



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 5, 2020

IBA Report Number: 20-07

Budget Review Committee Date: May 7, 2020

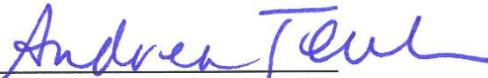
Item: 2

Review of City Agencies FY 2021 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, 2020. 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. Its 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, each appointed by the Mayor, and confirmed by the City Council.

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. For these actions, the Housing Authority is advised by SDHC.

On May 1, 2020, the SDHC Board reviewed the FY 2021 Proposed Budget and recommended that it be approved by the Housing Authority.

SDHC’s FY 2021 Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 7.

Impacts of FY 2021 Budget Proposal

Due to the changing environment created by COVID-19, modifications to SDHC’s Proposed Budget are anticipated.

The SDHC FY 2021 Proposed Budget is \$515.2 million, which is an increase of \$62.7 million, or 13.9%, over the FY 2020 Adopted Budget. The following sections detail the major changes of the FY 2021 Proposed Budget from the FY 2020 Adopted Budget, that comprise the \$62.7 million increase. We also provide additional information on homelessness programs and budgeted COVID-19 expenses.

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

Funding Sources

The \$62.7 million in increased revenue is made up of many adjustments. The following are significant adjustments that drive the overall change for each category of funding.

Federal Funds – \$37.3 million increase

- \$35.9 million increase in federal Section 8/Moving to Work (MTW) funds driven by a \$26.8 million increase in reserves held by United States Department of Housing and Urban Development (HUD), or funds that have not yet been spent; and

SDHC FY 2021 Proposed Budget			
	FY 2021 Proposed Budget	FY 2020 Adopted Budget	Change
Personnel Expenses	\$41,761,000	\$38,100,000	\$3,661,000
Non-Personnel Expenses			
Housing Program Expense	317,039,000	239,473,000	77,566,000
Property Expense, Professional Services, Supplies and Other	29,404,000	32,193,000	(2,789,000)
Capital Expenditures	30,373,000	41,600,000	(11,227,000)
Reserves	96,597,000	101,063,000	(4,466,000)
Non-Personnel Expenses Total	473,413,000	414,329,000	59,084,000
Total	\$515,174,000	\$452,429,000	\$62,745,000

City Agencies: San Diego Housing Commission

\$10.0 million in *new* Section 8/MTW funds.

- \$740,000 net decrease in Community Development Block Grant (CDBG) funds available for FY 2021.

In FY 2020, the City provided SDHC with \$10.0 million in the CDBG Affordable Housing Revolving Loan Fund that was planned to rehabilitate a transitional housing facility and fund a Notice of Funding Availability for permanent supportive housing. To date, a similar allocation has not been made by the City for FY 2021. However, the \$10.0 million will not be spent in the current budget year and will rollover to FY 2021. Therefore, a reduction in new CDBG funds is offset by an increase in funds carried forward, resulting in a net decrease of \$740,000 in overall CDBG funds available in FY 2021, after accounting for other small adjustments.

Local Funds - \$10.8 million increase

- \$9.9 million net increase in SDHC Real Estate funds.

This is driven by many components but notably, there is a \$2.6 million decrease in revenues due to reduced property lease income as a result of the sale of Mariner's Village property to SDHC's nonprofit affiliate, Housing Development Partners. The proceeds from the sale, which occurred in FY 2020, contributes to the \$11.8 million increase in SDHC Real Estate funds being carried over into FY 2021.

- \$4.9 million decrease Affordable Housing Funds due to loans paid to developers which reduces the fund balance.

We note that included within this adjustment is a decrease of \$905,000 in *new* revenue for the Affordable Housing Fund to align with

actual trends. According to an informal analysis by the Development Services Department, development is slowing, and more affordable housing is occurring on site.

- \$5.0 million increase from administrative fees related to multifamily housing revenue bonds issued for affordable housing projects and an increase in the contingency reserve.

State Funds - \$14.6 million increase

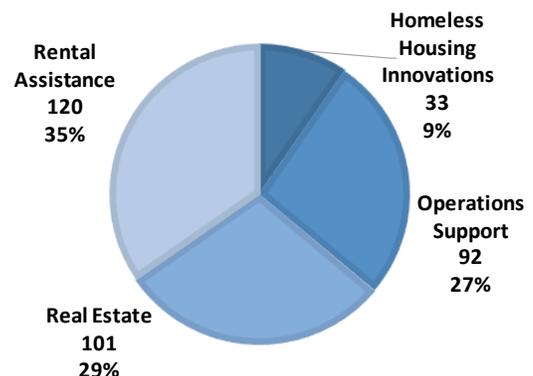
- Driven by \$16.0 million increase due to inclusion of state Homeless, Housing Assistance and Prevention Program (HHAPP) funds.

Budget by Funding Use

Total expenditures are proposed to be \$515.2 million and can be broken down between personnel expenses and non-personnel expenses. These categories are described in more detail below.

Personnel Expense

The Proposed Budget includes \$41.8 million for personnel expenses, reflecting salaries and benefits of 346.00 Full-Time-Equivalent (FTE) positions. Personnel costs make up about 10% of the overall budget, excluding fund balances. The pie chart below shows the number of positions proposed for each division.



City Agencies: San Diego Housing Commission

Proposed personnel expenses are higher by \$3.7 million, or 9.6%, as compared to FY 2020. This increase is largely driven by a 3.5% cost-of-living salary adjustment as well as an 8% increase in flexible benefits. Also included is an additional 6.00 FTE positions for \$504,000; three of which would support the Rapid Rehousing Hotel/SRO initiative, and three to support the Finance, and Board and Executive divisions. This is offset by one position reduction, resulting in a net five positions added.

Non-Personnel Expense

The Proposed Budget includes \$473.4 million in non-personnel expenditures. This is a \$59.1 million, or 14.3% increase from the FY 2020 Adopted Budget.

This increase is driven by the following significant adjustments:

Rental Assistance – \$42.3 million increase

- \$20.0 million in MTW funds to cover potential hardships of tenants that reside in SDHC-owned units
- \$12.3 million in MTW funds for higher payment standards for the Choice Communities Initiative.

The Choice Communities Initiative provides families that receive rental assistance with more flexibility on choosing which neighborhood to live, where some communities trigger a higher payment standard. The payment standard is the maximum subsidy payment that a voucher would pay for a rental. Families pay a predetermined amount of rent plus any extra rent in excess of the voucher. Funding for higher payment standards was also included in the FY 2020 budget as well, but additional funding is needed in FY 2021 as the payment standards are gradually rolled out to each

individual as they move, their file comes up for renewal, or as rents increase.

- \$10.0 million in MTW funds for rapid rehousing to go with any potentially acquired hotels/Single Room Occupancy (SRO) properties

This is a new initiative to house homeless individuals currently at the Convention Center as part of the City's response to COVID-19. The Community Action Plan on Homelessness defines rapid rehousing as short or medium term rental assistance (12-24 months) and services designed to quickly rehouse and stabilize individuals and families. More details on this initiative are included further in this report.

Affordable Housing – \$34.5 million increase

- \$21.6 million in MTW funds to preserve affordable housing, anticipated to be grants awarded through a Notice of Funding Availability
- \$12.9 million in additional loans anticipated to be funded as compared to FY 2020.

We note that the \$12.9 million adjustment includes \$9.2 million for a Notice of Funding Availability to create affordable housing, of which \$6.4 million is funded from Affordable Housing Funds.

Capital Expenses – \$11.2 million decrease

- Overall net decrease due to fewer acquisitions planned for FY 2021, as compared to FY 2020.

Note that this is inclusive of \$19.0 million for potential hotel/SRO acquisitions. This is funded with \$10.0 million in unspent CDBG funds described earlier in this report that will carry forward to FY 2021 and \$9.0 million in MTW funds.

City Agencies: San Diego Housing Commission

Reserves – \$4.5 million decrease

- Net decrease driven by setting aside funds for potential unforeseen COVID-19 budget challenges funded with flexible SDHC funds and a decrease due to funds paid out to developers, which reduces fund balance.

Property Expenses – \$1.9 million decrease

- Decrease related to maintenance of SDHC-owned properties

Discussion of Select Programs

Homelessness Programs

Homelessness services has been a high priority of the Housing Authority so the table below is included to summarize all related proposed expenditures. The SDHC administers many homelessness programs on

behalf of the City, and for FY 2021 funds will be transferred accordingly. Unlike the FY 2020 Adopted Budget, no SDHC property reserves or federal MTW reserves are anticipated to support City homelessness programs in FY 2021. Please refer to our review of the FY 2021 Proposed Budget for the Homelessness Strategies Department for a discussion of funding issues related to City homelessness programs.

As our Office discussed in our review of the Homelessness Strategies Department, there were no allocations included in the City's Proposed Budget for certain federal and state funds due to the changing needs in responding to COVID-19. Staff indicates that they are reevaluating how to deploy these funds as well as additional federal funds that are available for COVID-19 response. We note that City Council will be asked to approve allocations for state HHAPP funds before they are spent.

Conversely, the SDHC includes budgeted allocations for homelessness programs funded with state grant funds that generally continue FY 2020 service levels. However, SDHC anticipates future budget revisions will be needed. For example, not all Bridge Shelter costs are included in the SDHC Proposed Budget.

Our Office will continue to monitor changes to homelessness program funding as City decisions are made and respective budgets are updated accordingly.

Summary of FY 2021 Homelessness Programs <i>Subject to Change</i>	
Program	Proposed Budget
Federal Voucher Support	\$ 35,106,000
Hotel/SRO Acquisition	19,000,000
Temporary Bridge Shelters	17,873,000
Hotel/SRO Rapid Rehousing	10,000,000
Rapid Rehousing	4,558,000
Permanent Supportive Housing HUD Program	3,784,000
Other Programs	3,384,000
Landlord Engagement	2,669,000
Storage Centers	2,134,000
Interim Shelter	2,077,000
Prevention and Diversion	1,940,000
Housing Navigation Center	1,550,000
Safe Parking	1,200,000
Outreach	1,159,000
Admin Costs	1,035,000
Cortez Hill	952,000
Connections Housing	707,000
Flexible Spending	705,000
Day Center	541,000
Transitional Housing	434,000
Family Reunification	394,000
Admin for Certain City Programs	361,000
Serial Inebriate Program	290,000
Total	\$ 111,853,000

City Agencies: San Diego Housing Commission

Budgeted COVID-19 Activities

The SDHC has taken many actions in responding to COVID-19 thus far. However, the items in the table below are budgeted for FY 2021.

Developing Strategies to House Homeless Individuals During the Pandemic

As reflected in the table below, there is \$33 million set aside for a new initiative to acquire hotels/SRO properties, rehabilitate them if necessary, and provide rental assistance and wraparound services. According to discussions with staff, these units are intended provide housing to individuals currently residing at the Convention Center that are at high-risk for COVID-19 and/or other populations as prioritized by the Regional Task Force on the Homeless (RTFH) “Community Standards” that are used when referring individuals to available housing. In the forthcoming paragraphs, we provide more information on this and other initiatives being pursued to house homeless individuals based on our conversations with staff. However, we defer to SDHC for additional detail.

To respond to staffing reductions caused by COVID-19 and to comply with the six-foot social distancing requirement in the county public health order, the City has moved quickly to consolidate its shelters into the Convention Center which cannot hold events during this time. The Convention Center currently houses over 1,000 homeless individuals. The primary charge of the project

is to mitigate and prevent the spread of COVID-19. It also aims to house as many homeless individuals as possible, giving it its name: Operation: Shelter to Home.

It is unknown how long the Convention Center will be available for this purpose. It is also unclear how shelters will need to be configured when it is time to vacate the Convention Center and comply with any required public health protocols. The project has also taken in additional unsheltered individuals who may need continued services. Therefore, there is an urgency to house as many individuals as possible.

The plan to acquire, or master lease, hotels and SROs is intended to bring housing units online in the short term, as compared to constructing new units, which takes years. However, the timeline for when properties may be secured is yet to be determined.

The Housing Authority will have an opportunity to approve potential master lease/acquisitions projects.

It is important to note that this is just one avenue being pursued to house homeless individuals. In developing Operation: Shelter to Home, SDHC and RTFH established teams to specifically address exits from the Convention Center by creating a Housing Navigation Unit and an Exit Strategy Resources Unit.

The Housing Navigation Unit staff is onsite full time and is responsible for identifying available housing resources and matching residents to an appropriate resource. The unit also works with providers and other partners to house individuals once they are matched. Housing navigators have to consider the

FY 2021 Budgeted COVID-19 Activities		
COVID-19 Activities	Amount	Fund Source
Housing Subsidy for Tenant Hardship	\$20.0	Federal Moving to Work (MTW)
Acquisition of hotels/Single Room	10.0	Unspent FY 2020 CDBG funds
Occupancy (SRO) properties	9.0	MTW funds
Potential rehabilitation of Hotel/SRO	4.0	MTW funds
Rapid Rehousing for Hotel/SRO	10.0	MTW funds
COVID-19 Reserve	14.0	SDHC Real Estate Funds
Total	\$67.0	

City Agencies: San Diego Housing Commission

unique needs of residents, the extent to which they are ready with appropriate documents to be matched with a housing resource, potential benefits for which residents may be eligible, and the housing options available to determine the most appropriate placement.

The Exit Strategy Resources Unit focuses on the strategic planning related to the goal to house residents more quickly. This includes scaling up successful programs, identifying new housing solutions, pursuing all available funding sources, and working with state and federal governments to remove regulatory barriers.

Issues for Consideration

Preservation of Affordable Housing is a Priority in Proposed Budget

For the first time, the SDHC is planning to put out a Notice of Funding Availability dedicating \$21.6 million to preserving affordable housing that would otherwise turn into market rate units due to expiring requirements on their affordability. This is not the first time SDHC has engaged in this activity, but it has typically been done so on a project by project basis.

Preservation of affordable housing in the City has been a priority of Council.

Progress on the City's Community Action Plan on Homelessness

COVID-19 has thrust the region's homelessness system into dramatic and immediate change, and continues to adapt daily, to protect the health of the particularly vulnerable homeless population. Despite the challenges, the public health crisis has brought about unprecedented funding, regional coordination, and political will to house homeless individuals.

In addition to overseeing daily operations of

Operation: Shelter to Home, matching individuals to housing resources, and finding ways to improve these processes, the SDHC, with its partners, are planning for the future of homelessness programs systemwide. It intends to continue the positive system shifts that are emerging from the project, that also align with the Community Action Plan on Homelessness.

Our Office recognizes the significance of this work. We also believe that though many things are fluctuating, it is important to track progress against recommendations made in the Community Action Plan on Homelessness, including additional housing solutions (e.g. permanent supportive housing, rapid rehousing, and diversion assistance) that come online.

Use of Federal CARES Act Funding for COVID-19 Response Efforts

The Coronavirus Aid, Relief, and Economic Security Act (CARES) was signed into federal law on March 27, 2020. The law makes additional funding available for local government use to prevent, prepare for, and respond to coronavirus. The CARES Act provides additional Emergency Solutions Grant funds and a direct payment to the City of \$248 million for COVID-19 relief that could be of benefit to related efforts impacting the homeless population. City management is currently gathering COVID-19 related costs and clarifying eligible uses. Expenses incurred related to the hotel/SRO initiative may be eligible for CARES Act funding since it is part of the City's response to COVID-19. However, we note that this would not benefit the City's General Fund.

Finally, according to SDHC, it has recently been awarded \$3.1 million in federal Section 8/MTW funds for administration costs as part of CARES Act funding.