



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 1, 2024

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Budget Review Committee Date: May 6, 2024

Item: Subitem-L

Review of City Agencies FY 2025 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Monday, May 6, 2024. Our review is attached.

Handwritten signature of Amy Li in blue ink.

Amy Li
Fiscal & Policy Analyst

Handwritten signature of Charles Modica in blue ink.

APPROVED: Charles Modica
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 foster social and economic stability for vulnerable populations in the City through providing affordable housing, opportunities for financial self-reliance, and homelessness programs.

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. The Proposed Budget is scheduled to be heard at the Budget Review

Committee meeting on May 6, 2024. On May 10, 2024, the SDHC Board will review SDHC’s FY 2025 Proposed Budget and make a recommendation on the Proposed Budget to the Housing Authority.

This report includes a brief summary of the major differences between the SDHC and City Proposed Budget, followed by a review of the Proposed Budget based first on revenues, then expenditures, followed by major initiatives. The report concludes with a discussion of the operational impacts of unfunded requests for homelessness programs and issues for Council consideration.

Major Differences Between SDHC and City Proposed Budgets

The homelessness program expenditures in SDHC’s Proposed Budget are tied to the City’s

| SDHC-Administered City Program | FY 2024 SDHC Adopted Budget | FY25 SDHC Proposed Budget | FY 2025 City Proposed Budget | | | Difference between City and SDHC Proposed Budgets |
|--|-----------------------------|---------------------------|------------------------------|-------------------|-------------------|---|
| | | | General Fund | Other Grant Funds | Total Funding | |
| Bridge Shelters | 15,145,267 | 18,067,412 | 7,312,060 | 8,912,716 | 16,224,776 | (1,842,636) |
| Youth Shelters | 4,598,171 | 4,652,983 | 2,619,949 | 1,978,222 | 4,598,171 | (54,812) |
| Midway Sprung Shelter | 4,665,375 | 5,185,754 | 4,378,239 | - | 4,378,239 | (807,515) |
| Emergency Harm Reduction Shelter | 2,149,237 | 2,629,733 | 2,271,819 | - | 2,271,819 | (357,914) |
| Interim Housing for Homeless Adults | 2,460,395 | 2,716,644 | 1,617,006 | 627,223 | 2,244,229 | (472,415) |
| Family Non-Congregate Shelter | - | 2,582,435 | 916,652 | 1,000,000 | 1,916,652 | (665,783) |
| Connections Interim Housing | 1,240,517 | 1,224,023 | 1,224,023 | - | 1,224,023 | - |
| Women's Shelter | 1,067,617 | 1,120,998 | 1,120,998 | - | 1,120,998 | - |
| Bishops Shelter | 622,900 | 658,338 | 622,900 | - | 622,900 | (35,438) |
| Family Shelter Expansion | - | - | 450,450 | - | 450,450 | 450,450 |
| Housing Instability Prevention Program | 2,548,401 | 5,229,087 | 2,250,000 | - | 2,250,000 | (2,979,087) |
| Homelessness Response Center | 1,409,258 | 1,677,394 | 1,659,258 | - | 1,659,258 | (18,136) |
| Rapid Rehousing | 2,015,178 | 795,330 | - | 773,330 | 773,330 | (22,000) |
| Neil Good Day Center | 941,250 | 920,550 | 500,000 | - | 500,000 | (420,550) |
| Serial Inebriate Program | 290,000 | 339,299 | 290,000 | - | 290,000 | (49,299) |
| Storage Connect 1 | 1,396,389 | 1,466,208 | 1,241,100 | - | 1,241,100 | (225,108) |
| Storage Connect 2 | 531,436 | 558,008 | 315,000 | - | 315,000 | (243,008) |
| Think Dignity | 243,252 | 245,683 | 243,252 | - | 243,252 | (2,431) |
| Multidisciplinary Outreach | 1,100,000 | 1,100,000 | - | - | - | (1,100,000) |
| PEER College Course | 250,000 | 262,500 | - | - | - | (262,500) |
| Grant Administration - SDHC | - | - | - | 603,579 | 603,579 | 603,579 |
| Withheld Funding from SDHC Allocation | - | - | (15,000,000) | - | (15,000,000) | (15,000,000) |
| Grand Total | 42,674,643 | 51,432,379 | 14,032,706 | 13,895,069 | 27,927,775 | (23,504,604) |

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| SUMMARY OF SAN DIEGO HOUSING COMMISSION BUDGET CHANGES | | | |
|--|------------------------|-------------------------|-----------------------|
| | FY 2024 Adopted Budget | FY 2025 Proposed Budget | Change |
| Full-Time Equivalent Positions | 395.00 | 404.00 | 9.00 |
| Personnel Expenses | \$ 53,696,000 | \$ 60,040,000 | \$ 6,344,000 |
| Non-Personnel Expenses | | | |
| Housing Program Expense | 353,023,000 | 412,172,000 | 59,149,000 |
| Property Expense | 15,806,000 | 18,504,248 | 2,698,248 |
| Professional Services, Supplies and Other | 17,609,000 | 19,146,254 | 1,537,254 |
| Debt Payments | 9,348,000 | 7,430,774 | (1,917,226) |
| Capital Expenditures | 21,291,000 | 104,309,000 | 83,018,000 |
| Reserves | 124,113,000 | 93,727,000 | (30,386,000) |
| Non-Personnel Expenses Total | \$ 541,190,000 | \$ 655,289,276 | \$ 114,099,276 |
| Total | \$ 594,886,000 | \$ 715,329,276 | \$ 120,443,276 |

Proposed Budget. Typically, a portion of the City’s funding for homelessness is transferred to the SDHC to administer. The City and SDHC first entered into a Memorandum of Understanding in 2010 for the administration of service provider contracts for the City’s homelessness programs.

Although in past years, the SDHC Proposed Budget and City Proposed Budget have been largely aligned, the FY 2025 SDHC Proposed Budget includes notable differences from the City’s Proposed Budget. The most significant difference is a \$15.0 million reduction from the City’s General Fund allocation to SDHC to administer City homelessness programs, which is not reflected in the SDHC Proposed Budget. Additionally, the SDHC Proposed Budget assumes full program funding based on provider and SDHC recommendations, but many of the recommended funding levels were not included in the City’s Proposed Budget. Between the program funding differences and overall funding reduction, the SDHC Proposed Budget includes \$23.5 million more in homelessness spending than is budgeted in the City’s Proposed Budget, as seen in the table on the previous page. At the time of this writing, the City and SDHC are in

engaged in dialogue to reconcile differences between the two budgets.

The remainder of this report analyzes the SDHC Proposed Budget, which does not reflect City homelessness program funding as currently proposed. Key differences between the two budgets will be discussed in the “Issues for Council Consideration” section of this report. Funding amounts that are likely to change due to differences between the City and SDHC Proposed Budgets are indicated with an asterisk (*) throughout the report.

Overview of FY 2025 Budget Proposal

The SDHC FY 2025 Proposed Budget (Proposed Budget) totals \$715.3* million, which is an increase of \$120.4 million, or 20.2%, from the FY 2024 Adopted Budget. The increase is largely driven by one-time capital expenses related to two recently awarded State Homekey grants¹ and increases in the maximum value of the SDHC housing voucher to reflect current prices in the City’s rental market more closely—both changes to be detailed later.

SDHC’s major programs include 1) providing low-income households rental assistance; 2)

¹ The State awarded the City/SDHC a total of three Homekey grants in the latest round of Homekey funding, but only two Homekey projects affect the FY 2025 Proposed Budget. This includes the Presidio Palm and Pacific Village projects.

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creating and preserving affordable housing; and 3) addressing homelessness.

The following sections detail the major changes in the Proposed Budget from the FY 2024 Adopted Budget that make up the net budget increase of \$120.4 million, as shown in the table on the previous page.

Funding Sources

Of the \$715.3* million in revenue budgeted for FY 2025, \$601.6* million is *new* revenue from various fund sources (excluding any carryover funding from prior years), as reflected in the pie chart above. This reflects a net increase of \$145.7 million, or 32.0%, in new revenue, relative to FY 2024.

The remaining revenue consists of \$113.8 million in fund balance carried over from prior years. Notably, the largest share, 40.0%, of the \$113.8 million in the beginning fund balance is made up of funds that are committed to affordable housing projects that have not yet received disbursements in the Program Restricted Reserve. Additionally, the SDHC’s required Contingency Reserve, and Operating and Property

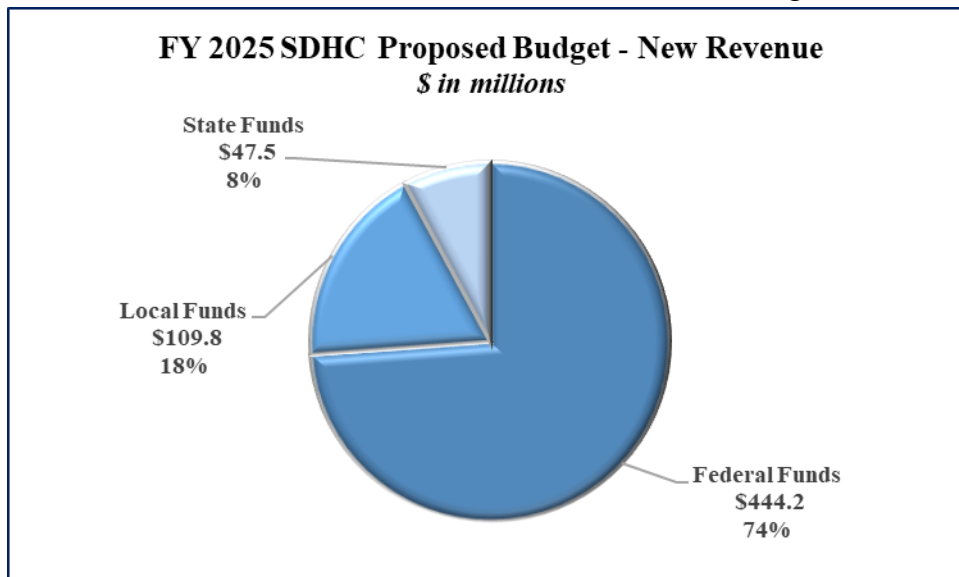
Reserve make up 30.8% and 16.8% of the beginning fund balance, respectively.

The following subsections detail the major changes in revenue available in the Proposed Budget as compared to the FY 2024 Adopted Budget.

Federal Funds – \$92.3 million increase

As shown on the pie chart above, SDHC anticipates receiving 73.8% of its new revenue from the federal government. The Proposed Budget includes a total of \$444.2 million in new federal funding which is a net increase of \$92.3 million compared to the FY 2024 Adopted Budget. This increase consists of many changes, but is primarily driven by:

- \$61.4 million increase associated with two awards from the third round of the State Homekey program. The State Homekey program aims to create new affordable housing units for individuals experiencing homelessness on accelerated timelines.
- \$37.1 million increase in Section 8/Moving to Work (MTW) funds from the U.S. Department of Housing and Urban Development



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(HUD), based on annual HUD adjustment factors such as regional changes in residential rent and utility costs. The increase will support an increase to the maximum value of the Housing Choice Vouchers (HCVs) to remain competitive with market rents in the City, as well as the award of up to 69 additional HCVs from HUD.

- \$11.9 million increase attributed to an overall increase in the maximum value of the Special Voucher programs, including Veterans Affairs Supportive Housing (VASH), Emergency Housing Voucher (EHV), vouchers for families with children in or at risk of being placed in foster care due to inadequate housing (also known as the Family Unification Program), and vouchers for non-elderly persons with disabilities (also known as Mainstream Vouchers). This increase also reflects the award additional Special Vouchers.

Notably, the budgeted amounts related to voucher funding are subject to a final funding determination from HUD, which at the time of this writing, has not yet been received.

Offsetting these increases is the following decrease:

- \$26.6 million decrease in revenue drawn from HUD-held reserves to support increases in the maximum value of housing vouchers, as previously mentioned.

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 \$16.8 million in HUD-held reserves in FY 2025, which is a decrease of \$26.6 million from FY 2024. The proposed use of HUD-held reserves in FY 2025 is largely to increase the value of the Housing Choice Voucher to reflect prices in the City’s current rental market, as well as help fund SDHC homelessness initiatives. Draw down of HUD-held reserves will be requested from HUD as expenses are incurred. SDHC staff has indicated that in FY 2025, the HUD-held reserve fund balance would fall below the goal of having sufficient funds to cover at least one month of housing voucher payments. See the “Issues for Council Consideration” section for additional details.

Local Funds – \$35.4* million increase

Another significant funding source for SDHC is a category called “local funds” which is anticipated to make up 18.3% of SDHC’s new revenue in FY 2025. Accounting for the largest share of local revenue, SDHC local funds are generated primarily from rental income from SDHC’s affordable housing properties, which is unrestricted revenue. The second largest local revenue source is City General Fund, which supports homelessness programs administered by SDHC. To a lesser extent, local funds also include the Affordable Housing Fund, which are derived from fees the City charges on new residential and commercial development to be used for affordable housing. The Proposed Budget includes a total of \$109.8* million in new local fund revenue, which is a net increase of \$35.4 million compared to the FY 2024 Adopted Budget. This is primarily driven by:

- \$23.7 million increase in County funding to reflect County support for the local match required for two State Homekey awards.

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- \$4.3* million increase in City General Funds for homelessness programs (e.g., interim shelters and storage centers). This increase includes operational funding for a family non-congregate shelter that opened August 2023 and various other program changes. (More information on this change can be found in our office’s review of the City’s homelessness budget in the [Review of the FY 2025 Proposed Budget](#).)
- \$4.7 million increase in residential rental income.
- \$1.1 million increase from funds awarded by the Regional Task Force on Homelessness to support the acquisition of a Homekey project. Specifically, this funding supported the acquisition of the Presidio Palms project, due to a funding gap between the State awarded Homekey funds (combined with required local match amounts) and the actual acquisition price.

We note that a total of \$6.3 million in new Affordable Housing Fund (AHF) revenue is budgeted for FY 2025. This revenue level is consistent with lower overall AHF revenue relative to past years – a trend that began in FY 2023. SDHC staff notes that there is uncertainty regarding prospective revenue collections due to a variety of factors. For instance, higher construction costs and interest rates may impact commercial and residential construction activity. Additionally, the Inclusionary Housing Ordinance changes approved in 2019 could reduce incoming revenues. These changes 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 build units instead of paying the fee which goes into the Affordable Housing Fund. Furthermore, residential developments can participate in the City’s Density Bonus or Complete Communities programs, which are exempt from the Inclusionary Housing requirements and thereby reduce incoming AHF revenues.

State Funds – \$18.0 million increase

The remaining 7.9% of SDHC’s new revenue is anticipated to come from the State. For FY 2025, three grants comprise “State funds” – State Homeless Housing, Assistance and Prevention (HHAP); Infill Infrastructure Grant Catalytic (IIGC); and CalHome. The City passes through HHAP grant funding to SDHC to administer homelessness programs. The Proposed Budget includes a total of \$47.5 million in State funding, which is a net increase of \$18.0 million compared to the FY 2024 Adopted Budget. This is primarily driven by:

- \$15.0 million increase from State awarded IIGC funds, which promote infill housing development by providing gap financing for infrastructure and other capital improvements necessary for infill projects that include affordable housing. SDHC primarily acts as a pass through for IIGC funds from the State to awarded developers. The total award was for \$45.0 million with \$15.0 million anticipated to disbursed in FY 2025.
- \$3.8* 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:

- \$2.2 million decrease in awarded CalHome grant funds related to an anticipated

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reduction in loan repayments to the program, relative to FY 2024 and the anticipated exhaustion of CalHome funds in FY 2025 to support the First-Time Homebuyer Program.

Fund Balance from Prior Years – \$25.3 million decrease

Often, significant funding is 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 \$113.8 million budgeted in FY 2025 is a net decrease of \$25.3 million compared to the FY 2024 Adopted Budget. This is primarily driven by:

- \$11.2 decrease in the Inclusionary Housing Fund component of the AHF, which consists of fees charged to residential development. The decrease reflects the disbursement of previously awarded developer loans based on when certain project milestones are met.
- \$3.6 million decrease from the federal Section 8/MTW reserves, due to the utilization of more housing vouchers and to support monthly housing assistance payments.
- \$3.0 million decrease in the Property Reserve to fund property repairs and maintenance.

We note that the \$2.0 million in FY 2024 expenditures related to SDHC providing emergency shelter and hotel vouchers for households affected by the January storms were also funded through fund balances.

Decreases in the fund balance are offset by an increase of \$5.0 million to the Contingency Reserve, which is maintained at 3.5% of annual budgeted new revenue.

Budget by Funding Use

The Proposed Budget includes \$715.3* million in proposed expenditures which can be broken down between personnel expenses and non-personnel expenses, as shown in the table on the second page of this report. These categories are described in more detail below.

Personnel Expense

The Proposed Budget includes \$60.0 million for personnel expenses, reflecting salaries and benefits for 404.00 Full-Time-Equivalent (FTE) positions. This reflects a net increase of \$6.3 million, or 11.8%, and 9.00 FTE positions. The increase in personnel expenses is largely driven by a tentative 5% cost-of-living salary adjustment and costs for the additional positions. Additionally, there is a tentative 3% increase in fringe benefits related to health 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 2024.

On December 13, 2023, the new SDHC Executive Director presented to the Housing Authority a structural reorganization of SDHC to better align with the Executive Director's priorities and vision. Although the SDHC personnel budget reflects a net increase of 9.00 FTE, the Proposed Budget includes several staffing reductions, additions, and internal shifts to support the reorganization. SDHC anticipates that 20.00 FTE positions will be needed in FY 2025 to support new workload, with most positions offset by proposed staff reductions or redirecting staff from other workload to result in a net of 9.00 new FTE positions.

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The table below shows a breakdown of FTEs by division.

| SDHC Staffing by Division | FY 2025 Proposed FTE |
|------------------------------|----------------------|
| Rental Assistance | 137.00 |
| Real Estate | 115.00 |
| Operations Support | 104.00 |
| Homeless Housing Innovations | 48.00 |
| Total | 404.00 |

The reductions include the elimination of some senior leadership positions and direct-hire contract positions.

The following is a breakdown of the proposed additional 20.00 FTEs:

Real Estate – 14.00 FTEs

SDHC will manage the two recently awarded Homekey projects – Pacific Village and Presidio Palms. Although for other SDHC-owned properties, SDHC relies on third-party management contractors, SDHC plans to use in-house property management teams for the two new Homekey properties. This includes the addition of 11 property management staff – 4.00 property managers (2.00 at each site), 4.00 maintenance technicians (2.00 at each site), 2.00 office assistants (1.00 at each site), and 1.00 regional asset manager. Based on the experience with in-house property management, SDHC may consider transitioning other SDHC-owned properties that provide permanent supportive services to in-house property management. This transition would be supported by the regional asset manager.

Additionally, 3.00 positions will be added to the property management team to assist with SDHC’s current real estate portfolio.

Rental Assistance Division – 5.00 FTEs

The Proposed Budget includes a total of 5.00 positions to support housing voucher programs, compliance, and inspections.

Operations Support– 1.00 FTE

An additional 1.00 position will be added to the Financial Services Department to support the new Homekey properties.

Non-Personnel Expense

The Proposed Budget includes \$655.3 million in non-personnel expenditures. This is a \$114.1 million increase, or 21.1%, from the FY 2024 Adopted Budget. We address components driving this by major expense category.

Housing Program Expense – \$59.1 million increase

Housing Program Expenses is the largest category and includes grant expenses for rental assistance payments, planned affordable housing loans, homelessness programs, and other housing programs. We include a breakdown of FY 2025 Housing Program Expenses below.

| FY 2025 Housing Program Expense Breakdown | |
|--|-----------------------|
| Sec 8 / Moving to Work, Housing Choice Voucher | \$ 267,119,700 |
| Homelessness ¹ | 63,136,300 |
| Special Voucher Programs ² | 44,450,000 |
| State Infill Infrastructure Grant Catalytic | 15,000,000 |
| Loans to be Issued for Affordable Housing | 12,300,000 |
| First-Time Homebuyer Program Loans | 5,318,000 |
| ADU Loan Program | 3,500,000 |
| Other Housing Programs | 1,348,000 |
| Total | \$ 412,172,000 |

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

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

² Veterans Affairs Supportive Housing, Mainstream, Family Unification Program, Emergency Housing Vouchers

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

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as Emergency Housing Vouchers. Based on data from February 29, 2024 (most recently available), SDHC rental housing voucher programs serve over 17,000 households, with over 56,000 households on the waitlist, waiting an average of 12 to 15 years before receiving a voucher.

The Proposed Budget includes \$412.2 million for Housing Program Expenses, which is an increase of \$59.1 million, or 16.8%, compared to the FY 2024 Adopted Budget. This is primarily driven by the following:

- \$30.2 million increase in Section 8/MTW Housing Choice Voucher program due to increased utilization of Project-Based Housing Vouchers (PBVs), with more than 400 new PBV units anticipated to be completed in FY 2025, resulting in more housing assistance payments, as well as an increase in payment standards. Payment standards are the maximum subsidy payment that a voucher will pay for a rental housing unit.
- \$15.0 million increase from the previously discussed State-awarded IIGC funds.
- \$10.5 million increase in VASH, Emergency Housing, Family Unification Program, and Mainstream Vouchers.
- \$5.4* million increase in various homelessness services, including a \$3.5* million increase for the operation of interim shelters, and \$1.9* million increase for the operation of bridge shelters and Safe Storage programs.
- \$2.0 million increase associated with loans to be issued for programs expanding homeownership opportunities.

These increases are offset by the following decreases:

- \$1.2 million decrease for the continued ramp down of the City's Rapid Rehousing program. Proposed funding would support currently participating households.
- \$786,000 decrease for SDHC's Housing First – San Diego programs, which include landlord engagement, prevention, and diversion programs, largely driven by decreases in available AHF revenue, which fund these efforts.
- \$2.1 million decrease in anticipated loans to be made for affordable housing projects as compared to FY 2024.
- \$1.2 million decrease in anticipated loans to be made for the First-Time Homebuyer Program, which offers down payment and closing cost assistance to low-income households earning up to 80% of area median income.

Capital Expenses – \$83.0 million increase

The Proposed Budget includes \$104.3 million in capital expenses for FY 2025. This is \$83.0 million increase compared to the FY 2024 Adopted Budget, largely driven by the following:

- \$73.4 million increase for the acquisition and rehabilitation of two State Homekey projects.
- \$4.8 million increase to rehabilitate SDHC-owned properties. Typically, SDHC prioritizes life and safety issues, regulatory requirements, and the most urgent property needs. In FY 2025, SDHC anticipates addressing necessary repairs and maintenance,

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including upgrading balcony structures to comply with recently adopted State regulations, addressing plumbing issues, replacing HVAC systems, installing fire sprinkler heads, and adding a secure key card entry system.

Property Expense, Professional Services, Supplies, Debt Payments, and Other – \$2.3 million increase

The Proposed Budget includes a total of \$45.1 million in Property Expense, Professional Services, Supplies, Debt Payments, and Other expenses in FY 2025, an increase of \$2.3 million from the FY 2024 Adopted Budget. This increase is driven primarily by increased expenditures related to maintenance (\$1.7 million), utilities (\$603,000), and security (\$559,000) costs at SDHC-owned properties, as well as higher software (\$800,000) and insurance (\$420,000) costs. These increases are offset by a \$1.9 million decrease in debt service.

Fund Balances/Reserves – \$20.0 million decrease

SDHC has three reserve categories: Program Restricted Reserves (unspent funds restricted to programs), Operating and Property Reserves (to maintain SDHC properties and required by lenders), and Contingency Reserves (for unforeseen costs), which in the FY 2025 Proposed Budget total \$113.8 million. The Proposed Budget anticipates the use of \$20.0 million across the SDHC reserves in FY 2025, primarily driven by:

- \$14.0 million decrease in the Contingency Reserves/Operating Fund to cover planned repairs and maintenance at SDHC-owned properties, including balcony upgrades to comply with State and federal regulations.

- \$7.9 million decrease in the Program Restricted Reserves to support the planned increase in the maximum value of Housing Choice Vouchers and Special Vouchers. Additionally, \$2.4 million from Program Restricted Reserves will go towards the acquisition of the Presidio Palm Homekey project, since there was a funding gap for acquisition between the State Homekey award and available local funding sources.

The decrease in overall reserves is offset by a \$4.4 million increase in the Program Restricted Reserves due to the amount of loans committed for affordable housing projects that will not be allocated to developers in FY 2025 and will carry 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 can span multiple years.

Notable Inclusions in the Budget

Whereas previous sections reviewed the SDHC Proposed Budget based on revenue and expenditures, this section describes the major initiatives included in the Proposed Budget.

Creation of Affordable Housing

Homekey - \$87.4 million

The Proposed Budget includes \$87.4 million across local, State, and federal funding sources to fund two State Homekey projects. The State Homekey program funds the acquisition and rehabilitation of properties to create affordable housing with supportive services for individuals experiencing homelessness on an expedited timeline. The State Homekey program, as well as the required local match, draw largely from federal COVID-19 relief funding, primarily

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American Result Plan (ARP) Act funds allocated to the City through HOME Investment Partnerships (HOME-ARP) and the State through the Coronavirus State Fiscal Recovery Fund. The City was awarded Homekey funding for Presidio Palms (\$35.0 million), Pacific Village (\$16.9 million), and Abbot Street Apartments (\$3.9 million), with \$20.2 million provided in local matching funds through the City's HOME-ARP allocation. Only funding for the first two projects will impact the Proposed Budget. County funds provided a match of \$23.7 million, with additional funding from the Regional Task Force on Homelessness (\$1.1 million) as well.

Balcony Upgrades and Repairs at SDHC-Owned Properties – Minimum of \$5.0 million

State law ([SB 721](#)) passed in 2018 requires buildings with more than two multifamily units that have balconies to be inspected by January 1, 2025, and requires landlords to make necessary balcony repairs in compliance with State building standards. Additionally, on May 11, 2023, HUD published new regulations ([88 FR 30442](#)) regarding the process that all public housing agencies must follow to assess housing quality and physical condition standards for Housing Choice Voucher and Project-Based Voucher programs. Included in the new standards is a required assessment of the structural soundness of balconies, as a potential component of a unit. To comply with State and HUD regulations, SDHC staff indicated having a three-year window to complete balcony upgrades, which includes time needed to secure proper permits. After permits are received, balcony repairs must be completed on a specified timeframe, depending on the severity of the issues. Based on initial assessments of balconies at some SDHC-owned properties, SDHC anticipates balcony upgrades will likely

surpass the \$5.0 million budgeted for this purpose in FY 2025.

Notice of Funding Availability (NOFA) - \$10.0 million

Staff intends to issue a \$10.0 million NOFA for which external affordable housing developers can apply to receive funds to help support the creation of affordable housing. SDHC estimates that the proposed funding would create 100 new permanent affordable housing units. The proposed funding draws from federal HOME funds (\$4.0 million) and the Affordable Housing Fund (\$6.0 million) and is a \$19.0 million decrease from the FY 2024 NOFA.

Homeownership – \$5.3 million

The Proposed Budget sets aside \$5.3 million for First-Time Homebuyer Programs. The proposed funding would support up to 71 households become first-time homebuyers. Staff anticipate the full \$5.3 million will be committed in FY 2025, despite challenging market conditions and high interest rates.

Unfunded Requests for Homelessness – Operational Impacts

As noted earlier, the SDHC Proposed Budget includes an additional \$23.5 million in homelessness expenditures that are not included in the City's Proposed Budget. This represents a 45.7% decrease in funding that SDHC had anticipated to receive from the City. Although discussions to reconcile the \$15.0 million reduction from SDHC's allocation to administer City-funded homelessness programs and the City's Proposed Budget are ongoing, this section details the unfunded requests and program funding eliminated from the City's Proposed Budget, along with potential operational impacts.

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Unfunded Requests

Brief descriptions of the most significant unfunded SDHC requests/recommended funding levels, as compared to FY 2024, are provided below.

- \$2.7 million increase for the Housing Instability Prevention Program (HIPP)², which provides financial assistance for low-income households who are unstably housed for up to two years. The increase would have supported an increase in the subsidy rates, provided flexibility to extend the length of services beyond two years, and allowed new participants to enroll, up to a maximum capacity of 300 households. Operationally, funding levels included in the City's Proposed Budget would (1) not sufficiently support the current participating households under the current subsidy structure (which offers subsidies of \$250, \$500, or \$750 per month depending on household financial need) and (2) would require new enrollment to be suspended.
- \$2.1 million increase for bridge shelters, including 16th and Newton, 17th and Imperial, and Golden Hall bridge shelters. This increase assumes full staffing capacity, living wage and cost-of-living adjustment (COLA) increases, increases for ancillary services (such as shower trailers), full food and supplies expenses (due to high shelter occupancy rates) and higher insurance and utility expenses based on actuals.
- \$520,000 increase for the Midway Sprung Shelter. This assumed full staffing and living wage and COLA increases. Operationally,

the unfunded request results in the elimination of lunch services. According to City staff, this results in the provision of two meals a day, which aligns with the established practice across the City's shelter system. However, SDHC staff note that this shelter was initially approved for lunch services due to the target population and the locations of the shelter, which is removed from subsidized lunch programs.

Notably, two other shelter programs would also have their lunch service affected under the City's Proposed Budget – the Family Non-Congregate Shelter and the Emergency Harm Reduction Shelter. Although the Family Non-Congregate Shelter received an overall increase in funding relative to FY 2024, lunch service at the family shelter will also be eliminated due to an associated unfunded request. At the Emergency Harm Reduction Shelter, lunch costs would be capped, such that bagged lunches would be provided, instead of hot lunches.

Additionally, SDHC notes there is also a funding difference between funds requested for living wage and COLA increases for shelter staff (\$1.1 million) and proposed funds for this purpose in the City's Proposed Budget (\$1.0 million), amounting to a \$87,000 difference. According to SDHC staff, the living wage adjustments support staff retention and recruitment in these often hard-to-staff positions.

Eliminated Program Funding

Additionally, the City's Proposed Budget eliminated funding for three SDHC-administered programs

- (\$3.0 million) for the Eviction Prevention Program, which provides education and

² We note that the SDHC recommended funding level for HIPP was \$5.6 million, but a slightly lower amount of \$5.2 million was reflected in the SDHC Proposed Budget.

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legal services to low-income renters facing eviction. Without FY 2025 funding, SDHC anticipates the program will end.

- (\$1.1 million) for the Multidisciplinary Outreach Team, which integrates a range of services to provide outreach to individuals experiencing homelessness with high intensity needs. The 2023-2024 State Budget included \$750,000 for the outreach program. According to SDHC, State funding is being incorporated into the FY 2025 budget, but given the proposed reduction in City funding, these funds may have to be returned to the State. Between July 1, 2023 and February 29, 2024, the program served 31 individuals, with 10 positive exits to permanent and longer-term housing.
- (\$250,000) for the Homelessness Program for Engaged Educational Resources (PEER), which is a collaboration between SDHC and San Diego City College to establish a pipeline to work in the homelessness field. SDHC anticipates the elimination of City funding to reduce the number of courses that can be offered through PEER by half – from four courses to two courses each academic year. Career development support and counseling services will also be reduced, potentially along with the certification program. Since program implementation, PEER has reportedly resulted in 98 job placements.

Issues for Council Consideration

Community Action Plan Update

In October 2019, the City Council approved the Community Action Plan on Homelessness (Community Action Plan), which intends to systematically address homelessness. The Action

Plan includes three goals to achieve in three years, recommended actions, and key strategies. Goals include decreasing unsheltered homelessness by 50% and ending veteran and youth homelessness.

In November 2023, Council heard the Community Action Plan Update (Update), reflecting progress since the initial plan's release and changes due to the pandemic. According to the Update, the City has made progress by adding 900 shelter beds, 650 rapid rehousing options, and over 3,800 supportive housing beds, but the overarching goals related to ending or reducing homelessness remain more challenging. The Update also identified the need for \$280.0 million in additional funding above current spending levels each year to support between 465 and 920 new shelter beds, as well as 2,700 diversion, 1,485 prevention, 3,080 rapid rehousing, 3,520 supportive housing, and 340 low-income housing resources. Although the Proposed Budget largely focuses on the Update's shelter goals, the Update calls for significantly more resources for prevention, diversion, and permanent housing. In light of the previously mentioned unfunded requests and eliminated funding for homelessness programs in the City's Proposed Budget, **Council may wish to learn more about the operational impacts of the City's Proposed Budget reductions and eliminations from SDHC. Furthermore, Council may wish to ask SDHC for their perspective on how the City can best align with the goals established in the Update, given the City's challenging budget constraints.**

SDHC Reserves Policy Review

SDHC is currently in the process of reviewing agency reserves and developing written policies regarding targeted reserve levels and allowable uses of reserves. This includes a benchmark review of existing reserve policies and investment reports, including the City and other local public agencies, along with recommended best

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practices. Our Office believes the development of reserve policies will foster transparency in the use of these funds in the future.

Thus far, the SDHC review of agency reserves is already anticipated to impact SDHC's approach to HUD-held reserves. Following the FY 2025 planned expenditures, the ending balance HUD-held reserves would be \$13.2 million, which is lower than the amount that would cover one-month of voucher rental assistance. In an effort to maintain sufficient HUD-level reserve levels if federal funding is disrupted (e.g., a prolonged federal shutdown), SDHC shared an intent to lower voucher utilization through attrition to rebuild the HUD-held reserve to cover at least one month of voucher rental assistance. Our Office believes this approach to rebuild HUD-held reserves may be prudent, but we note that during the process, voucher utilization (at 103.3% as of the end of February 2024) is likely to decline and waitlisted households would remain on the waitlist, extending the average time on the waiting list. **Council may wish to better understand the implications of prioritizing rebuilding HUD-held reserves over awarding new housing vouchers to households on the waitlist.**

HIPP Case Management Services

Our review of HIPP showed that in FY 2024 \$2.3 million, or 57.9%, out of the \$4.1 million available in total program funding was provided as direct financial assistance to households participating in HIPP. As a result, a significant portion of program funds cover case management services and program overhead. Specifically, the remaining \$1.6 million, or 42.0%, in program funding supported case management services, operations, and other overhead costs. According to staff, case managers help households develop long-term housing plans since HIPP assistance

is only available for at most two years. Although case management services could improve long-term outcomes for participants, reported findings from HIPP indicate that often participating households already live in very low-cost housing options and many are on fixed income due to being elderly or having a disabling condition(s). Because HIPP is funded with City General Fund, housing options are limited to those within City boundaries. Given the significant challenges finding more sustainable, long-term housing stability for participants, it remains a possibility for some participating households that even with highly intensive case management services, a long-term housing stability plan may remain elusive. We suggest opportunities for regional collaboration be explored to expand the number of lower-cost housing options than would be available in the City. **The City Council may wish to discuss with SDHC the feasibility of operating HIPP in collaboration with either the County or the Regional Task Force on Homelessness to expand lower-cost housing options that might exist outside of City boundaries.**