



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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**Date Issued:** May 6, 2022

**IBA Report Number:** 22-10 REV

**Budget Review Committee Date:** May 10, 2022


**Item:** 2

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## **Review of City Agencies FY 2023 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 10, 2022. 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, 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 5, 2022, the SDHC Board reviewed SDHC’s FY 2023 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 10, 2022.

## Overview of FY 2023 Budget Proposal

The SDHC FY 2023 Proposed Budget (Proposed Budget) totals \$594.8 million, which is a decrease of \$9.3 million, or 1.5%, from the FY 2022 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.

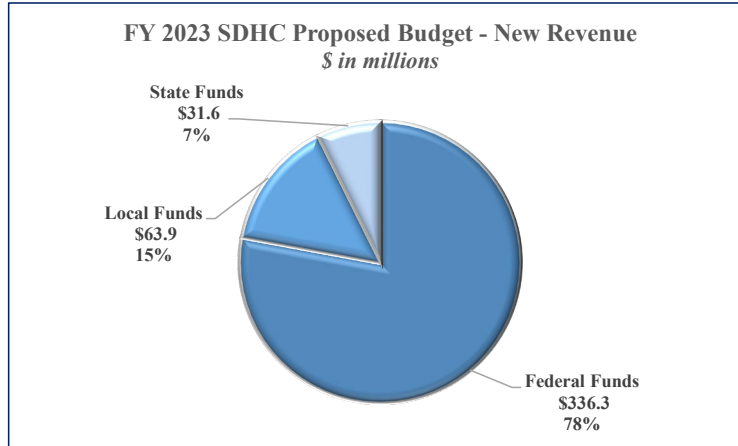
The following sections detail the major changes of the Proposed Budget from the FY 2022 Adopted Budget that make up the net budget decrease of \$9.3 million, as shown in the table below.

## Funding Sources

Of the \$594.8 million in revenue budgeted for FY 2023, \$431.8 million is in *new* revenue from various fund sources, as reflected in the pie chart on the following page. This reflects a net increase of \$39.1 million, or 10.0%, in new revenue.

Summary of San Diego Housing Commission Budget Changes			
	FY 2022 Adopted Budget	FY 2023 Proposed Budget	Change
Full-Time Equivalent Positions	352.00	366.00	14.00
<b>Personnel Expenses</b>	<b>\$ 44,270,000</b>	<b>\$ 47,460,000</b>	<b>\$ 3,190,000</b>
<b>Non-Personnel Expenses</b>			
Housing Program Expense	380,138,000	341,932,000	(38,206,000)
Property Expense	11,069,000	13,373,000	2,304,000
Professional Services, Supplies and Other	20,158,000	18,475,000	(1,683,000)
Debt Payments	10,354,000	34,377,000	24,023,000
Capital Expenditures	28,753,000	23,506,000	(5,247,000)
Reserves	109,318,000	115,632,000	6,314,000
<b>Non-Personnel Expenses Total</b>	<b>\$ 559,790,000</b>	<b>\$ 547,295,000</b>	<b>\$ (12,495,000)</b>
<b>Total</b>	<b>\$ 604,060,000</b>	<b>\$ 594,755,000</b>	<b>\$ (9,305,000)</b>

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In addition, there is \$163.0 million in fund balance carried over from prior years, for combined resources totaling \$594.8 million. It is important to note that over half of the \$163.0 million in beginning fund balance is made up of funds that are committed to affordable housing projects that have not yet received disbursements and carryforward funding from the Housing Stability Assistance Program. Additionally, the SDHC's reserves make up a portion of the beginning fund balance.

The following subsections detail the major changes in revenue available in the Proposed Budget as compared to the FY 2022 Adopted Budget.

## Federal Funds – \$39.7 million increase

As shown on the pie chart above, SDHC anticipates receiving 78% of its new revenue from the federal government. The Proposed Budget includes a total of \$336.3 million in new federal funding which is a net increase of \$39.7 million as compared to the FY 2022 Adopted Budget. This increase is made up of many changes, but is primarily driven by:

- \$19.5 million increase in revenue anticipated to be drawn from HUD-held reserves (see explanation below).

- \$7.3 million increase in HOME funds related to anticipated loans that will be funded in FY 2023 based on milestones achieved by development projects triggering loan disbursements.
- \$7.1 million increase in Section 8/ Moving to Work (MTW) funds from the U.S. Department of Housing and Urban (HUD).
- \$6.1 million increase attributed to the award of 480 Emergency Housing Vouchers.

Offsetting these increases is the following decrease:

- \$1.5 million decrease in one-time COVID-19 related Emergency Solutions Grant funds that were transferred from the City to SDHC in FY 2022.

**Explanation of “HUD-held Reserves”:** 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. SDHC plans to use \$62.6 million in HUD-held reserves in FY 2023,

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which is an increase of \$19.5 million over FY 2022. Planned expenditures of these funds are discussed further below but include:

- Pay down of SDHC debt on properties
- Acquisitions
- Increased utilization rate of vouchers and increased payment standards
- Renovation of SDHC properties
- Loan funds for a preservation project
- Homelessness programs

Draw down of HUD-held reserves will be requested from HUD as expenses are incurred.

**Update on implementation of Emergency Housing Vouchers:** Emergency Housing Vouchers became available through the American Rescue Plan Act. 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. SDHC is receiving \$6.6 million for 480 vouchers. As of this writing, all 480 vouchers are identified for eligible participants and 380 of those individuals have found housing and secured leases. SDHC intends to have all 480 participants leased up by the end of the fiscal year.

## Local Funds – \$961,000 decrease

Another significant funding source for SDHC is a category called “local funds” which is anticipated to make up about 15% of SDHC’s new revenue in FY 2023. SDHC local funds are generated primarily from rental income from SDHC’s affordable housing properties, which is unrestricted revenue. To a lesser extent local funds also include: Affordable Housing Funds (derived from fees the City

charges on new residential and commercial development to be used for affordable housing) and City General Funds to support homelessness programs. The Proposed Budget includes a total of \$63.9 million in new local fund revenue, which is a net decrease of \$961,000 as compared to the FY 2022 Adopted Budget. This is primarily driven by:

- \$2.1 million reduction in City General Funds for homelessness programs (e.g. Coordinated Outreach and Rapid Rehousing).

This reduction is offset by the following:

- \$452,000 increase in residential rental income
- \$410,000 projected increase in projected Affordable Housing Fund revenue
- \$400,000 increase largely due to fees from compliance monitoring and from issuing multifamily housing revenue bonds on behalf of affordable housing developers

We note that a total of \$7.5 million in Affordable Housing Fund revenue is budgeted for FY 2023, but revenue received in recent years has been well above this amount, though it has been volatile. SDHC staff notes that 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, beginning with FY 2021. During the phase in period, the required proportion of affordable units to be included within new residential development is lower than under the previous rules, while the fee incrementally increases. Therefore, more developers may choose to

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build units instead of paying the fee which goes into the Affordable Housing Fund.

## State Funds – \$358,000 increase

About 7% of SDHC’s new revenue is anticipated to come from the State. Two grants comprise “State funds” – CalHome and State Homeless Housing, Assistance and Prevention (HHAP) grant funding that the City passes through the SDHC to administer homelessness programs. The Proposed Budget includes a total of \$31.6 million in State funding, which is a net increase of \$358,000 as compared to the FY 2022 Adopted Budget. This is primarily driven by:

- \$2.8 million increase due to being awarded CalHome grant funds
- \$2.7 million increase in the amount of State HHAP grant funds transferred from the City for SDHC administration of homelessness programs.

These increases are offset by:

- \$5.0 million decrease for the Local Housing Trust Fund Program grant which was one-time funding in FY 2022

## Fund Balance from Prior Years – \$48.4 million decrease

It is not uncommon for significant funding to be carried forward into the next fiscal year. Earlier in this report, we described what makes up the major components of the fund balance. The total \$163.0 million budgeted in FY 2023 is a net decrease of \$48.4 million as compared to the FY 2022 Adopted Budget. This is primarily driven by:

- \$82.9 million decrease in federal funds being carried over from FY 2022 to FY

2023 primarily due to the removal of one-time Housing Stability Assistance Program (HSAP) funds and legal aid funds that will be spent down in FY 2022.

- This is offset by an increase of \$33.0 million in State funds carried forward into FY 2023 for the same HSAP program. This is related to the State Cash Flow Loan which was recently approved by Council on April 19. The item allows SDHC to spend up to \$96.3 million in loan funds, beginning in FY 2022.

## **Budget by Funding Use**

The Proposed Budget includes \$584.9 million in proposed expenditures which 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 \$47.5 million for personnel expenses, reflecting salaries and benefits of 366.00 Full-Time-Equivalent (FTE) positions. This reflects an increase of \$3.2 million, or 7.2%, and 14.00 FTE positions. The table below shows a breakdown of FTEs by division.

<b>FY 2023 SDHC Staffing by Division</b>	<b>FTE</b>
Rental Assistance	127
Real Estate	102
Operations Support	98
Homeless Housing Innovations	39
<b>Total</b>	<b>366</b>

The increase in personnel expenses is largely driven by a 3.5% cost-of-living salary adjustment and the costs for the additional positions. Additionally, there is an 8% increase in flexible benefits related to health

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insurance. We note that SDHC is currently negotiating with its labor union regarding terms and conditions of employment as the current Memorandum of Understanding is in effect until the end of June 2022. The Proposed Budget assumes continuation of the terms of the current agreement.

The following is a breakdown of the proposed additional 14.00 FTEs:

- *Rental Assistance Division* – 7.00 FTEs to respond to an increase in Housing Choice Voucher caseload as well as new Special Program vouchers that have been added over the past couple years, including Emergency Housing Vouchers. One position is to support participants through the Achievement Academy programs.
- *Homelessness Division* – 3.00 FTEs to address increased workload over the past few years. According to staff, SDHC has gone from 36 contracted programs to 60 over the past three years. Additionally, a new State law (AB 362, 2021) is anticipated to increase SDHC administrative costs as it requires, among other things, shelter inspections upon receipt of a complaint by an occupant.
- *Real Estate* – 1.00 FTE to support the growing real estate portfolio with the recent acquisition of three hotel properties (Kearny Vista, Valley Vista, and Hillcrest Inn).
- *Support staff* – 3.00 FTEs; one to support each of the following: finance, IT, and procurement.

## Non-Personnel Expense

The Proposed Budget includes \$547.3 million in non-personnel expenditures. This is a \$12.5 million decrease, or 2.2%, from the FY 2022 Adopted Budget. We address components driving this by major expense category.

### Housing Program Expense – \$38.2 million decrease

Housing Program Expenses is a large category that includes grant expenses for rental assistance payments, planned affordable housing loans, homelessness programs, and other housing programs. We include a breakdown of FY 2023 Housing Program Expenses below.

As shown on the table, federal Housing Choice Voucher rental assistance is SDHC’s largest program. There are also Special Voucher programs that support unique populations such as veterans, families, and adults with disabilities, as well as Emergency Housing Vouchers. Together, SDHC voucher programs serve over 16,000 households, although according to SDHC, over 100,000 households are on the waiting list.

FY 2023 Housing Program Expense Breakdown	
Sec 8 / Moving to Work, Housing Choice Voucher	\$ 203,288,000
Homelessness <sup>1</sup>	53,541,000
Housing Stability Assistance Program (Rent Relief)	30,000,000
Special Voucher Programs <sup>2</sup>	28,287,000
Loans to be Issued for Affordable Housing	16,781,000
First Time Homebuyer Program Loans	5,264,000
Preservation of Affordable Housing	2,200,000
ADU Loan Program	2,000,000
Other Housing Programs	571,000
<b>Total</b>	<b>\$ 341,932,000</b>

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

<sup>1</sup> Costs for vouchers supporting those who are formerly homeless are included in voucher program lines.

<sup>2</sup> Veterans Affairs Supportive Housing, Mainstream, Family Unification Program, Emergency Housing Vouchers

The Proposed Budget includes \$341.9 million for Housing Program Expenses, which is a

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decrease of \$38.2 million, or 10.1%, as compared the FY 2022 Adopted Budget. This is primarily driven by the following:

- \$41.0 million decrease in expenditures for HSAP as compared to FY 2022.
- \$16.6 million decrease in expenditures related to the FY 2021 Preservation Notice of Funding Availability (NOFA) as these funds were not awarded in FY 2022 (see update below).
- \$10.9 million decrease in anticipated loans to be made for affordable housing projects as compared to FY 2022.

These decreases are offset by the following increases:

- \$26.1 million increase in Section 8/MTW Housing Choice Voucher program primarily due to an increase in voucher lease up rate (number of households connected to housing) and, to a lesser extent, increases in payment standards. Payment standards are the maximum subsidy payment that a voucher will pay for a rental housing unit.
- \$5.6 million increase in Veterans Affairs Supportive Housing (VASH) and Emergency Housing Vouchers.

### **Update on FY 2021 Preservation NOFA:**

The FY 2022 Adopted Budget redeployed \$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 was intended for projects that 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 \$2.2 million will be awarded to a project in FY 2023. Providing financing to preserve NOAH units is a new activity for the SDHC as traditional preservation projects are limited to extending deed-restricted covenants before they expire. However, after redeploying the NOFA in FY 2022, the market still did not respond to the NOFA. Staff indicates that one of the reasons for this is that smaller property owners of market rate rental units do not want to use federal, or other fund sources, that have various restrictions and associated paperwork. That is why SDHC's Affordable Housing Preservation Study has recommended the use of City General Funds for this type of preservation, as General Funds do not come with those restrictions.

### Capital Expenses – \$5.2 million decrease

The Proposed Budget includes \$23.5 million in capital expenses for FY 2023. This is a decrease of \$5.2 million as compared to the FY 2022 Adopted Budget largely due to a reduction in anticipated acquisitions of properties planned for FY 2023 as compared to FY 2022.

### Property Expense, Professional Services, Supplies, Debt Payments, and Other – \$24.6 million increase

The Proposed Budget includes a total of \$66.2 million in Property Expense, Professional Services, Supplies, Debt Payments, and Other expenses in FY 2023, an increase of \$24.6 million over the FY 2022 Adopted Budget. This increase is driven primarily by:

- \$24.2 million increase in payments towards debt on SDHC-owned affordable

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housing properties. Reducing debt will increase rental cash flow to SDHC.

## Reserves – \$6.3 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 2023 Proposed Budget total \$115.6 million. This is a net increase of \$6.3 million from FY 2022.

The increase is primarily driven by:

- \$3.9 million increase in Program Restricted Reserves due to the amount of loans committed for affordable housing projects that will not be allocated to developers in FY 2023 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 as milestones are achieved. This process that can take multiple years.
- \$1.4 million increase in Contingency Reserves.

## **Notable Inclusions in the Budget:**

### **Rental Assistance**

*Housing Stability Assistance Program - \$33.0 million*

In addition to administering voucher programs which serves over 16,000 households, SDHC anticipates spending \$33.0 million for the continued administration of the HSAP program in FY 2023. Since February 2021, about \$325 million in expenditures have been authorized for this

program comprising of payments to households, administrative costs, and outreach.

### **Creation of Affordable Housing**

*Acquisitions - \$15.0 million*

The Proposed Budget includes a \$15.0 million set-aside for property acquisitions using Section 8/ MTW funds (HUD-held reserves) to create additional permanent supportive housing.

*Notice of Funding Availability - \$13.0 million*

Staff intends to issue a \$13.0 million NOFA for which external affordable housing developers can apply to receive funds to help support the creation or preservation of affordable housing.

*Accessory Dwelling Unit Loan Program - \$2.0 million*

The Proposed Budget includes \$2.0 million to provide low-interest loans and technical assistance to low-income homeowners to build an accessory dwelling unit (ADU) on their property. ADUs built through this program are required remain affordable for seven years.

*Homeownership – \$5.3 million*

The Proposed Budget sets aside \$5.3 million for the First Time Homebuyer Program, which is a \$2.5 million reduction as compared to FY 2022. Staff indicate that the \$5.3 million is based on projected expenditures for the program.

### **Homelessness Programs – \$131.3 million**

SDHC provides a detailed table of FY 2023 homeless program expenditures in its Proposed Budget presentation totaling \$131.3



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million, which is a \$2.2 million increase from the FY 2022 Adopted Budget. These costs are mostly located within the Housing Program Expense category. Of the total expenditures, 60% is supported by federal sources allocated to SDHC, 37% is attributed to funds transferred from the City to administer various programs (including \$28.3 million in State HHAP funds), and 3% is supported by unrestricted SDHC local funds.

In addition to the increase in federal voucher funding and a decrease in funds set aside for acquisition of properties for permanent supportive housing as mentioned earlier, we note the following notable changes from the FY 2022 Adopted Budget (this is not an exhaustive list):

- \$7.4 million increase for the continuation of the Harm Reduction Shelter that recently opened, as well as the pending opening of a Women's Shelter and Sprung Shelter
- \$3.3 million increase due to the annualization of the Golden Hall Bridge Shelter budget which had not been previously budgeted a full year
- \$1.0 million decrease in City General Funds for three City rapid rehousing programs discussed further below. This funding was provided on a one-time basis in the City's FY 2022 Adopted Budget. However, the SDHC Proposed Budget includes an increase of \$1.3 million in SDHC MTW funds for SDHC's Moving Home Rapid Rehousing program, which is separate from the three City programs.

### Items for Consideration

#### *SDHC Board Concerns about Wind Down of City Rapid Rehousing Programs*

Included in the total of \$5.5 million budgeted for rapid rehousing programs from various sources, is \$910,000 in State HHAP funding to be transferred by the City to SDHC and subcontracted out to three providers. According to an item approved by the SDHC Board on May 5, 2022, this funding reflects the costs needed to support 63 households on a short-term basis in FY 2023 as the Homelessness Strategies and Solutions Department (HSSD) plans to wind down and discontinue the three programs supported by State HHAP funds. Ensuring existing households successfully exit the program into permanent housing may take longer than FY 2023, so the one-year contract extension includes an option to renew.

Citing significant concerns with this approach considering the eviction moratorium will be ending, the SDHC Board directed staff to assist the Commissioners in submitting a joint letter to the Housing Authority, HSSD, and the State of California to request the following:

- 1) context from HSSD regarding its decision to direct funding to other programs, which is resulting in winding down rapid rehousing programs funded by HHAP funds;
- 2) the City reconsider its decision regarding the funding for these programs; and
- 3) additional funding from the State.

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On May 4, 2022 the City Council’s Budget Review Committee reviewed the HSSD budget. When asked about the decrease for rapid rehousing, the director cited the need to prioritize limited funding for shelters.

We note that this issue also highlights the tradeoffs at play in making strategic funding decisions with limited resources and the goal of striking the right balance with investments in all three major components of the homeless service system: Engagement Services, Crisis Response and Stabilization, and Permanent Housing and Services to facilitate flow through the system. In addition to the identified need of 500 crisis response beds, the Community Action Plan also called for 5,400 additional permanent housing solutions for the system, including 800 rapid rehousing units over 10 years.

## *Shift of Program Administration*

We also note that the Proposed Budget reflects HSSD’s plans to administer the following programs, which SDHC is currently administering directly:

- Coordinated Outreach
- Safe Parking
- Family Reunification

As noted in our review of HSSD, although it plans to administer the Family Reunification program with \$500,000 in State HHAP funds, there still remains \$394,000 in Affordable Housing Funds within the SDHC budget for the program. This will either create two contracts with the same provider, or Housing Commission staff will look to reallocate this funding to another homelessness activity. **Similar to our Office’s suggestion that the Budget Review Committee ask HSSD staff about plans to transition these programs,**

**the Housing Authority may wish to ask SDHC staff about the transition plan as well.**

## *Creation of Budget Document*

We note that while the City Council is convening the Select Committee on San Diego Housing Commission Oversight and Reform, it may wish to discuss one item raised in our Office’s report, [\*Comparative Analysis of Housing Authority Structures in California\*](#) – the creation of a written budget document. Although not all other City agencies create such a document, we found that some other housing authorities in the State do, including Los Angeles County. Their budget document includes detailed discussions and displays the major elements of their budget. SDHC currently provides a lot of information in its budget presentation, but we suggest a long-term goal might be to expand that presentation into narrative form so as to include discussions of program details, explanations of major budget changes, and further expand on plans for the upcoming fiscal year. This could also facilitate continuous education for the Housing Authority and SDHC Commissioners as they change over the years, and would serve as a useful resource for the public.