



July 26, 2018

John Arntz
Director of Elections
1 Dr. Carlton B. Goodlett Place, Room 48
San Francisco, CA 94103

Dear Director Arntz:

We are writing in response to your request for information regarding the initiative Measure entitled “Additional Tax on Gross Receipts to Fund Homeless Services.” As requested, the Department of Homelessness and Supportive Housing, Department of Public Health, and Mayor’s Office of Housing and Community Development are providing an analysis of the effect of the Measure for the Ballot Simplification Committee.

Current State

The following is an overview of the housing and services currently available to people experiencing homelessness or at-risk of homelessness. These programs are similar to those identified in the Additional Tax on Gross Receipts to Fund Homeless Services (the Measure). The City’s General Fund is the local source for homeless services. All General Fund expenditures for homeless services are currently at the discretion of the Mayor and the Board of Supervisors through the annual budget process.

Department of Homelessness and Supportive Housing

The Department of Homelessness and Supportive Housing (HSH) had a \$251 million budget for FY 17-18. Approximately \$166 million was General Fund; the remainder comes from federal and state sources. Since January 2011, approximately 13,000 people have been helped to permanently exit homelessness through placement to programs like permanent supportive housing, rapid rehousing, and Homeward Bound.

Department of Public Health

The Department of Public Health (DPH) provided mental health and substance abuse services to more than 27,000 individuals in FY 17-18, approximately 8,000 of which (29%) were homeless or living in housing for formerly homeless individuals. DPH proportionately expended approximately one-third of its \$370 million behavioral health budget on services for the homeless, of which \$18 million directly funded homeless providers.

Mayor’s Office of Housing and Community Development

The Mayor’s Office of Housing and Community Development (MOHCD) funds subsidies and services that directly or indirectly relate to homelessness and homelessness prevention. MOHCD’s budget for these areas is \$8.2 million FY 17-18, including local, state, and federal sources. The operating subsidies for set-aside homeless units in new affordable housing buildings is included in the HSH budget and not included in this number. Additionally, this figure does not include the capital expenditures made by MOHCD to construct and acquire residential buildings for formerly homeless individuals.

Future State if Measure Passes

If the Measure passes, it would impose an additional tax on businesses' gross receipts above \$50 million as described in Section 2804. Per Charter Section 9.101, the Mayor proposes a budget to the Board of Supervisors for their review and approval. Although the Measure identifies the Board of Supervisors as the appropriators of this fund, the Measure would not overrule the process outlined in the Charter as it is not an amendment to the Charter. Section 2810 defines uses of the new tax revenue:

- *At least 50%* for housing programs. The *housing* category of expenditures identified in the Measure refers to leased or owned permanent supportive housing; the provision of permanent rent subsidies for use in the private market; and short-term rent subsidies (short-term subsidies can make up no more than 12% of the housing expenditures).
- *At least 25%* for mental health services for homeless people. The *mental health* category is for programs specifically designed for homeless people with behavioral health issues.
- *Up to 15%* for prevention programs. The *prevention* category is for programs to assist people at-risk of becoming homeless or those who recently have become homeless. Programs funded might include legal counsel, eviction prevention funds, one-time financial assistance, and other interventions to help prevent people from becoming homeless and to quickly divert newly homeless households back to housing.
- *Up to 10%* for programs that help homeless people secure shelter. The *shelter* category in the Measure refers to short-term residential shelter and hygiene programs (bathrooms and showers) for people experiencing homelessness.
- In addition, *up to 3%* of the funding can be used for administration.

The Controller's Office estimates that the Measure would generate \$250 - \$300 million of revenue annually. This estimate assumes no changes in the current state of the economy. Given the relatively small number of businesses that would be subject to this tax, changes in their individual operations as a result of this tax could significantly impact these projections. Programmatic impacts described below are based on the range of estimated annual funding, but the potential volatility of the revenue source would need to be considered before investing in long-term, ongoing interventions.

Housing

Funding in the *housing* category would be allocated to MOHCD and utilized in partnership with HSH. The Measure requires that 20% of the total expenditures in this category be used for housing homeless youth aged 18-29, 25% for homeless families with children under 18 years of age, and up to 55% for homeless adults. As of January 2017, breakdown of the homeless population is 72% adults, 20% youth and 8% families.

Funding could support the following programs:

- Rapid-Rehousing, short-term rental subsidy vouchers;
- Disbursement of permanent rental subsidies and services funding for permanent supportive housing units in the pipeline;
- Creation of new permanent supportive housing units, produced through:
 - New master lease contracts for existing housing leased and operated by qualified non-profit operators
 - Construction of new permanent supportive housing units beyond the existing pipeline (funding required would include operating and services subsidies)
 - Acquisition and rehabilitation of SROs that can serve homeless households
 - Development of scattered-site permanent supportive housing;
- One-time capital expenditures to accelerate or provide gap funding for existing permanent supportive housing pipeline.

Shelter and Prevention

Funding in the *shelter* would be allocated directly to HSH. Funding in the *prevention* category would be administered by HSH and/or MOHCD. The department spent about \$9.6 million on prevention programs in FY 17-18. Due to a lack of data on the risk of homelessness, HSH is unable to determine if there is adequate demand for increased prevention services. However, the Measure does not require a minimum expenditure in this category and funds could be allocated to other program areas if necessary.

Mental Health

If the Measure passes, a minimum of 25% of the tax revenue would be allocated to DPH for new mental health services programs or programs. Section 2810 D specifies that funding would be limited to six categories of services. As such, DPH may allocate any new funding for one or more of the following services for homeless individuals with behavioral health issues:

- Mental Health Intensive Case Management Behavioral Health Intensive Case Management
- Supportive Housing Mental Health Outpatient Services
- Specialized Temporary and Long-Term Housing
- Intensive Street-Based Mental Health Services and Case Management
- Mental Health Crisis & Urgent Care
- Wraparound Services for Children, Youth, TAY Homeless Families
- Community Drop-in Services

Analysis Section 2802 of the Measure outlines the finding and purposes; we have provided our assessment of each statement with a programmatic impact.

Section 2802. Findings and Purposes.		Departmental Analysis
Sec.2802.(b)	"...it is the intentions of the voters in adopting Article 28 to house at least 4,000 homeless people and expand shelter beds by 1,000 within five years..."	It is likely that these outcomes would be achievable with the funds made available through the Measure.
Sec.2802.(d)	"The intent of the voters in adopting Article 28 is to eliminate the waiting period for shelter."	We cannot confirm that the additional shelter beds funded through the Measure would eliminate the waiting period for shelter. It is likely the waiting period would be reduced.
Sec.2802.(e)	"The intent of the voters in adopting Article 28 is to provide care sufficient to move all those San Franciscans with severe behavioral health issues out of homelessness."	The Measure would increase the resources available for homeless people with mental health and substance abuse issues. To fully address the need, the City would need to continue to pursue changes to existing laws, policies, and structures to treat chronically homeless individuals with behavioral health or substances use disorders, particularly through expanded conservatorship laws.
Sec.2802.(g)	"This Article 28 is intended to reduce family homelessness by more than 85%."	In its Five-Year Strategic Framework, HSH cited a goal to ensure no families with children were unsheltered by December 2018, and to end family homelessness altogether by December 2021, within its current budget. If 25% of the housing resources identified in the Measure were to assist homeless families, the initial reduction in family homelessness could be from 75-85%, based on data from the 2017 Point in Time Count. Should the population change or grow, this may not continue to be the case.

Sec.2802.(h)	"The intentions of voters in Article 28 is to ensure young homeless people are able to move into stable housing and avoid becoming chronically homeless adults."	If 20% of the housing resources went to serve young homeless people, approximately 65% of this population could be served, based on current data. Should the population change or grow, this may not continue to be the case.
Sec.2802.(i)	"The intent of voters in adopting Article 28 is to significantly decrease the visible presence of homeless people and tent encampments on City streets by eliminating chronic homelessness."	Adding additional shelter beds is likely to decrease the visible presence of homeless people and tent encampments.
Sec.2802.(k)	"The Housing First model creates a foundation of stability for formerly homeless individuals by providing permanent supportive housing as a springboard for resolving and treating issues that may have precipitated a person's first encounter with homelessness, or which may have come as a result of being forced to survive on the street. The intent of voters in adopting Article 28 is to provide the resources to implement a Housing First model."	San Francisco has already adopted a Housing First model and funds raised through the Measure would be spent consistently with that model.
Sec.2802.(l)	"It is the intention of the voters in adopting Article 28 is to ensure that (1) homelessness funding for existing and future programs continues at the current base year levels without utilizing monies or resources from the Our City, Our Home Fund, and (2) tax proceeds from the Homelessness Gross Receipts Tax be used to fund the programs set forth in Section 2810."	Revenue from the Measure can only be used to fund programs set forth in Section 2810 but cannot legally be used to maintain current funding levels ongoing.

Conclusion

The Measure would earmark new annual funding for homeless services. If the earmarked funds supplement current expenditures on homeless services, they would allow for an increase in services and exits from homelessness.

Sincerely,



Jeff Kositsky
Director, HSH



Barbara Garcia
Director, DPH



Kate Hartley
Director, MOHCD