

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 06-27

DATE: October 23, 2006

TO: Council President Peters and City Council Members

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: ITEM #202 FISCAL YEAR 2007 HOMELESS EMERGENCY SHELTER PROGRAM

The report to Council on this matter recommends authorizing the Mayor or his designee to enter into a Fiscal Year 2007 Memorandum of Understanding between the San Diego Housing Commission and the City of San Diego, under which the City of San Diego shall receive \$445,000 from the San Diego Housing Commission for the operation of the FY 2007 Homeless Emergency Shelter Program.

The IBA's office received a report from the San Diego Housing commission today stating that the \$445,000 to fund the City's Shelter Program would be transferred from the Agency Local Reserve, reducing the reserve to \$3.54 million, which is 1.29% of the Housing Commissions FY 2007 Budget. The funding for the City's Homeless Emergency Shelter Program was not included in the Housing Commission's Fiscal Year 2007 Budget due to a smaller allocation of new funding in FY 2007.

Since no alternative funding for the shelter was identified, the Housing Commission will utilize the Agency Local Reserves. Per the Housing Commission's FY 2007 Budget, "*Agency Reserves include amounts that are available for any unanticipated housing purpose*". The Housing Commission has indicated the desire to increase their Agency Reserve to approximately 5% since the current reserve level is particularly low. The IBA concurs with the Housing Commission as stated in IBA Report #06-17, San Diego Housing Commission FY 2007 Proposed Budget, issued April 28, 2006. The IBA Report stated that Funding for the homeless winter shelter for FY 2007 was not included in the Housing Commission's FY 2007 Budget due to a smaller allocation of new funding in FY 2007. The San Diego Housing Commission had provided \$445,000 annually for this purpose for several years. The San Diego Housing Commission identified a possible funding solution for FY 2007 and FY 2008 that involved an agreement between the Housing Commission and Centre City Development Corporation regarding a loan buyout. **What is the status of this funding option?** The IBA Report also stated that if the Housing Commission is unable to finalize the identified funding for the Winter Shelter Program prior to June 30th, the City would need to identify other revenue to fund the program. The IBA Report also stated the following regarding the Agency Reserve:

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Blue Ribbon Committee Report on General Reserves dated July 22, 2002 states the following:

“According to Public Budgeting and Finance, an industry publication sponsored by the Association for budgeting and Financial Management, and the American Society for Public Administration, the most frequently cited guideline for setting an optimal level of reserves is 5 percent of General Fund revenues.”

Adequate reserve levels are a necessary component of the Housing Commission’s overall financial management strategy. As unanticipated revenue is received and/or expenditure savings occur, the Housing Commission should consider depositing those funds into the Agency Reserve.

The IBA is concerned with the use of Agency Local Reserve for this purpose due to the low reserve level of the Housing Commission. By using the Reserves for the Homeless Emergency Shelter Program, the Commission may be placing itself at risk in the future for any unanticipated expenses.

Although the use of reserves may be a “quick fix” for FY 2007, the Shelter Program will need a funding strategy for future years including alternative funding sources.

[SIGNED]

Prepared by: Angela Means
Fiscal & Policy Analyst

cc: Honorable Mayor Jerry Sanders