

REPORT

DATE ISSUED: May 30, 2007

REPORT NO: HAR 07-16

ATTENTION: Chair and Members of the Housing Authority
For the Agenda of June 5, 2007

SUBJECT: Funding for the City's 2007-08 Homeless Emergency Shelter Program

REQUESTED ACTION:

Design a short term funding plan for the City's Emergency Homeless Shelter Program and seek a longer term solution.

STAFF RECOMMENDATION:

Approve Option 2 for shared funding of the shelter program as described in Attachment 1. (Note: this matter was not heard by the Housing Commission Board.)

Background

The City of San Diego has a long history of funding a winter emergency shelter program, including a veteran's shelter operated by Veterans Village of San Diego and a shelter for single men and women operated by Alpha Project, that augments the year-round family shelter at Cortez Hill. The largest share of funding for the emergency program has been provided by the San Diego Housing Commission (\$445,000 of the FY07 \$655,000 budget). The balance was paid largely by federal grants to the City, specifically using some of the social services portion of the Community Development Block Grant (CDBG) and the Emergency Shelter Grant (ESG). It is important to note that, in California, responsibility for health and human services rests primarily with counties. Thus, there is very limited funding for services available to the City of San Diego beyond these federal grants. City revenues are largely directed at traditional functions of life safety, community facilities, land use regulation and other municipal activities.

Proposed changes to the CDBG allocation process this spring brought the homeless program funding issue to the fore. Whereas most of the City's CDBG social services funding was distributed in the past among various organizations and programs, this year's proposal from the Mayor would instead have used most of those funds to pay for the winter emergency shelter program. Finding that the traditionally funded social services programs are worthy and important to the City, the City Council reverted to the prior year's method of distributing the CDBG monies. This left the shelter program without full funding, highlighting once again the need to create a funding plan for the emergency shelters.

Housing Commission Funding

The San Diego Housing Commission is an agency of the City charged with producing affordable housing opportunities; it seeks transitional and permanent housing solutions but does not provide emergency housing. Nonetheless, the Commission has been a leader in the City's work to address homelessness, at the forefront of virtually every initiative, contributing both technical and financial support. While the Housing Commission has an extensive budget, almost all of these funds are

restricted for specific purposes. Unfortunately, none of our state or federal funds allows use for emergency housing; neither do the ongoing sources of the local Affordable Housing Fund.

Limited local funds received as fee-for-service or certain program activities are the most unrestricted form of income available to the Commission. They are used to pay salaries for activities not covered by the other grants and for “rainy day” reserves. These reserves are increasingly important because funding to administer the agency’s programs continues to decline. Despite undertaking all the “right” business practices, repeated and arbitrary cuts in federal administrative funding to perform the same level of services are crippling our flexibility. Since 2000, the Housing Commission has engaged in five year revenue/expenditure forecasts, implemented sound business plans, reduced the size of staff, sought streamlined best practices and begun positioning its assets to help sustain the organization. However these internal efforts to stabilize the organization are undermined by factors beyond our control. For FY08, the federal reduction in administrative funding exceeds the \$445,000 sought for the shelters.

Four years ago, the Housing Commission made it known that the single source of funding that was used for emergency housing (surplus administrative fees for the Section 8 rental assistance program) would soon be both depleted and ineligible for such use. Two years ago, the Commission announced that the Winter of 2005-06 would be the last year it could fund the shelters. Last year, the Housing Commission budget was approved without funding for the winter shelters, but in October, with no other options available, the City Council (acting as the Housing Authority) authorized the use of \$445,000 Housing Commission reserves for the shelter during the Winter of 2006-07 and committed that a longer term plan would be forthcoming.

Subsequent budget discussions with the Land Use and Housing Committee of the City Council focused concern on the low level of Commission reserve funds. Likewise, the proposed FY08 Housing Commission Budget on today’s agenda does not include funding for the shelter program.

Discussion

Funding for the 2007-08 winter emergency homeless shelter program is estimated at \$749,805. CDBG has already allocated \$201,675 and a source has been tentatively identified to fund the \$75,000 needed for new tent skins, leaving an unfunded balance of approximately \$475,000 for operations. There are several options available to fund the homeless shelters that include: use of a portion of the unanticipated \$4 million general fund revenues reported in a *Union/Tribune* newspaper article dated May 17, 2007; difficult choices among other social service program funding levels; sale of Commission assets to fund shelter operations; and, as a last resort, reduce Housing Commission reserves. These options are discussed below, and several potential funding schemes are outlined in Attachment 1.

\$4 million of General Fund

As reported by the *Union/Tribune*, unanticipated revenue was identified in the May budget revision. Much of the revenue is already programmed in the FY08 City Budget for police officer salaries and other unfunded priority activities. As of last week, it appeared that approximately \$600,000 remained available. Were the City to earmark 12% of the \$4 million for the shelter program, it would completely fund it for 2007-08. However, the budget review process is producing a list of activities unfunded in the proposed budget that members of the City Council would like to fund. The emergency shelter program for the homeless is one of many such unfunded priorities. As shown on the attachment, some contribution of general funds in combination with other revenues would help assemble a funding plan for the upcoming winter, buying sufficient time to seek a longer term solution.

Program Funding Choices

The City is budgeting \$3,027,445 for Social Services for FY08. City Council decided on May 15, to fund nineteen programs, including \$201,676 referred to above for the homeless emergency shelter program. In addition to these City-supported social services, the Housing Commission provides \$357,000 to similar organizations:

<u>Amount</u>	<u>Activity</u>
\$47,772	Access Center; housing counseling program to assist people with disabilities find permanent, affordable housing
\$62,582	Homeless Coordinator; Commission and CCDC each fund half of salary/benefits for City staff position
\$45,000	Regional Task Force on the Homeless
\$64,350	Elderhelp; Shared housing program that matches seniors who have a home with those needing one
\$88,000	Fair Housing Council
<u>\$50,000</u>	City/County Reinvestment Task Force
\$357,704	

Like the emergency shelter program, these activities are ineligible uses for the Housing Commission's primary revenue sources. They have been funded by the Housing Commission dating back to the time when Council Members sat as Commissioners and transferred funding responsibility from the City to the Commission which had more local funds available then. The City Council or Housing Authority may decide to reduce or eliminate funding for these programs, or any of the other eighteen on the City's social services list, in order to free up revenue for the winter shelter. For example, a 10% reduction in the Commission-funded social services would make \$35,000 available for the shelters.

Further, the City and its agencies support homeless programs of various types: Cortez Hill Family Center, veterans' winter shelter, homeless individuals' winter tent, family hotel vouchers (\$50,000 from the Housing Commission that is administered by the County) and the year-round Neil Good Day Center. The City's contribution to the shelters also supports coordination of health care to shelter residents (\$35,000). It may be that some of these activities are determined to be more critical than others, or may be funded by entities other than the City or its redevelopment or housing agencies. Specifically, most counties, especially urban counties, take a more active role in funding homeless shelter program; it could be asked to expand its funding to include the vouchers themselves, and to consider taking over the City's funding of St. Vincent de Paul to coordinate healthcare services delivered at the shelters. Combined savings that would be available for the homeless shelter program would total \$85,000.

Housing Commission Assets

At the May 15, 2007, hearings by City Council regarding social services funding and the Redevelopment Agency budget, Council discussion focused on identifying Housing Commission assets that could be purchased by the Centre City Development Corporation. In this scenario, CCDC would convert its cash asset into a loan or real estate asset and, instead of an asset, the Housing Commission would now have CCDC funds that it would disperse for the shelters.

During the hearing, a Housing Commission loan that funded a particular property (Del Mar apartments) was mentioned. However, purchase of this Commission loan by CCDC would produce HOME program income, subject to the federal HOME rules that do not allow funding of emergency housing. All Housing Commission assets that might be able to generate funding for the 2007-08 winter shelter program have been evaluated and are described below.

There is a companion Redevelopment Agency item docketed for today's hearing that would sell a Commission-owned parcel on 16th Street to the Agency for an undetermined sum, estimated between \$1 and \$2 million, at terms set by CCDC. This would fully fund the shelter program for 2007-08. However, the City has a long-standing policy that discourages selling real estate to fund ongoing operation expenses as this transaction would do. Sale would also reduce the Housing Commission's unrestricted assets as surely as spending reserve funds, eliminate parking for a downtown apartment building in East Village and remove any momentum to resolve shelter funding on a sustainable basis. Further, with recent changes in downtown parking requirements, this site has development potential as replacement housing for endangered SROs.

In addition, there are other, less valuable assets that could be "sold" to CCDC for traded for other funds, including:

- Commission loan to the YWCA's downtown building (\$119,000). The Housing Commission made a loan and numerous grants to the YWCA, but most of the Y's funding is from CCDC who is also considering another major potential investment in the property. It would make sense to eliminate the Commission's interest and regulations in favor of consistent CCDC interests.
- Commission loan on the Hotel Metro (\$344,000). Housing Commission and CCDC were directed by City Council about three years ago to consummate this transaction; it remains in limbo. It is assumed that future investment by CCDC and/or Housing Commission will be necessary to stabilize this property.
- If determined legally acceptable, certain locally funded activities could be paid for with Housing Trust Funds. The goal would be to transfer responsibility for funding a program, most likely the Reinvestment Task Force that helps make available capital for investment in affordable housing development, to the Housing Trust Fund. This would redirect \$50,000 for the shelter program.
- Transfer responsibility for salary support of the City's Homeless Coordinator to CCDC (\$62,582). Currently the cost of approximately \$125,000 is shared equally by CCDC and the Housing Commission. If an appropriate nexus to downtown redevelopment were determined, this would free as much as \$60,000 of Housing Commission funds that could be redirected to the shelter program.
- Commission loan to Peachtree SRO (\$560,000). This is a performing loan to a downtown SRO generating approximately \$61,000 per year of local funds to the Commission that is included in the budget. Even if the loan is bought by CCDC, the Commission would retain its contingent interest position in the property, thereby continuing both agencies in the deal.
- Del Mar Apartments (undetermined value). It may be possible that after the HOME loan restrictions expire in 2008, and subject to an amendment to the operator's nominal lease, CCDC could invest an additional amount into the Del Mar Apartments in return for certain restrictions, providing funds to the Housing Commission for shelter programs. Note that this building was built in 1911 and benefited from less than comprehensive rehabilitation. It is doubtful that the building's usefully life would comport with an additional 77 years of use restrictions. It may be practical for CCDC to purchase the property outright from the Commission after 2008 if CCDC

covenants were to restrict Housing Commission use of the property. Its value has not been determined.

Housing Commission Reserves

The Housing Commission maintains multiple reserve funds. By far the largest is the Program Reserve fund where specific future or contingent uses of the mostly restricted fund are identified. The Unobligated Reserves, available for unforeseen needs, has been funded recently at relatively low levels. It is at 1.4% of the current budget and is proposed at 2.5% for FY08. Many consider 5% to be an appropriate level of unobligated reserves, and the City is planning on achieving an 8% reserve over the next few years. Funds that had augmented agency reserves in previous years are no longer available. It is worth mentioning that the Commission's reserves were reduced by \$2 million several years ago to assist the City in meeting its financial obligations surrounding the closure of DeAnza Mobile Home Park. If those funds were returned to the agency's coffers, reserves would now be almost 3.5% of the budget. As noted above, marketable real estate could, if needed, be converted through a sale into cash reserves, and 16th Street is only such undeveloped, locally funded parcel.

Next Steps

Discussions this year regarding how to fund the 2007-08 winter shelters are proceeding earlier than in past years. While "the sooner, the better" applies to budgeting for this critical service, a definitive funding plan is not required until after summer. For this reason, it is recommended that the Housing Authority proceed with the more complex plan for shared funding for the upcoming year, and that a process be initiated to create a longer term funding strategy.

Previous calls for a more permanent plan to support the emergency homeless programs have not prompted interagency dialogue. The City, Housing Commission and CCDC all have roles to play in the longer term funding plan, as does the County of San Diego. With diverse funding resources and primary responsibility for the region's social service delivery system, the County can be a major contributor to the plan. The Housing Commission is convening relevant participants to facilitate longer term planning and will report back to Council.

The Housing Commission, Board Members and staff, are fully prepared to assist the City in this endeavor and will return promptly to the Authority with any implementing actions that may be needed to carry out their direction.

Respectfully Submitted,

Elizabeth Morris
President and CEO

Attachment: Table of Funding Options for the 2007-08 Emergency Homeless Shelter Program

ATTACHMENT1

FUNDING OPTIONS FOR THE 2007-08 EMERGENCY HOMELESS SHELTER PROGRAM

Option 1

\$475,000 City General Fund (12% of the unanticipated \$4m “May revise”)

Pro: Easy to implement; single source under City control

Con: Competes with many other unfunded budget priorities, would be significant shift in allocation of City funds

Option 2 (Recommended)

\$181,000	City General Fund (4.5% of unanticipated \$4 million)
119,000	CCDC buys HC loan to YWCA
50,000	County assumes responsibility for its hotel vouchers
35,000	County assumes payment to St. Vincent DePaul to coordinate health care
50,000	Substitute Housing Trust Fund for Reinvestment Task Force
<u>40,000</u>	CCDC assumes part of HC’s portion of Homeless Coordinator
\$475,000	

Pro: Shared responsibility among public agencies, including the County of San Diego, that can be built upon for future years

Con: Complex, not all funding is immediately available

Option 3

\$475,000+ CCDC buys HC’s 16th St site. (This option could be identified as the fall back to Option 2 in case all of the components are not realized by end of summer.)

Pro: Single source, can be available by fall

Con: Sells real estate asset to fund ongoing operating expense, does not establish direction for future funding