

The 2019-20 Budget: Considerations for Governor's Proposals to Address Homelessness

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Summary

The state's severe affordable housing crisis puts low-income Californians at greatest risk of housing instability and homelessness. For these households, job loss or an unexpected expense could result in homelessness. The 2019-20 Governor's budget includes various proposals aimed at addressing homelessness. Specifically, the Governor proposes (1) planning and production grants to local governments, (2) expanding the Whole Person Care (WPC) pilot programs, and (3) funding the Housing and Disability Advocacy Program (HDAP) on an ongoing basis.

While there is no obvious right answer as to how the Legislature should address the state's homelessness crisis, the Governor's interest in investing state resources to bolster short-term solutions—such as emergency shelters—is reasonable. These efforts can provide immediate relief while recent investments in permanent supportive housing for the homeless ramp up.

On the other hand, the Governor's proposal to reward communities for developing shelters with flexible funding may not produce the desired results. We urge the Legislature to consider alternative uses of these funds that would yield more certain benefits for homeless individuals. Furthermore, given the conceptual nature of many of the Governor's homelessness proposals, we highlight key questions the Legislature should ask the administration as it considers the merits of the proposals, including (1) how the administration will allocate grant funds and (2) what milestones the administration will use to evaluate local governments' programs to develop shelters.

BACKGROUND

Housing Affordability Affects Homelessness.

The state is facing a severe affordable housing crisis. Not surprisingly, those living in poverty are the most significantly affected. Rising housing costs that have exceeded growth in wages, particularly for low-income households, put Californians at risk of housing instability and homelessness. Those who pay at least half of their income toward housing are at greatest risk. In California, this applies to 1.5 million low-income households. For this population, job loss or an unexpected expense could result in homelessness.

California Has a Disproportionate Homeless Population.

California has more people experiencing homelessness than any other state in the nation. As of January 2018, California has about 130,000 homeless individuals, which represented about 25 percent of the total homeless population in the nation. (California's overall population, however, is about 12 percent of the nation.) Of California's homeless population, about 21,000 are families with children, 11,000 are veterans, and 12,000 are unaccompanied young adults (aged 18-24). Across these groups, 33,000 are individuals experiencing chronic homelessness.

Various Government Programs Help Alleviate Homelessness. Federal, state, and local government programs aim to assist those who are homeless or at risk of becoming homeless by: (1) funding construction and rehabilitation of housing and shelter for homeless individuals and families; (2) helping homeless individuals and families pay for the cost of housing or temporary shelter; and (3) providing cash assistance, mental health and substance abuse treatment, and other services. Various state entities participate in the administration of these programs, including the Departments of Housing and Community Development, Veterans Affairs, Social Services, and Health Care Services, as well as the California Tax Credit Allocation Committee, California Housing Finance Agency, and Homeless Coordinating and Financing Council. Historically, cities and counties have provided most of the homelessness assistance in their jurisdiction, relying in part on federal and state funding. As the homelessness crisis has become more acute, the state has taken a larger role in funding and supporting local governments in these efforts.

OVERVIEW OF THE GOVERNOR'S HOMELESSNESS PLAN

In the 2019-20 January budget, the Governor includes various proposals aimed at addressing homelessness. These proposals are largely conceptual and no details were included in the trailer bill legislation released by the administration in early February. We understand the administration is developing additional legislation related to its homelessness plan that could provide further information about the Governor's vision. Below, we describe the Governor's proposals to date. **Figure 1** summarizes the Governor's key homelessness proposals in the 2019-20 budget.

Provides Grants for Regional Homelessness Planning. The budget proposes \$300 million one-time General Fund for communities to expand or develop emergency shelters, navigation centers, and supportive housing. In order to be eligible for this grant, communities are required to develop regional plans with neighboring cities and counties that coordinate their efforts to address

homelessness. Of this amount, \$100 million is set aside for the 11 most populous cities in the state. The remaining funding would be available for Continuums of Care (CoC)—local entities that administer housing assistance programs within a particular area, often a county or group of counties.

Provides Funding for Jurisdictions Meeting Shelter and Housing Development Milestones. The Governor's Budget also proposes making a one-time \$200 million General Fund appropriation available for cities and counties as a reward to communities that show progress toward developing shelters and housing for the homeless, based on grants made available in the proposal above. As a community makes progress, it would receive a portion of the \$200 million, which it could use for any purpose.

WPC Pilot Programs. The Governor's budget proposes a one-time \$100 million General Fund augmentation for WPC pilots—with the funds available until July 2025—to fund housing and supportive services for individuals who are homeless or at risk of homelessness, focusing on the mentally ill. (These state funds would not drawdown additional federal funding.) WPC pilots are currently authorized under the state's federal Medicaid waiver that allows for community-based initiatives that coordinate health, behavioral health, and social services for Medi-Cal beneficiaries, but restricts the types of housing assistance eligible for federal funding. These existing pilots are funded with federal funding and local matching funds. The Governor's proposal introduces state funding for the program, which could be used to fund a wider array of housing and housing-related services.

Provides Ongoing Funding for HDAP. The Governor proposes an ongoing appropriation of \$25 million General Fund beginning in 2019-20 to permanently establish HDAP. The program was established in 2017 as a temporary county match program to assist homeless, disabled individuals with applying for disability benefit programs, including the Supplemental Security Income/State Supplementary Payment (SSI/SSP), while also providing housing supports. The program includes outreach, case management, benefits advocacy, and housing supports to all program participants. Participating counties are required to

match any state funds on a dollar-for-dollar basis. *The 2017-18 Budget Act* included one-time funding of \$45 million General Fund, available over three years, for this program. (While the authorizing legislation in 2017 required the administration to report by October 2018 on key metrics assessing HDAP’s performance—including how much counties received in federal reimbursements once participating individuals successfully transitioned from the county general cash assistance program to SSI/SSP—the administration indicates that data collection challenges have prevented it from complying with the reporting requirement.)

Other Homelessness Proposals. The Governor also introduces other proposals intended to address homelessness.

- **Streamlining California Environmental Quality Act (CEQA).** The CEQA process requires local governments to conduct a detailed review—an environmental impact analysis—of the potential environmental effects of new housing construction (and most other types of development) prior to approving it. The information in these reports sometimes results in the city or county denying proposals to develop housing or approving fewer housing units than the developer proposed. In addition, CEQA’s complicated

procedural requirements give development opponents significant opportunities to continue challenging housing projects after local governments have approved them. This level of environmental review for private housing development is uncommon among other states in the nation. Only four other states have comparable requirements. The Governor intends to propose legislation to accelerate the construction of homeless shelters, navigation centers, and new supportive housing units by allowing for a streamlined CEQA process with accelerated judicial review of challenges to an environmental impact analysis.

- **Using “Airspace” for Emergency Shelters.** The Governor intends to develop a statewide policy for the use of California Department of Transportation (CalTrans) airspace for emergency shelters. Airspace is the area under bridge structures and viaducts, as well as other CalTrans property used to support the state’s transportation system that could be used for other purposes. While some cities, such as Oakland, have individually contracted with CalTrans to lease airspace for the development of emergency shelters, this proposal would develop a statewide policy for the use of airspace.

Figure 1

Governor’s 2019-20 Homelessness Proposals

(In Millions)

Proposal	Description	General Fund
Planning grants for homelessness	Provides grants to local governments to expand or develop emergency shelters, navigation centers, and supportive housing.	\$300
Production grants for homelessness	Provides general purposes funds to local governments as a reward for making progress toward developing shelters and housing for the homeless.	200
Whole Person Care pilot programs	Provides housing and supportive services to individuals who are homeless or at risk of homelessness, focusing on the mentally ill.	100
Housing and Disability Advocacy Program	Assist homeless, disabled individuals with applying for disability benefit programs, including Supplemental Security Income/State Supplementary Payment.	25
Total		\$625

ISSUES FOR LEGISLATIVE CONSIDERATION

In this section, we provide the Legislature with issues for its consideration as it deliberates the Governor's homelessness proposals.

Different Approaches to Addressing Homelessness

There are a variety of approaches for assisting homeless individuals and families. Each type of assistance has pros and cons. None is obviously superior to the others in all respects. Some approaches—such as rapid rehousing (short-term rent assistance, moving cost assistance, or help with housing search) or shelters—tend to be cheaper, can be deployed more quickly, and have lower barriers of entry for participants. The downside of these approaches is that they tend to offer only a temporary solution. This means that recipients may be more likely to fall back into homelessness. More permanent solutions include long-term rent assistance and supportive housing. With these approaches, recipients receive assistance as long as they need it (as long as their income remains below certain levels). Long-term rent assistance tends to be more expensive than rapid rehousing. Similarly, supportive housing construction tends to require significant upfront costs. Supportive housing also typically takes years to site and build. Balancing out the higher costs and long implementation time is the fact that recipients of these programs are less likely to fall back into homelessness.

Voter Approval of No Place Like Home Represents Significant Investment in Long-Term Homelessness Solution. Voter approval of Proposition 2 in 2018 authorized the use of funds from the Mental Health Services Act, which taxes income above \$1 million, for No Place Like Home (NPLH). The Legislature created NPLH in 2016 to build and rehabilitate permanent supportive housing for those with mental illness who are homeless or at-risk of becoming homeless. Proposition 2 allowed for the issuance of \$2 billion in bonds for this purpose.

Prior Investments in Short-Term Homelessness Assistance Showing Promise, but Need Remains. The 2018-19 budget provided \$500 million one-time General Fund to establish the Homelessness Emergency Aid Program (HEAP). Eligible cities and CoCs can use the funds for a variety of short-term housing solutions for the homeless, such as shelters and rapid rehousing. Cities and CoCs have begun to receive funding available through HEAP and have indicated to the state how they intend to use the funds to provide relief for the homeless in their communities. Approaches include: capital improvements for housing and shelters; direct delivery of services, such as health education; and rental assistance programs. Despite these efforts, significant demand for short-term homelessness assistance remains. In addition to leading the nation with the highest number of homeless individuals, California has the highest proportion (69 percent) of unsheltered homeless individuals of any state in the nation. This indicates a demand for additional short-term assistance. The Governor's proposal helps address this unmet demand, which could cost \$2 billion to \$3 billion annually to fully address.

Reasonable to Invest in Short-Term Assistance. While there is no obviously right answer as to how the Legislature should balance the short- and long-term approaches for addressing homelessness we mentioned above, the approval of NPLH by voters opened up a sizeable amount of funding for construction of permanent supportive housing. In this case, it might make more sense to focus one-time funds on short-term assistance—such as shelters—for which much less funding is available and considerable demand remains. As compared to additional funding for supportive housing—which would take years to result in new housing units—allotting funding for short-term assistance would help move more people out of homelessness in the near term while NPLH is ramping up.

Additional Considerations

Unclear How Local Governments Will Respond to Flexible Funding Rewarding Shelter Development. The state has tried to encourage communities to build affordable housing by offering financial rewards in the past. While it is difficult to rigorously evaluate these incentive programs given their design, we outline in *The 2019-20 Budget: What Can Be Done to Improve Local Planning For Housing?* that they have not resulted in a notable increase in housing construction. It is unclear to us whether local governments would respond any differently to the Governor's proposal for \$200 million General Fund encouraging constructing of shelters. Therefore, this component of the Governor's proposal would be risky and the Legislature could not be sure what effect, if any, the funds would have on the development of shelters in the state. There are alternative uses of these funds that would yield more certain benefits. For example, providing \$200 million to construct shelters would almost certainly yield over 6,000 new beds for the homeless. Given the uncertain benefits of the Governor's proposal, we recommend the Legislature not appropriate \$200 million for one-time rewards for local governments. However, if the Legislature were to decide to move forward with this proposal, our aforementioned report offers recommendations on how the state could structure the program to allow for a more rigorous evaluation of its outcomes.

CEQA Streamlining Deserves Serious Consideration. Given the magnitude of the state's homelessness problem, the Legislature should take a comprehensive approach that addresses the problem from multiple angles. The legal challenges that opponents can bring through the CEQA process means that a single individual can slow or terminate a development project approved by the local government and broadly supported by the community. In light of this impediment to the development of emergency shelters, the Governor's proposal deserves serious consideration. Additionally, this proposal is in line with previous action by the Legislature to streamline CEQA for specific projects or types of projects. Refer to our March 2015 report, *California's High Housing Costs: Causes and Consequences*, to learn more about how CEQA affects development.

Key Implementation Issues

Key Questions Surrounding Homelessness Proposals Remain. Given the conceptual nature of many of the Governor's major homelessness proposals, we highlight key questions the Legislature might want to ask the administration as it considers the merits of the requests.

- ***How Will the Administration Allocate Grant Funding?*** The administration proposes allocating the grant funding among CoCs and the most populous cities in the state. Deciding how specifically to allocate the funding among these entities can be difficult and contentious. There are many factors that could be considered (for example, current and past numbers of homeless persons, composition of homeless population, housing costs, or poverty rates) and many reasonable approaches that can and have been used. Picking one approach over another inevitably benefits some communities over others. This conflict is unavoidable. The administration should specify its allocation methodology.
- ***What Milestones Will the Administration Use to Evaluate Local Governments' Progress?*** The administration could evaluate communities based on specific actions, such as zoning land to allow for emergency shelter development, or based on outcomes, such as opening a specific number of beds in new or expanded shelters.
- ***How Will the State Administer the Augmentation to the WPC Pilot Program?*** In particular, the administration should explain (1) local matching requirements for the additional funds; (2) eligibility requirements for WPC pilot participants; and (3) how state funds will expand, rather than supplant, existing federal and local funding for the program. Additionally, the administration should explain how the services offered through the WPC pilots would interact with similar housing support programs for individuals with mental illness, such as NPLH.
- ***What Is the Rationale for Permanently Establishing HDAP?*** The 2017-18 budget appropriated funds over three years to

pilot the HDAP program. Funding for HDAP remains available in 2019-20.

The administration should explain what experience from the pilot justifies permanently establishing HDAP in 2019-20 when the initial funding still remains available for the program. Additionally, the administration should explain why it prioritized providing additional funds to HDAP while funding for other housing pilot programs that have demonstrated positive outcomes and are set to expire in 2019-20 are not continued, such as Bringing Families Home. If the Legislature decides to move forward with this proposal, the administration should address how a permanently established HDAP would be administered. Specifically, (1) how will the program measure success given the data collection challenges the administration has faced in the pilot, (2) which counties will be eligible for additional HDAP funding, (3) whether the funds will be made available through a competitive process or set allocations, and (4) whether counties would be required to match state funding.

CONCLUSION

The state's severe affordable housing crisis puts Californians at risk of housing instability and homelessness. For the state's lowest-income households, job loss or an unexpected expense could result in homelessness. California has more people experiencing homelessness than any other state in the nation. While there is no obvious right answer as to how the Legislature should address this crisis, the Governor's interest in investing state resources to bolster short-term solutions—such as emergency shelters—is reasonable. These efforts can provide immediate relief while recent investments in permanent supportive housing for the homeless ramp up. However, the Governor's proposal to reward communities with flexible funding is risky. We urge the Legislature to consider alternative uses of these funds that would yield more certain results. Furthermore, given the conceptual nature of many of the Governor's homelessness proposals, we highlight key questions the Legislature should ask the administration as it considers the merits of the proposals.

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This report was prepared by Lourdes Morales and reviewed by Brian Uhler and Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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