



To: Board of County Commissioners
From: Jes Larson, Department of Housing Services Assistant Director -- Homeless Services Division
Date: October 9, 2024
RE: DRAFT Supportive Housing Services changes to program revenue and expenditures

Overview:

In August, the Department of Housing Services received the last month of Supportive Housing Services revenue for the fiscal year 2023-2024 and the division closed the books on the program year, submitting the attached financial report to Metro August 30, 2024. Now in the fourth program year, three important changes to the Supportive Housing Services program elevate the need to adjust budgeting and program planning going forward:

1. Contracted service providers and rent assistance programs are expending their contracted capacity at greater rates than previous years, demonstrating programs operations are nearing full capacity.
2. After two years of revenues significantly exceeding Metro forecasts, Supportive Housing Services revenue in FY 23/24 was less than forecasted by approximately \$6 million. As in previous years, the Metro forecast was also used develop the approved budget for FY 24/25, and as such this is the first year the program will likely receive less revenue than the program budget.
3. The carry forward balance, from unanticipated revenue in the first two years, and any unspent program funds in the first 3 years, is fully committed. This balance includes required and recommended reserves, committed program and capital project awards, and funding assigned for planned capital projects underway.

The first three years of the SHS program leveraged exponentially growing revenue to set a pace of rapid program growth, enabling Washington County to respond to the housing crisis with aggressive urgency. This was the necessary response at the time. Now that thousands of people are being served every day by SHS funded programs and program expenditures have met the capacity of revenue collection, new approaches to budget and program planning are necessary to manage for the volatile nature of the revenue sources and maintain stable funding for critical shelter, housing, and service programs.

This memo outlines revenue collections and forecasting to date, the current program year FY 23/24 budget, and planning for the FY 25/26 budget. The memo also provides considerations for the Board's discussion at the October 15th meeting, where staff will provide an overview and request further direction from the Board.

SHS Revenue Collections

Fiscal Year	Forecasted Revenue	Revenue Received	Difference
23/24	\$109,534,466	\$103,261,969	(-\$6,272,497)
24/25	\$115,078,651	TBD	TBD

The program received \$6 million less than forecasted in FY 23/24, a difference that was absorbed by the program as total revenue collections were greater than the program budgeted. However, if revenue collections are lower than forecasted again in FY 24/25, annual services and program operations will exceed revenue collections. The program can absorb some level of over expenditure by transferring additional funds from the carry forward balance. However, the contingency reserve balance is not sufficient to cover the currently projected program over expenditure, and the carry forward balance fully ‘committed’ to already awarded projects and programs, and ‘assigned’ investments under development according to the Board’s previous direction. (See “Carry Forward Balance for one-time investments” chart below).

SHS Program Expenditures and Ongoing Sustainability

To achieve the goals of the SHS program, especially to end chronic homelessness and prevent the increase of the overall rate of homelessness, annual program operations must be sustained program capacity year-over-year. Each year as the program houses more people and hires more case managers to meet our supportive housing commitments, these households must be maintained with ongoing rent and support services. As such, the annual program operations have increased significantly each year, doubling in FY 23/24, and are expected to increase significantly again in FY 24/25. If the revenue collection trends continue at the same pace as last year, and if Washington County and our contracted providers spend 100% of the budget again in FY 24/25, program expenditures are estimated to exceed revenue collection by \$8 million.

SHS program expenditures	FY 23/24 Actuals	FY 24/25 Budget
Ongoing services and program operations	\$ 69,597,596	\$120,790,747
One-time investments	\$26,551,372	\$22,420,000*
Total	\$96,148,968	\$142,790,747**

*anticipated mid-year budget adjustment

** FY 24/25 total budget for one-time investments may increase for committed capital projects

In the early program years, as the system was still building capacity, some temporary shelter and short-term housing programs were extended and/or expanded to meet urgent needs until permanent and purpose-designed programs came on-line. Now as the program reaches the full capacity of available funding, the system will require rebalancing to ensure our Local Implementation Plan commitments are sustained and a balance of shelter, transitional housing, and permanent housing helps people move through the system efficiently and effectively within the financial means of the program.

Local Implementation Plan capacity commitments are:

- 1650 supportive housing placements (500 in site-based programs)
- 250 shelter beds

Stable annual program funding to maintain a balanced system of shelter, housing and service level capacities. Relying on one-time funding available in the current carry-forward balance will not create sustainability for the program long-term.

SHS Carry Over Fund Commitments

Currently the SHS program includes a sizeable carryforward balance from the first two years, comprised of un-forecasted revenues and underspending in the nascent program years. Carry forward funds were prioritized first to establish a required stabilization reserve that will be used to weather major economic downturns, and a recommended contingency reserve that will be used to mitigate programmatic shortfalls. The required reserves also include a balance for the Regional Investment Fund from required investments not made in the first two program years due to delays in developing the Tri-County Planning Body and their ability to direct these investments.

Total required and recommended reserves (August 30, 2024)	\$32,814,333
Contingency reserves	\$5,750,000
Stabilization reserves	\$17,250,000
Regional Implementation Fund (unspent required set aside)	\$9,814,333

With the remaining SHS carry forward balance, the county has planned for critical one-time program and capital investments needed to support the scaling and long-term stability of the system. Currently, these planned investments exceed the remaining carry-over balance, and some will need to be reduced or delayed until future funding is available. The information below represents the current carry forward balance as reported to Metro on August 30th, 2024, in the annual budget report.

Carry Forward Balance for one-time investments	\$96,721,471
Eviction prevention rent assistance (committed)	\$12,420,000
Capacity building for providers (committed and assigned)	\$3,500,000
Shelter capital construction (committed)	\$13,675,993
Access center capital construction (committed and assigned)	\$20,000,000
Transitional housing capital investments (assigned)	\$30,000,000
Transitional housing acquisition (assigned)	\$20,000,000
Pod shelter permanent site acquisition (assigned)	\$1,500,000
Total planned and committed one-time investments	(\$6,973,353)*

*The final fund balance does not reflect an inclusion of -\$3,839,382 due to a GASB 31 adjustment mandated by a recent Washington County audit. The true final fund balance is estimated at (\$10,812,735).

This balance will change throughout the years as budget adjustments are made to account for committed one-time investments. In fact, a budget adjustment is currently underway to move \$12,420,000 for the temporary eviction prevention program, and \$10,000,000 for two access center capital projects, to the FY24/25 budget. This transfer of funding will reduce the current carry forward balance above (\$96,721,471) by \$22,420,000 to \$74,301,471. If additional carry-forward funds are needed to address revenue shortfall or program over-expenditures, in FY 24/25, further reductions will be necessary to the currently planned one-time investments. Currently, it is estimated that program

expenditures in FY 24/25 will require an additional transfer of up to \$8,000,000 from the reserves or remaining balance, if not adjustments will be needed for current year contracts.

A significant portion of the carry forward balance is currently assigned to the program objective of creating 100-200 transitional housing units to better serve high-acuity needs in the homeless population with enhanced mental health and substance use services onsite. To achieve this objective, a Transitional Housing Capital Notice for Funding Availability (NOFA) recently closed and may result in up to \$30,000,000 for capital projects awarded, and a potential hotel purchase is under consideration with an estimated acquisition and renovation budget of \$20,000,000 or more. However, the program is not likely to fund all \$50,000,000 of potential transitional housing projects due to currently resource constraints.

Homeless Solutions Advisory Council feedback

On September 19th, 2024, the Department of Housing Services staff convened the Homeless Solutions Advisory Council for their monthly meeting. The agenda was re-prioritized to make time for a critical discussion about potential program reductions. Staff provided the overall context, describing changes in revenue collections and the rate of program expenditures since the FY 24/25 budget was constructed six months ago.

Staff received significant feedback from the committee, and strong concerns that any program reductions would impact people experiencing homelessness and contracted providers counting on already awarded contracts for this program year. The discussion was difficult, instructive, and values-based with the members of the committee grounded in their commitments to serving our community.

Staff will reconvene with the committee on October 10th to further discuss the changing financial situation in the SHS program, and the specific Board materials prepared for the October 15th meeting. Staff will continue discussing programmatic considerations with the advisory council, should any program reductions be necessary to implement and towards achieving a balanced FY 25/25 budget and program capacity.

Specific feedback from the Homeless Solutions advisory body included:

- Slow decisions and delay of program reductions until further information is known.
- Make use of available one-time funding to cover gap in expenditures and revenue in FY 24/25.
- Reduce capital investments and prioritize current service levels and contracted commitments.
- Use system unmet need and program performance data to inform any future program reductions.
- Provide clarity in the decision-making process and role of the advisory body.

The draft principles discussed by the committee, included:

- Resources should remain focused on housing and maintaining housing for priority populations.
- Center racial equity and ensure reductions don't increase disparities.
- Investments should remain proportional so that people can move through our system from shelter to housing.
- Stay true to our commitments and prioritize operational funds for our capital investments.
- Balance quality of services with quantity of placements using person-centered and system-sustainability approaches.

- Consider the role of other public systems to partner in addressing community need.
- Manage impact to contracted partners and participants by looking to temporary programs and planning for program ramp-down periods.

Current program savings underway for FY 24/25

The Division is immediately employing cost saving measures to reduce the likelihood of potential program overspending in the FY 24/25 year. These steps include:

- Delaying new program launches and program expansion that are not yet executed into contracts until further notice.
- Delaying some staff positions that have been budgeted but are not critical to the essential functions of the program until further budget certainty is established.
- Communicating funding constraints with partners to forecast reductions in the base-budget capacity for next fiscal year, and the potential of modest program reductions in FY 24/25, if necessary.
- Preparing for program ramp-down of temporary programs scheduled to conclude next fiscal year.

Additional actions may be necessary to address currently projected over-expenditures in FY 24/25, however staff recommend delaying further programmatic reductions until additional financial information is available including Metro's fall forecast and expenditure trends from the first quarter of the fiscal year.

Recommendations for FY 25/26 Budget and Future Program Planning

Looking ahead, it is clear that SHS program planning and budgeting practices will need to evolve to establish sustainability in the program. Now that program expenditures match program revenues, a more conservative approach to annual planning based on annually updated revenue forecasts, may be necessary. The program should proactively anticipate volatility in the revenue source going forward to protect against catastrophic program closures in shelter and housing programs in future years when the carry forward balance will not have sufficient resources to weather more major revenue shifts.

As such, staff recommend using the more conservative estimate of Metro's updated annual forecast going forward. Pending the updated forecast in November 2024, employing this approach for the FY 25/26 budget year may require a \$10-15 million base budget adjustment. This level of program reduction will necessitate a conclusion to all temporary programs and rebalancing the overall system capacity.

Staff also recommend a new fiscal practice of investing funds carried forward from revenue surplus years to be invested as 'add packages' for one-time needs in the following fiscal years. Eviction prevention, move-in costs, and flex fund programs will enhance our system's response to homelessness year to year, without creating uncertainty or volatility in staffing capacity for contracted providers. Additional one-time funds should also be considered for longer-term capital project needs, especially for re-investment in the homeless services systems capital assets as they age over time, including shelters, access centers, transitional and permanent housing. Staff recommend an even distribution of additional revenues between the two types of one-time investments, after reserve funds have been fully replenished.

Finally, as each county program shifts from the urgency of building new programs and prioritizing revenue expenditure, to the fiscal responsibility of sustaining new and critical service levels for the long-term; there is an opportunity for the region to weather this abrupt change working together. Metro and the three Counties could consider redeploying currently unassigned funds carried forward from the first three years. Metro's unassigned administrative balance (\$32.1 million), and the unassigned balance for the Regional Investment Fund, currently held between each of the counties (estimated at \$22.1 million), could be redeployed to strategically stabilize county service levels and create a longer transition period as the three counties adjust to more conservative base-budgets going forward.

Conclusion

The Supportive Housing Service program has been a game-changing investment in Washington County, because of the long-term housing and shelter capacity that has been created, and the urgency by which our community came together to respond to the crisis of homelessness. When we launched the program in 2021, we could not fully anticipate the details of revenue collections, program timelines, and community outcomes, but we acted with a clarity of purpose and the responsibility to better serve our community. After three years, this community work is achieving impressive outcomes as we shift towards maturing our system with iterative practices of evaluation, improvement, and long-term sustainability.

We anticipated this shift in the SHS program, even if it seems to have arrived sooner than planned. Our initial strategies to deploy temporary programs until permanent housing programs and shelter capacity came online, has served our community well. Refining our programs, planning, and budget practices will enhance the quality of our services even as we take the difficult steps to scale back to sustainable levels of capacity. We can also look forward to serving our community even better with purpose-built programs, enriched organizational capacity, and emerging opportunities such as the Medicaid waiver housing benefit.

