table below as a preliminary listing of all homelessness programs being administered by the SDHC in FY 2022. Generally, this reflects a continued level of service for existing programs.

We note that there is \$740,000 allocated in SDHC Local Funds to provide supportive services for the two hotels acquired in FY 2021 through the State’s Project Homekey program. This will support the properties until about December, at which point the County is anticipated to take over the costs for these services.

Finally, we want to highlight that \$20.0 million is planned for property acquisitions to create permanent supportive housing. This is in alignment with the recommendation in the Community Action Plan on Homelessness to create 5,400 permanent housing resources (including housing and subsidies) over the next 10 years.

Conclusion

The SDHC Proposed Budget reflects many of COVID-19 related programs and activities that occurred in FY 2021. In particular, the budget reflects the operation of the two acquired Project Homekey hotels now being used for permanent supportive housing for former residents of the City’s Convention Center as part of Operation Shelter to Home. It also reflects the continued disbursement of rental relief funds made available by previous federal COVID-19 related legislation. In total, SDHC was allocated \$107.3 million for rent relief in FY 2021 and the City is expected to

receive another significant allocation through the American Rescue Plan Act. We estimate it to be at least \$40 million but the exact allocation is unavailable as of this writing.

In addition, SDHC will soon receive emergency housing vouchers for homeless individuals and potentially administer the City’s \$21.0 million allocation for Homelessness Assistance and Supportive Services program included in the American Rescue Plan Act.

With these anticipated changes, the current Proposed Budget will require updates during the upcoming fiscal year. Our Office will continue to monitor the pending developments.

Summary of FY 2022 SDHC-Administered Homelessness Programs (Subject to Change)	
Program	Proposed Budget
Federal Voucher Support	\$ 46,979,000
Permanent Supportive Housing	24,029,000
Bridge Shelters	18,761,000
Total Admin Costs	5,545,000
Rapid Rehousing	4,733,000
Landlord Engagement Assistance Program	2,758,000
Interim Shelter	2,077,000
Prevention & Diversion	1,681,000
Homelessness Response Center	1,550,000
Coordinated Street Outreach	1,500,000
Storage Connect Center	1,458,000
Transition-Age Youth Rapid Rehousing	1,086,000
SDHC Supportive Services Programs	993,000
Family Shelter - Palm Avenue	970,000
Safe Parking Programs	957,000
Interim Shelter SVDP Bishop	756,000
Homekey Properties Supportive Services	740,000
Lea Street Storage Center	721,000
Connections Housing	707,000
Day Center	541,000
Flexible Spending	500,000
Transitional Housing	434,000
Family Reunification	394,000
Serial Inebriate Program	290,000
Supportive Services - 1000 Vets	265,000
Think Dignity Storage Center	172,000
Capacity Building	25,000
Total	\$ 120,620,000