

The 2020-21 Budget:
The Governor's Homelessness Plan



LAO 

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Table of Contents

| | |
|--|----|
| Executive Summary | 1 |
| Introduction | 3 |
| Background | 4 |
| Update on Major State Recent Actions Addressing Homelessness | 10 |
| Overview of the Governor's Homelessness Plan | 14 |
| LAO Comments | 20 |
| Clear Homelessness Strategy Needed | 25 |
| Alternative 2020-21 Action | 27 |
| Conclusion | 28 |

Executive Summary

In this report we provide the Legislature context for the state's homelessness crisis, provide an update on major recent state efforts to address homelessness, assess the Governor's 2020-21 homelessness plan, propose a framework to help the Legislature develop its own plan and funding allocations, and offer an alternative to the Governor's 2020-21 budget proposal.

California Has a Homelessness Crisis. 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. Amid this affordability crisis, California now has an estimated 151,000 people experiencing homelessness, more than any other state in the nation. Despite significant investments from local government, the Legislature, and the Governor in recent years to help address homelessness, the state saw a 16 percent increase in its homeless population from 2018 to 2019.

While the State's Role in Homelessness Assistance Has Been Increasing, Local Governments Have Remained Largely Responsible for Providing Services. Historically, local entities have provided most of the homelessness assistance in their jurisdiction, relying in part on federal and state funding. Recently, however, the state has increased its role in funding homelessness assistance programs at the local level—notably making over \$1 billion available to local governments over the past two years. Despite the increased funding role for the state, local governments are most knowledgeable about the specific homelessness-related challenges facing their communities and are well positioned to implement the combination of strategies that will work best for them. In recognition of this, local governments traditionally have been given significant discretion over how state funds are spent to address homelessness.

Governor's 2020-21 Budget Proposal Includes Significant State Funding for Homelessness. The Governor's 2020-21 budget reflects his commitment to addressing this complex issue by once again proposing significant state resources towards addressing homelessness, including:

- **Proposes \$750 Million Deposit Into Newly Established California Access to Housing Services (CAAHS) Fund.** The Governor proposes \$750 million General Fund in one-time funding to the CAAHS Fund he established through executive order within the Department of Social Services. The administration indicates that a primary goal of the fund is to help alleviate street-based homelessness and increase the number of housing units.
- **Proposes \$695 Million to Reform the Medi-Cal System to Serve Populations With Complex Needs.** The Governor's budget proposes \$695 million total funds (\$348 million General Fund) to begin implementation of a major Medi-Cal reform proposal referred to as Medi-Cal Healthier California for All (MHCA). The MHCA initiative broadly is intended to provide more comprehensive care to patients with complex needs, including individuals on Medi-Cal who are experiencing homelessness.

Governor's Proposal Raises Key Questions and Falls Short of Articulating a Clear Strategy. The scale of the homelessness crisis in California is significant and even substantial investments in resources could quickly dissipate without demonstrating much progress if investments are made without a clear plan. We recognize that there is no obvious right answer

as to how the state should address the homelessness crisis. That said, we find the Governor's budget proposal falls short of articulating a clear strategy for curbing homelessness in California. In the absence of a clear strategy, state resources could be allocated in a less targeted/coordinated way. As a consequence, we believe the Governor's proposed approach is less likely to make a meaningful ongoing impact on the state's homelessness crisis. Additionally, we find that the details provided as part of the Governor's 2020-21 homelessness proposal raise many important questions for the Legislature to consider.

Prior to Committing to a New Approach, Clear Strategy Needed. We urge the Legislature to develop a strategy for addressing this complex challenge. By creating a strategy, the Legislature could increase the likelihood that the state's resources are used in a way that results in meaningful reductions in homelessness. A strategy that aligns with defined goals and delineates responsibilities between the state and local governments could set the state on a productive path towards reducing homelessness and preventing more individuals from becoming homeless. To help the Legislature develop its own homelessness plan, we provide a framework the Legislature could use to develop a plan. Specifically:

- Identify Goals.
- Identify Solutions That Align With Goals.
- Set Clear State and Local Responsibilities.
- Identify State Governance Structure.
- Establish Funding Strategy.
- Develop Rigorous Oversight Mechanisms.

Alternative 2020-21 Action. We recognize that homelessness is a dire problem with significant statewide consequences. A desire to quickly bring relief to those individuals that are experiencing and at risk of homelessness stands in contrast to our recommendation to develop a clear, strategic plan. If a plan cannot be developed over the next few months, we encourage the Legislature take one-time action this year utilizing existing state mechanisms to support local efforts to address homelessness.

- **Provide Grants to Local Governments Similar to Prior Years.** Rather than committing to a new system—as proposed by the Governor—that may not ultimately fit into the Legislature's plan, we recommend providing grants to local governments in a manner similar to prior years. Mechanisms already are in place through the Homeless Coordinating and Financing Council to support local governments' efforts to combat homelessness. These mechanisms could be used again in 2020-21 while the Legislature develops its own plan. The Legislature could redirect the \$750 million in homelessness funding proposed by the Governor, or a different amount, for this purpose.
- **One-Time Action Provides Time to Develop Homelessness Plan.** Taking one-time action allows the Legislature to support local efforts to address homelessness while it develops a plan. Through that process, the Legislature can determine the state's role in addressing the problem, the balance between one-time and ongoing funding, and how to effectively oversee progress.

INTRODUCTION

Living in decent, affordable, and reasonably located housing is one of the most important determinants of well-being for every Californian. More than just basic shelter, housing affects our lives in other important ways: determining our access to work, education, recreation, and shopping. Unfortunately, housing in California is extremely expensive. The state's severe affordable housing crisis has put 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. Amid this affordability crisis, California now has more people experiencing homelessness than any other state in the nation.

A January 2020 poll by the Public Policy Institute of California highlights how pressing these issues are in the minds of Californians. The poll found that one in five Californians identify homelessness as the most important issue facing the state today. One year ago, a much smaller share (6 percent) identified homelessness as the top issue. Homelessness is frequently mentioned as the most important issue facing the Governor and the Legislature across the state's regions, demographics, and political ideologies.

In recent years, the Legislature and Governor have appropriated over \$1 billion in grants to local governments to help them address homelessness in their communities. Additionally, the state provided billions of dollars more towards boosting home building through a variety of avenues. Nonetheless, the state saw a 16 percent increase in its homeless population from 2018 to 2019. (The results from the 2020 count, which took place in January, are not yet available.)

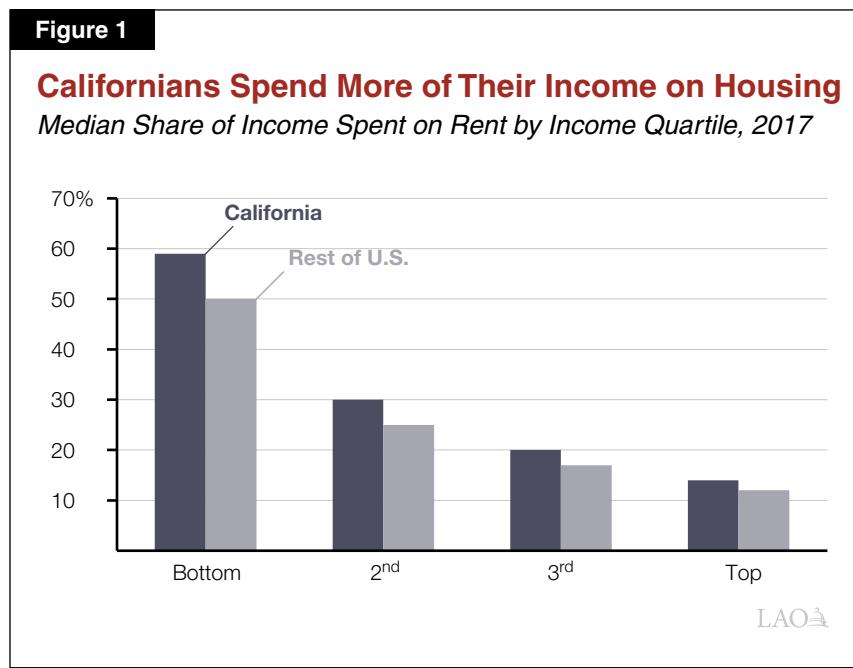
The Governor's 2020-21 budget reflects his commitment to addressing this complex challenge by once again proposing significant one-time resources to address homelessness. However, the scale of the homelessness crisis in California is significant and even substantial investments in resources could quickly dissipate without demonstrating much progress if investments are made without a clear plan. We recognize that there is no obvious right answer as to how the state should address the homelessness crisis. That said, we find the Governor's budget does not present a clear path for how the state will address homelessness. In the absence of a clear strategy, the Governor's proposed approach is less likely to make a meaningful ongoing impact on the state's homelessness crisis. We urge the Legislature to develop a strategy for addressing this complex challenge. A strategy that aligns with defined goals and delineates responsibilities among stakeholders could set the state on a productive path towards reducing homelessness and preventing more individuals from becoming homeless.

In this report, we provide the Legislature context for the state's homelessness crisis, provide an update on major recent state efforts to address homelessness, assess the Governor's 2020-21 homelessness plan, propose a framework to help the Legislature develop its own plan and funding allocations, and offer an alternative to the Governor's proposal in 2020-21.

BACKGROUND

Housing Affordability Affects Homelessness

- While homelessness is a complex problem with many causes, the high costs of housing is a significant factor in the state's homelessness crisis.
- As shown in **Figure 1**, Californians spend a larger share of their income on rent than households in the rest of the nation at every income quartile. Not surprisingly, households with the lowest income face the highest cost pressures.



- 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 Disproportionately Large Homeless Population

- **Over 151,000 Estimated Homeless Californians.** According to the U.S. Department of Housing and Urban Development's (HUD's) annual point-in-time homelessness count, California has more people experiencing homelessness than any other state in the nation. As of January 2019, California had more than 151,000 individuals experiencing homelessness, which represented about 27 percent of the total homeless population in the nation. (California's overall population, however, is about 12 percent of the nation.) **Figure 2** provides details about California's homeless population. **Figure 3** (see page 6) depicts the distribution of the homeless population across the state.

Figure 2**California's Homeless Population^a**^a Based on the U.S. Department of Housing and Urban Development's 2019 point-in-time homelessness count.

Figure 3

Distribution of Homeless Population in California^a 2019



^a Based on the U.S. Department of Housing and Urban Development's 2019 point-in-time homelessness count.

CoC = Continuum of Care, local entities that administer housing assistance programs within a particular area, often a county or group of counties.

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- **Increase in California's Homeless Population Driving National Increase.** While homelessness in most states declined between 2018 and 2019, homelessness in California increased by 16 percent, or about 21,000 people. The large increase in California is reflected in a national increase of 3 percent, or about 15,000 people experiencing homelessness, between 2018 and 2019.

Homeless Population Likely Larger

- Accurate data on the number and characteristics of the state's homeless population helps state and local governments more effectively target programs that address homelessness.
- While HUD's point-in-time count provides a useful estimate of the number and characteristics of individuals experiencing homelessness in California and across the nation, the data are commonly understood to reflect an undercount.
- Efforts to produce an accurate and complete count are hindered by various factors, including: (1) the transitory nature of the homeless population that make a count inherently difficult and (2) limitations on counting all forms of homelessness. For example, individuals and families living in overcrowded housing or youth who are couch-surfing are typically not captured in HUD's point-in-time counts, yet these populations reflect an important dimension of the state's homelessness crisis.

Many Individuals Experiencing Homelessness Also Struggle With Mental Illness or a Substance Use Disorder

- Estimates vary on exactly how many individuals experiencing homelessness also have mental illness, with national estimates ranging from as low as 20 percent to as high as 45 percent. The Los Angeles Homelessness Services Authority found that 29 percent of homeless individuals in Los Angeles County had a mental illness or substance use disorder in 2019.
- The prevalence of mental illness appears to differ for distinct categories of the homeless population. For example, researchers have estimated that the prevalence of mental illness or substance use disorder is higher for unsheltered adults than for sheltered adults.
- There also is evidence to show that homelessness may lead individuals to develop a mental illness or exacerbate existing mental illnesses. That is to say, the chronic stress associated with living without stable housing has dire consequences on a person's mental health.
- For individuals who are both homeless and have mental health or substance use disorders, behavioral health services can be an essential component of addressing their homelessness.

Variety of Approaches for 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 Cost Less, but May Offer Temporary Solutions . . .*** 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.
- ***. . . While Others Cost More, but May Have More Long-Term Results.*** 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.

Various State Programs Historically Have Helped Address Homelessness . . .

State Homelessness-Related Programs. California, in partnership with the federal government, administers and funds a variety of programs that assist individuals experiencing homelessness or at risk of becoming homeless. Generally, these state programs can be classified as follows:

- ***Programs That Support Building New Affordably Priced Housing.*** These programs provide direct financial assistance—typically tax credits, grants, or low-cost loans—to housing developers for the construction of new rental housing. In exchange, developers reserve these units for lower-income households. Data suggest these programs together subsidized the new construction of over 8,000 rental units annually in the state—or about 7 percent of total public and private housing construction—over the past two decades.
- ***Programs That Help Households Afford Housing.*** In addition to constructing new housing, governments also have taken steps to make existing housing more affordable. In some cases, the federal government makes payments to landlords—known as housing vouchers—on behalf of

low-income tenants for a portion of a rental unit's monthly cost. About 400,000 California households receive this type of housing assistance. These payments generally cover the portion of a rental unit's monthly cost that exceeds 30 percent of the household's income.

■ ***Health and Human Services Programs That May Assist With Preventing Homelessness.*** A variety of state programs exist that, while not directly related to housing and homelessness, help low-income individuals achieve and maintain self-sufficiency, and accordingly, indirectly help to address homelessness. For example, cash assistance to low-income individuals, through programs like California Work Opportunity and Responsibility to Kids (CalWORKs) and Supplemental Security Income/State Supplementary Payment (SSI/SSP), help to cover the cost of rent and other basic living expenses. Additionally, the Department of Social Services (DSS), which administers these programs, has, in recent years, started to provide some housing and homelessness services within its existing safety net programs. For example, the Homeless Assistance program within CalWORKs provides payments for temporary shelter over a limited period, as well as payments to secure or maintain housing, including a security deposit and last month's rent.

Other Recent State Approaches to Housing. Since 2016, the state has begun implementing the "Housing First" model into its housing programs. We discuss this model in the box below. The state also recently established a rent stabilization policy that went into effect in January, which limits rent increases to 5 percent plus the change in the cost of living.

Multiple State Departments Involved in Addressing Homelessness. Various state entities participate in the administration of these programs. The Department of Housing and Community Development (HCD), California Housing Finance Agency, California Tax Credit Allocation Committee, and the Homeless Coordinating and Financing Council (HCFC) administer some of state's longest standing and/or largest housing and homelessness programs. Other departments either administer the state's safety net programs and/or have other, more limited roles in addressing housing and homelessness, including DSS, the Department of Health Care Services, Department of Veterans Affairs, Office of Emergency Services, and the Department of Corrections and Rehabilitation.

Multiple Funding Sources for Addressing Homelessness. Funding for these housing and homelessness programs comes from a variety of state and federal sources. The amount of funding available varies significantly from year to year. Recent funding has been much higher due to on one-time augmentations, which we discuss later.

Housing First

In 2017, the Housing First model was adopted in the state by Chapter 847 of 2016 (SB 1380, Mitchell). It required all state housing programs to adopt the model. Housing First is an approach intended to quickly and successfully connect individuals and families experiencing homelessness to permanent housing without preconditions and barriers to entry, such as sobriety, treatment, or service participation requirements. Supportive services are offered to enhance the prospect of achieving housing stability and prevent returns to homelessness as opposed to addressing predetermined treatment goals prior to providing permanent housing. Housing First emerged as an alternative to a housing philosophy that required individuals experiencing homelessness to first complete short-term residential and treatment programs before securing permanent housing. Under this prior model, permanent housing was offered only after an individual experiencing homelessness could demonstrate that they were "ready" for housing.

... But Most Homelessness Assistance Has Been Provided at Local Level

Historically, cities and counties have provided most of the homelessness assistance in their jurisdiction, relying in part on federal and state funding. Local governments are most knowledgeable about the specific homelessness-related challenges facing their communities and are well-positioned to implement the combination of strategies that will work best for them. In recognition of this, local governments have exercised significant discretion over whether and how funds are spent to address homelessness. Prominent state and local examples of these funding sources include:

- The State Mental Health Services Act (MHSA) funding for mental health services, which are designed and implemented at the local level and may include housing and housing-related services.
- Local measures that raise new dedicated revenue to combat homelessness. For example, in 2017, voters in Los Angeles County authorized a one-quarter percent sales tax to prevent and address homelessness.

In addition, local governments set their own policies that aim to alleviate homelessness in their communities.

- For example, some local governments increase the supply of affordable housing by requiring developers of market-rate housing to charge below-market prices and rents for a portion of the units they build, a policy known as inclusionary housing.
- In other cases, local governments have policies that require property owners to charge below-market prices and rents. For example, some local governments limit how much landlords can increase rents each year for existing tenants. Several California cities have these rent controls, including Los Angeles, San Francisco, and San Jose.

In summary, the response to homelessness at the local level has largely been reflective of communities' own assessment of their challenges and needs.

UPDATE ON MAJOR RECENT STATE ACTIONS ADDRESSING HOMELESSNESS

As the homelessness crisis has become more acute, the state has taken a larger role in funding and supporting local governments' efforts to address homelessness. Below, we provide an update on major recent state actions, **Figure 4** summarizes these actions.

| Figure 4 | |
|---|----------------|
| Major State Homelessness Spending Actions in 2018-19 and 2019-20^a | |
| <i>(In Millions)</i> | |
| Program | Funding |
| No Place Like Home ^b | \$2,000 |
| Homeless Emergency Aid Program ^c | 500 |
| Homeless Housing, Assistance, and Prevention Program ^c | 650 |
| Total | \$3,150 |

^a Authorization of \$500 million in Low-Income Housing Tax Credits are not reflected in this figure.
^b Revenue bond from the Mental Health Services Act, also known as Proposition 63 of 2004.
^c General Fund.

No Place Like Home (NPLH) Program

Provided up to \$2 Billion for Permanent Supportive Housing for Individuals Experiencing Homelessness With Mental Illness. In November 2018, voters approved Proposition 2, authorizing the sale of up to \$2 billion of revenue bonds and the use of a portion of revenues from MHSA (also known as Proposition 63 of 2004) for the NPLH program. The program is meant to construct new and rehabilitate existing permanent supportive housing for those with mental illness who are homeless or are at risk of becoming homeless.

- **Key Program Requirements.** The housing developed using NPLH funding must be set aside for persons with serious mental illness who are chronically homeless, homeless, or at risk of becoming chronically homeless. (Chronic homelessness generally is used to describe people who have experienced homelessness for at least a year—or recurrently—while struggling with a disabling condition, such as mental illness, substance use disorder, or physical disability.) In addition, counties must commit to provide mental health services and help coordinate access to other community-based supportive services.
- **Program Administration.** The program is administered by HCD.
- **Allocations.** Counties (either solely or in partnership with a developer of affordable housing) are eligible applicants for up to \$2 billion in total NPLH funding.
 - **Noncompetitive Allocation (\$190 Million).** All counties are eligible to receive a noncompetitive allocation based on their 2017 homeless point-in-time count. All counties will receive a minimum allocation of \$500,000.

- **Competitive Allocation (up to \$1.8 Billion).** Counties can compete for the remaining funding with counties of similar size (large counties [population greater than 750,000]; medium counties [population between 200,000 to 750,000]; and small counties [population less than 200,000]).
- **Eligible Activities.** The NPLH funding can be used to acquire, design, construct, rehabilitate, or preserve permanent supportive housing, which pairs housing with case management and supportive services.
- **Status.** So far, all of the noncompetitive allocation and \$1 billion of the competitive allocation have been made available. The administration expects to release the remaining funds by 2021.
- **Key Upcoming Dates.** The disbursement of funds under NPLH is contingent on the sale of bonds by the California State Treasurer's Office, and the proceeds of those bonds being made available to HCD for disbursement pursuant to all program requirements. This creates some uncertainty about the timing of additional disbursements.

Homeless Emergency Aid Program (HEAP)

Provided \$500 Million in Emergency Aid Block Grants for Homelessness. The 2018-19 budget included a one-time allocation of \$500 million for block grants to cities and Continuums of Care (CoCs)—local entities that administer housing assistance programs within a particular area, often a county or group of counties. HEAP was intended to provide local entities with flexible funding to address their immediate homelessness challenges until additional resources became available through programs like NPLH.

- **Key Program Requirements.** To access the grants, local entities were required to declare an emergency shelter—facilities that provide temporary shelter for the homeless—crisis and demonstrate they were working collaboratively to address homelessness in their communities. In addition, the program mandated that at least 5 percent of grant funds be used towards addressing the needs of homeless youth.
- **Program Administration.** The program is administered by HCFC. Refer to the box below for a description of HCFC.
- **Allocations.** HEAP allocated grants as follows:
 - \$350 million was provided to CoCs based on the 2017 homeless point-in-time count.
 - \$150 million was provided to cities or a city that is also a county with a population of 330,000 or more as of January 1, 2018 (Anaheim, Bakersfield, Fresno, Long Beach, Los Angeles, Oakland, Sacramento, San Diego, San Francisco, San Jose, and Santa Ana).

Homeless Coordinating and Financing Council

The Homeless Coordinating and Financing Council, within the Business, Consumer Services, and Housing Agency, was created by Chapter 847 of 2016 (SB 1380, Mitchell) to oversee the state's implementation of Housing First, which we describe in an earlier box. The Council also was tasked with developing policies and identifying resources, benefits, and services to prevent and end homelessness in California. The Council is composed of 19 members, including: (1) representatives from agencies and departments with programs to address homelessness, (2) representatives from local governments, and (3) stakeholders.

- **Eligible Activities.** The parameters of the program were intentionally broad to allow local entities to address their own challenges with homelessness. Annual progress reports will track how much has been spent and what has been accomplished, including the number of people served. **Figure 5** depicts how the funds are being used.

Figure 5

Uses of Homelessness Emergency Aid Program Grants

| Use of Grant | Percent of Funding Allocated for Use |
|---|--------------------------------------|
| Services. Prevention, rapid rehousing, outreach, employment programs, housing navigators, landlord mitigation, and flexible funding pools. | 39 percent |
| Capital Improvements. Establish or expand shelter and/or navigation centers, renovations and repairs, and community cabins. | 36 percent |
| Rental Assistance or Subsidies. Permanent supportive housing, master leasing, and motel voucher. | 13 percent |
| Homeless Youth Mandate. Host homes, outreach, shelter, rapid rehousing, and employment services. | 7 percent |
| Other. Mobile hygiene services, safe parking, and administration. | 5 percent |

- **Status.** All HEAP funding was disbursed to qualifying cities and CoCs by January 31, 2019. Recipients of HEAP funding were required to submit their first annual reports to HCFC and contractually obligate 50 percent of their grant by January 1, 2020. As of the writing of this report, the administration is reviewing the annual reports and determining if any recipients have failed to contractually obligate 50 percent of their HEAP funds. Recipients who have not met this obligation are required to submit a detailed plan and time line on how this requirement will be met. HCFC will notify the recipients March 1, 2020 if the plan has been approved or denied.
- **Key Upcoming Dates.** All of the HEAP funds must be expended by June 30, 2021. Unexpended funds must be returned to the Business, Consumer Services, and Housing Agency. The final status reports from recipients are due to the state by September 20, 2021.

Homeless Housing, Assistance and Prevention (HHAP) Program

Provided \$650 Million to Address Homelessness. The 2019-20 budget included \$650 million for one-time grants to local governments to fund a variety of programs and services that address homelessness. The HAAP Program is intended to provide local jurisdictions with funds to support regional coordination and expand or develop local capacity to address their immediate homelessness challenges.

- **Key Program Requirements.** To access the grants, local entities were required to demonstrate they were working collaboratively to address homelessness in their communities. The program mandated that at least 5 percent of grant funds be used on strategic homelessness planning.
- **Program Administration.** The program is administered by HCFC.
- **Allocations.** Allocations are calculated based on each applicant's proportionate share of the state's homeless population based on the 2019 homelessness point-in time count. HHAP allocates grants as follows:

- \$275 million is available to the cities or a city that is also a county, with populations of 300,000 or more, as of January 1, 2019 (Anaheim, Bakersfield, Fresno, Long Beach, Los Angeles, Oakland, Riverside, Sacramento, San Diego, San Francisco, San Jose, Santa Ana, and Stockton).
- \$190 million is available to CoCs.
- \$175 million is available to counties.

- **Eligible Activities.** The HHAP program requires grantees to expend funds on evidence-based solutions that address and prevent homelessness.
- **Status.** Eligible entities must submit their plan for how HHAP funding will be used throughout the five-year grant period by February 15, 2020.
- **Key Upcoming Dates.** The HCFC will review the plans and make final disbursements by April 1, 2020 and all funds must be expended by grantees by June 30, 2025. Recipients of the HHAP funding must submit status reports by January 1 of each year with final reports due by January 1, 2026.

Expanded Low-Income Housing Tax Credit. In addition, the 2019-20 budget package increased, by \$500 million, the state's low-income housing tax credit program which provides tax credits to builders of rental housing affordable to low-income households. Of this amount, \$200 million was set aside for developments that include affordable units for both low- and lower-middle-income households. This increase in the low-income housing tax credit had no budgetary costs in 2019-20 because the credits will be claimed on future tax returns, once housing units are built and in use.

While the State's Role in Homelessness Assistance Has Been Increasing, Local Governments Have Remained Largely Responsible for Providing Services. In all, local governments have seen a substantial infusion of state resources towards addressing homelessness in their communities. These resources, however, have been primarily one time in nature. Additionally, we note that although the state has provided funding for these activities, it did so in a way that maintained local governments' ability to implement strategies best for their homeless populations.

OVERVIEW OF THE GOVERNOR'S HOMELESSNESS PLAN

In the early days of January 2020, the Governor took several major steps to address the state's homelessness crisis—issuing an Executive Order and including several high-profile homelessness-related proposals in his 2020-21 budget proposal. **Figure 6** summarizes the key components of the Governor's homelessness plan and we describe them further below.

| Figure 6 | |
|---|--|
| Governor's Homelessness Plan | |
| Proposal | |
| Governor's Executive Order | |
| Established the California Access to Housing and Services (CAAHS) Fund. | |
| Made surplus state properties available for temporary shelters. | |
| Deployed temporary camp trailers from state fleet. | |
| Established a multiagency Homelessness Response Team. | |
| Governor's 2020-21 Budget Proposals^a | |
| Proposes \$750 million General Fund deposit into CAAHS Fund. | |
| Proposes \$695 million total funds to reform the Medi-Cal system to serve populations with complex needs. | |
| Announces efforts to consider potential future changes related to behavioral health. | |
| Proposes Behavioral Health Task Force to evaluate overall systems effectiveness. | |
| Proposes to study root cause of homelessness. | |
| Identifies interest in consolidating state's housing and homelessness programs. | |
| ^a The Governor also proposes \$500 million in Low-Income Housing Tax Credits. | |

At the same time, the Governor's Council of Regional Homeless Advisors (established in 2019) issued its initial recommendations. While the Governor has not adopted the Council's recommendations into his homelessness plan in full, some of the Council's recommendations are reflected in the Governor's budget. Refer to the nearby box for a description of the Council and some of its recommendations.

GOVERNOR'S EXECUTIVE ORDER

On January 8, 2020, the Governor issued an Executive Order aimed at accelerating state action to address homelessness. Below we describe the key components of the order.

- **Established the California Access to Housing and Services (CAAHS) Fund.** The Governor envisions that the CAAHS Fund, overseen by DSS, will collect *future* state appropriations, as well as contributions from other governments and private sources, to fund various activities aimed at curbing homelessness. (We discuss this fund in detail in our description of the Governor's 2020-21 budget proposal.)
- **Made Surplus State Properties Available for Temporary Shelters.** The Executive Order tasked the Department of General Services (DGS) to inventory surplus state properties that could be used for temporary shelters by January 31, 2020. In an effort to advance this goal, the executive order also made the following directives.
 - Directs the California Department of Transportation (Caltrans) to share a model lease template that allows local entities to use Caltrans property adjacent to highways or state roads as shelter. This model has been used in Los Angeles, San Jose and San Francisco.

Recommendations From Governor's Council of Regional Homeless Advisors

Origin of Council. The Governor established the 13-member Council of Regional Homeless Advisors in 2019 with a directive to dramatically reduce street-based homelessness, break down barriers keeping homeless people from accessing mental health and substance abuse services, and find ways both to reduce the cost and boost the supply of housing options for those experiencing homelessness. The council is chaired by Sacramento Mayor Darrell Steinberg and Los Angeles County Supervisor Mark Ridley-Thomas.

Council Issued Initial Recommendations. In January 2020, the Council issued its interim recommendations to the Governor. The intent of the interim recommendations is to inform budget and policy actions during the 2020 legislative session. The Council notes that their short-term directive did not allow them to explore opportunities to prevent homelessness and intends to make that a major focus of their work in 2020. We summarize some of the Council's key recommendations below.

- **Develop Comprehensive Response Strategy Among State and Local Governments.** The Council recommends the state develop a comprehensive response strategy that identifies a clear path for responding to the state's homelessness crisis and assigns clear responsibilities to the state, cities, and counties.
- **Create Enforceable Mandate Aimed at Addressing Homelessness.** The Council recommends the Legislature place a constitutional amendment on the 2020 ballot that would create a "legally enforceable, results-based, accountability mandate" requiring state and local governments to address homelessness by providing resources and removing barriers for creating both emergency shelter and permanent housing.
 - **Fiscal Effect Unclear but Significant.** While the Council does not provide a fiscal analysis of this recommendation, the cost of implementation could be significant. The Council acknowledges that this recommendation would affect the state's reimbursable state mandate law and suggests the state could reprioritize existing funding sources and identify new revenues to commit to the costs associated with the mandate.
- **Establish Single Point of Authority for Homelessness Within Administration.** Since homelessness crosses multiple state agencies and jurisdictions, the Council recommends a single high-level official and associated team be established to coordinate housing, health and human services, and other state responsibilities relating to homelessness. This person would report directly to the Governor and have some authority over other departments and agencies.
- **Make Various Funding Augmentations.** The Council also recommends the state make the following funding augmentations to address homelessness.
 - Use the federal waiver process to ensure Medi-Cal—the state's low-income health program—expands its services to offer homelessness solutions through the California Advancing and Innovating Medi-Cal (CalAIM) program. (The Governor has renamed CalAIM Medi-Cal Healthier California for All.)
 - Encourage Medi-Cal managed care plan providers to make targeted service augmentations to support homeless beneficiaries.
 - Provide an ongoing allocation for a state pool of flexible housing funds that would be matched by local governments and other partners.
 - Provide augmentations to Supplemental Security Income/State Supplementary Payment, the California Earned Income Tax Credit, and adult protective services, specifically targeting those at highest risk of becoming homeless and those newly homeless.
 - Fund permanent supportive housing and housing for extremely low-income households.

- Directs the Office of Statewide Health Planning and Development to assess vacant and decommissioned hospitals and health care facilities for use as shelters.
- Directs the California Department of Food and Agriculture, in consultation with other state entities, to assess the use of fairgrounds for shelters.

■ **Deployed Temporary Camp Trailers From State Fleet.** The Governor directed DGS to deploy 100 camp trailers from the state fleet to provide temporary housing and delivery of health and social services across the state. The trailers may be deployed until September 30, 2020 but are eligible for an extension. As of the writing of this report, 45 trailers have been deployed—15 to Oakland and 30 to Los Angeles.

■ **Established a Multiagency Homelessness Response Team.** Finally, the Governor called for the creation of a state crisis response team that will provide technical assistance to local governments in addressing street homelessness. The response team will be comprised of the HCFC; Business, Consumer Services, and Housing Agency; Government Operations Agency; Health and Human Services Agency; Labor and Workforce Development Agency; and the State Transportation Agency.

GOVERNOR'S 2020-21 BUDGET PROPOSALS

On January 10, 2020, days after the Governor issued his Executive Order, the Governor proposed his 2020-21 budget. The budget includes an allocation to the CAAHS Fund that the Governor established through Executive Order and makes various Medi-Cal and other behavioral health system reforms. Trailer bill language implementing a portion of the proposal was released on February 4, 2020. We are still in the process of understanding all aspects of the proposal. As such, the description of the proposal reflects our best understanding of the proposal at this time. Below, we describe the Governor's proposals to date.

Provides One-Time Allocation to CAAHS Fund

- **Proposes \$750 Million Deposit Into CAAHS Fund.** The Governor proposes \$750 million General Fund in one-time funding to the CAAHS Fund he established through executive order within DSS. The administration indicates that a primary goal of the fund is to help alleviate street-based homelessness and increase the number of housing units. According to the administration, the connection between the needs of individuals experiencing homelessness and the services provided by DSS positions DSS to successfully administer the fund. The Governor indicates this proposal is modeled after Los Angeles County's Flexible Housing Subsidy Pool. Refer to the box below for more information about Los Angeles' program. It is our understanding that this funding would be available through June 30, 2024.
- **Proposes Selecting Regional Administrators to Manage Allocations.** The Governor proposes providing the funds through performance-based contracts with "regional administrators." The proposal authorizes DSS to set the number of regions, define their geographical boundaries, and select the

Los Angeles County Flexible Housing Subsidy Pool (FHSP)

The County of Los Angeles launched the FHSP Program in 2014 so that various local and philanthropic funds could be combined to fund housing. The program began with an initial contribution of \$14 million from the county and \$4 million from philanthropic sources. Today, the program receives funding from county, state, foundation, and nonprofit sources to provide rental subsidies, tenancy services, and other supports to a variety of high-need, chronically homeless individuals. The county contracts with a nonprofit to administer the local rental subsidies and provide tenancy services to program beneficiaries .

regional administrators. The administration would require that the regional administrator selected by DSS meets a few minimum qualifications, including (1) familiarity with the region's housing supply and rental market, (2) established partnerships with key public and private entities in the region, and (3) capacity to operate across the region. Private, for-profit entities are not eligible to serve as regional administrators, meaning regional administrators could be local governments, CoCs, or nonprofits.

- **Establishes Criteria to Allocate Funding to Regional Administrators.** DSS also would determine how to allocate the \$750 million among the regional administrators (the regional administrators would then determine how to allocated the funds locally). The Governor suggests some criteria that DSS could use when deciding how to allocate funds among regional administrators, including (1) point-in-time homelessness counts, (2) rent burden among low-income households, (3) regional housing need estimates for low- and very low-income housing, and (4) racial equity.
- **Proposes Allowing Allocations to Support a Variety of Activities.** Under the Governor's proposal, the fund could support the following activities.
 - **Affordable Housing Development.** This could include new affordable housing or rehabilitation of existing affordable housing units. The administration also indicates that this funding could be used towards accessory dwelling units.
 - **Housing-Related Financial Assistance.** This assistance could include rental subsidies and rental deposits.
 - **Board and Care Facility Stabilization.** This could include rental subsidies and infrastructure improvement. Refer to the box below for a description of board and care facilities.
 - **Tenancy Support Services.** The administration indicates this could be any service that helps to match individuals to safe and affordable housing or interventions when stable housing placements are in jeopardy.
- **Allows CAAHS Fund to Accept Contributions From Other Governments and Private Sources.** The administration envisions that the state funding would be coupled with other government and private funds to expand the potential effect of this initiative. While the \$750 million General Fund contribution would be one time, the administration would allow for the continuous appropriation of any non-state resources contributed to the fund.
- **Requests Resources at DSS to Implement and Oversee the Program.** Of the \$750 million, DSS requests a total of \$5.6 million through 2023-24 (\$1.6 million in 2020-21) and ten positions to develop, implement, and monitor the CAAHS Fund.

Board and Care Facilities

Board and care facilities generally include residential facilities that serve adults and seniors who cannot live safely on their own without personal care assistance and nonmedical care. The Governor's proposal defines these facilities to include state-licensed Adult Residential Facilities (about 5,000 facilities) and Residential Care Facilities for the Elderly (about 7,300 facilities). These private facilities serve individuals with varying needs, including persons with disabilities, cognitive impairments, and mental and behavioral health needs. Additionally, how much a facility can charge varies by resident. For example, facilities cannot charge residents receiving a Supplemental Security Income/State Supplementary Payment (SSI/SSP) grant more than the SSI/SSP monthly reimbursement rate (\$1,069 per month for an individual in 2020), which is below the average market rate. (We understand that some counties currently supplement the SSI/SSP board and care rate.) Recent closures among board and care facilities has raised concern that former residents will become homeless.

- **Other Administrative Features of the Proposal.** The Governor limits the administrative expenditures of regional administrators to 10 percent of their grant. Additionally, the proposal exempts DSS from standard public contracting requirements and state information technology project oversight processes. Finally, the proposal requires DSS to develop a data collection, reporting, and evaluation process for the fund.
- **Requests Legislature Take Early Action on Proposal.** The Governor requests the Legislature take early action on this component of the budget so that the administration can expedite its implementation. Specifically, the administration requests a \$1 million supplemental appropriation for the current fiscal year, 2019-20, to develop the regional administrator selection process. The funds would be available until June 30, 2021.

Medi-Cal and Other Behavioral Health Reforms

- **Proposes \$695 Million to Reform the Medi-Cal System to Serve Populations With Complex Needs.** The Governor's budget proposes \$695 million total funds (\$348 million General Fund) to begin implementation of a major Medi-Cal reform proposal referred to as Medi-Cal Healthier California for All (MHCA). (The proposed MHCA reforms also include major changes to how behavioral health services are financed and delivered in Medi-Cal. We will provide further analysis on MHCA in an upcoming report.)
 - **Some Funding Would Benefit Individuals Experiencing Homelessness or At Risk of Homelessness.** The MHCA initiative broadly is intended to provide more comprehensive care to patients with complex needs, including, but not limited to, individuals on Medi-Cal who are experiencing homelessness.
 - **Benefits Provided by Medi-Cal Managed Care Plans.** Some key components of the MHCA proposal would be administered by Medi-Cal managed care plans—contracted health plans that cover over 80 percent of Medi-Cal beneficiaries statewide. Under the proposal, new nonmedical benefits, such as housing services, would be made available in situations where these benefits may avoid a more costly medical service. These benefits include, for example, security deposits or first and last month's rent. In addition, the reforms add new medical benefits that may help prevent and address homelessness for Medi-Cal enrollees.
- **Announces Efforts to Consider Potential Future Changes Related to Behavioral Health.** In 2004, the voters approved Proposition 63, also known as MHSA. The MHSA places a 1 percent tax on incomes over \$1 million and dedicates the associated revenues to mental health services, the majority of which are administered by counties. The Governor has indicated that he is interested in potential changes to the MHSA. These potential changes could further prioritize use of MHSA funding for individuals experiencing homelessness, while also potentially broadening the use of MHSA funding to treat individuals with substance use disorder or who are involved in the criminal justice system.
- **Proposes Behavioral Health Task Force to Evaluate Overall Systems' Effectiveness.** The Governor also proposes establishing a behavioral health task force to review existing behavioral health policies and programs for potential improvement. Ultimately, recommendations from the task force could be included in a statewide ballot measure to obtain voter approval for changes to MHSA.

Additional Proposals

Proposes to Study Root Cause of Homelessness. The Governor's budget announces his intent to study the root cause of homelessness. The administration indicates the California Health and Human Services Agency, alongside academic researchers at the University of California, San Francisco and Berkeley, would conduct a survey of individuals who are experiencing homelessness across the state to better understand the circumstances that led them to become and remain homeless. The Governor does not propose an appropriation to fund the study or establish a time line.

Identifies Interest in Consolidating State's Housing and Homelessness Programs. As we have discussed, the state's housing and homelessness programs span multiple departments and agencies. The Governor identifies a need to streamline housing policies, processes, and requirements in an effort to improve the coordination and distribution of funding across the state. To achieve this goal, the Governor indicates his intent to explore, over the next year, the creation of an agency exclusively focused on housing and homelessness.

Expands the State Housing Tax Credit Program. The Governor proposes \$500 million General Fund for the state's housing tax credit program. As in 2019-20, the Governor proposes up to \$200 million would be set aside for mixed-income projects. Both the 2020-21 budget and the administration's multiyear plan assume no reduction in revenues due to the tax credit already authorized in 2019-20 or from the newly proposed expansion.

LAO COMMENTS

Below, we provide our initial comments of the Governor's homelessness proposals in the 2020-21 budget. We acknowledge that addressing homelessness in California is a challenging issue and there is no simple or fast solution. Overall, our review finds that the Governor's homelessness plan delegates significant authority to DSS and we highlight key questions the Legislature could ask the administration as it considers the plan's merit. In addition, we assess the Governor's overall approach to addressing the state's homelessness crisis and find the Governor's budget proposal falls short of articulating a clear strategy for curbing homelessness in California.

New CAAHS Fund Raises Issues for Legislative Consideration

Proposal Shifts Away From Providing Funding to Local Governments Directly. The past two budgets primarily allocated homelessness funds directly to local governments and CoCs, affording them substantial control over the use of funds in a manner that served their communities. The introduction of regional administrators reflects a departure from this model. Specifically, the proposal allows for nonprofits to serve as regional administrators. This could shift decision-making authority away from local governments and to the newly designated regional administrators. Moreover, there is the possibility that through the regional administrator model, local governments currently receiving state homelessness funding would no longer do so. Nonetheless, the Governor's proposal implicitly maintains that state's traditional perspective that local entities are best positioned to identify the combination of homelessness services best suited for their community. The Governor's introduction of a new type of local entity, however, complicates the state's response.

Proposal Complicates State-Level Homelessness Funding and Coordination. The establishment of the CAAHS Fund at DSS, and the introduction of regional administrators, complicates state-level homelessness funding and coordination. Given that there are multiple other entities administering homelessness programs statewide, these changes could contribute to the fragmentation of programs that address homelessness. This feature of the proposal is in conflict with the Governor's stated interest in streamlining and consolidating housing and homelessness programs.

Proposal Grants Significant Decision-Making Authority to DSS. The proposal would delegate significant authority to DSS, including:

- Selecting the number and geographic boundaries of the regions.
- Selecting the regional administrators.
- Determining the allocation of funding to regional administrators.
- Establishing an oversight mechanism and tracking performance.

Given the significance of these decisions on the operation of the program and its ultimate impact on homelessness in California, we suggest the Legislature seek additional clarity from the administration on how it plans to make these decisions. If the Legislature wants to exercise additional control over the program, it could codify additional parameters. For example, the Legislature could select the number of regions, determine their boundaries, and specify outcome goals.

Key Questions Remain. We highlight key questions the Legislature could ask the administration as it considers the merits of the proposal and raise issues for consideration.

- ***What Objectives Does This Plan Achieve?*** The CAAHS initiative primarily funds three distinct activities—affordable housing development, rental subsidies, and board and care stabilization. These activities each represent a different approach towards addressing homelessness and serve distinct populations.

- **What Incentives Are There for the Federal Government, Local Governments, and Private Entities to Contribute Funding to the CAAHS Fund? Would Funds Be Used Interchangeably Regardless of Source?** Whether non-state entities would contribute to the CAAHS fund is unclear, any contributions from philanthropic entities could have conditions on the use of funds. These conditions may not align with the state's vision for the fund.
- **How Much Funding Will Be Allocated to Each Component of the Proposal?** What share of CAAHS funding will be allocated to each of the eligible activities and if that amount will be enough to make a meaningful impact is unclear. For example, the demand for board and care stabilization might be so high that it could consume a significant portion of the allocation. If the CAAHS funds were used to increase the reimbursement rate at board and care facilities for every current SSI/SSP resident by \$1,000 per month, this would cost roughly \$500 million, or two-thirds, of total CAAHS funds.
- **Is One-Time Funding Appropriate for the Activities the Fund Supports?** The CAAHS fund provides a limited amount of funding on a one-time basis for three distinct initiatives. One-time funding seems appropriate for activities that are not recurring in nature, such as affordable housing development. However, one-time funding is not a sustainable financing mechanism to subsidize rents and board and care facility rates. As a result, whether the Governor's proposal would have an enduring effect on preventing homelessness among at-risk individuals is much less clear.
- **Why Has the Administration Decided to Establish the CAAHS Fund Within DSS? How Is the CAAHS Fund Strategy Different From HEAP and HHAP?** In recent years, the state built mechanisms to address homelessness, particularly within the Business, Consumer Services, and Housing Agency. The administration cites the opportunity for coordination as justification for proposing DSS as the CAAHS Fund administrator—instead of one of the state entities that have historically administered this type of program, HCD and HCFC. However, under the Governor's own proposal, regional administrators would be tasked with providing housing services locally. Whether regional administrators would be any better positioned than those currently entrusted with this role—cities, counties, and CoCs—to coordinate with DSS is unclear. The administration should articulate how the CAAHS Fund, the other components of its 2020-21 homelessness plan, and existing programs would work collaboratively to address homelessness.
- **Additional Questions Related to Board and Care Facilities.**
 - **To What Extent Will the Board and Care Component Contribute to Reducing Street Homelessness and Increasing Housing Supply?** The administration has expressed concerns that board and care facilities are closing at an increasing rate, in part, as a result of low reimbursement rates and high operating costs. This is especially concerning for low-income individuals with severe health needs who may be displaced and become homeless as a result of facility closures.
 - » **How Widespread Is the Problem?** To the best of our understanding, there is no aggregate source of data about (1) the severity of board and care closures; (2) reasons why facilities are closing; (3) specific challenges certain residents, like SSI/SSP recipients, face in finding and retaining board and care placement; and (4) what happens to residents when facilities close.
 - **What Role Do Board and Care Facilities Play in Addressing Homelessness?** We understand that the Governor's proposal aims to house individuals who are currently unsheltered and increase the supply of affordable housing units. How these goals align with the board and care component of the proposal, which largely seeks to preserve the number of current facilities to prevent homelessness, is unclear.
 - **Will Funds Be Allocated Directly to Facility Operators or SSI/SSP Recipients?** Because of the data shortcomings described above, knowing the reason why board and care facilities are closing is difficult. Knowing this would guide the potential solutions. For example, if facilities are closing because they are unable to sustain their operations due to the level of the SSI/SSP grants, the

solution may be to reconsider the level of the SSI/SSP grant for all recipients. If this is the case, it also raises the question of whether a more uniform approach to adjusting the SSI/SSP grant makes more sense than a case-by-case grant adjustment determined by regional administrators. If, however, the issue is more related to one-time infrastructure needs, funds to the facility operators to make capital improvements may make sense.

- **Will Funding Be Targeted at Certain Facilities or Residents?** Whether funds will be targeted specifically for facilities/residents at greatest risk of closure/homelessness is unclear. If funds are spread across all facilities/residents, the proposal could fall short of its intended goal of preventing closures.
- **What Level of Accountability Will Be Placed on Board and Care Facilities That Receive CAAHS Funding?** The proposed statute does not place requirements on facilities receiving funds. Funds could be made contingent on facilities remaining open for a set amount of time or serving individuals at risk of homelessness.

Early Action to Obligate Funding Raises Concerns. Acting early could commit the Legislature to this particular strategy for addressing homelessness before it has fully explored other options. For example, the Legislature might wish to consider the ballot measure proposed by the Governor's Council on Regional Homeless Advisors to establish an enforceable mandate on local governments to address homelessness. In addition, given some data indicate the economy could be cooling, the increasing risks outside the Legislature's control—like federal policy—and the smaller operating surpluses under the Governor's proposed budget, taking early action to obligate funding would be risky.

Medi-Cal and Other Behavioral Health Reforms Raise Issues for Legislative Consideration

- **MHCA Represents a Novel Approach for More Directly Addressing Homelessness Through Medi-Cal . . .** The new benefits introduced under the MHCA proposal provide an opportunity to target certain housing-related Medi-Cal services for individuals who are experiencing or at risk of experiencing homelessness. In particular, providing housing services through Medi-Cal is a novel approach of using Medi-Cal to provide services that address the nonmedical needs of beneficiaries. Importantly, under the MHCA proposal, the state would have a new opportunity to leverage federal Medicaid funding for benefits—including housing services—that generally have not been reimbursed in the past.
- **. . . However, Key Issues Remain.** The key issues we describe below are based on our current understanding of the proposal, as the administration has yet to release associated trailer bill language.
 - **Potential to Increase Fragmentation in State Efforts to Address Homelessness.** The MHCA proposal represents a significant increase in the role of Medi-Cal managed care plans to provide services that may benefit individuals experiencing homelessness. Given that there are multiple other entities administering homelessness programs statewide, this expanded role could contribute to the fragmentation of programs that address homelessness.
 - **Proposal Gives Medi-Cal a New, Largely Untested, Role in Addressing Homelessness.** Under MHCA, the state would provide Medi-Cal benefits that are nonmedical. This represents a significant expansion in the kinds of benefits delivered through Medi-Cal generally, and Medi-Cal managed care plans specifically. We note that the state does not have significant experience providing these types of services in its Medi-Cal program.
 - **Potential to Create an “Entitlement” Aspect to Housing Services.** Housing assistance programs generally have limits on the funding available, leading to services that are rationed in some way, such as by establishing waiting lists. Medi-Cal, by contrast, is an entitlement program whereby the

federal, state, and local funding commitment is not generally fixed but instead fluctuates with the amount of need in the community, as determined by eligibility criteria. By offering housing services through Medi-Cal, the state would be moving toward a policy in which certain housing services are available as benefits similar to entitlements. In doing so, the state could potentially see some of its control diminished over the level of its fiscal commitment to housing services. The MHCA proposal does implement some controls on utilization of new housing benefits through Medi-Cal as a way to try to limit that fiscal commitment. For example, several benefits are restricted to use once in a beneficiary's lifetime. However, introducing these new benefits may create pressure to lift these controls in the future.

— ***Once-Per-Lifetime Restrictions on Some Housing Benefits Could Hinder Effectiveness.***

Offering certain housing assistance benefits on a once-per-lifetime basis may not be sufficient to address the needs of some individuals with chronic housing issues. As a result, limiting some new housing benefits proposed under MHCA to once-per-lifetime may limit their effectiveness.

■ ***Potential Changes to MHSA Raise Major Issues for Legislative Consideration.*** The Governor has indicated that changes to MHSA may include prioritizing MHSA funding for individuals experiencing homelessness, substance use disorder, or who are involved in the criminal justice system. Currently, MHSA funding is used for a variety of state and local programs intended to remediate and prevent the effects of mental illness. While details on specific changes to MHSA are not currently available, we suggest the Legislature carefully consider the trade-offs between redirecting existing MHSA funding toward a new focus and maintaining MHSA funding levels for existing county mental health programs.

Overall Strategy for Addressing Homelessness Unclear

■ ***Governor's Budget Continues Recent Increased State Role in Homelessness.*** California has more people experiencing homelessness than any other state in the nation. Rising housing costs that have exceeded growth in wages, particularly for low-income households, put even more Californians at risk of housing instability and homelessness. Given the scale of the state's homelessness crisis, we think that the Governor's continued effort to expand the state's engagement in addressing homelessness is warranted.

■ ***Individually, Components of Governor's Housing Plan and Council's Recommendations Merit Consideration . . .*** There is no obvious right answer as to how the state should address the homelessness crisis. The individual components of the Governor's budget—the CAAHS Fund, Medi-Cal, and other behavioral health reforms—each take a different approach towards addressing the state's challenges. Each approach, whether focusing on expanding the state's affordable housing stock, preventing homelessness through rental assistance programs, or offering services that help break down barriers to stable housing, merits consideration.

■ ***. . . However, Governor's Plan Lacks a Cohesive Approach for Addressing Homelessness.*** The scale of the homelessness crisis in California is significant and even substantial investments in resources, as proposed by the Governor, could quickly dissipate without demonstrating much progress if investments are made without a clear plan. Taken collectively, how the Governor's proposals work together and collaborate with existing programs to meaningfully address homelessness is unclear.

- Due to the outstanding questions we raise, how the MHCA proposal is intended to complement the CAAHS Fund and other housing efforts in the state is unclear.
- Additionally, some aspects of the Governor's proposal seem to conflict. For example, the Governor asserts the need for consolidation of the state's housing and homelessness programs, while at the same time proposing a new and significant role at DSS.

- Finally, the study on the root causes of homelessness, which could help inform state policy decisions, is not funded under the Governor’s proposal. The benefits of this analysis cannot be achieved without funding.
- ***Fragmented Approach Creates Various Challenges.*** Addressing a problem as complex and interconnected as homelessness requires the involvement of departments and agencies across the state and collaboration among all levels of government and other stakeholders. A fragmented response creates various challenges, including:
 - Difficulty tracking all homelessness-related expenditures across the state.
 - Difficulty assessing how much the state is spending on a particular approach towards addressing homelessness, for example—prevention versus intervention efforts.
 - Difficulty determining how programs work collaboratively.
 - Difficulty assessing what programs are collectively accomplishing.

CLEAR HOMELESSNESS STRATEGY NEEDED

We suggest the Legislature identify its own priorities for addressing homelessness and develop a plan that aligns with those priorities. By creating a strategy, the Legislature could increase the likelihood that the state's resources are used in a way that results in meaningful reductions in homelessness.

Withhold Early Action on CAAHS Fund. We recommend that the Legislature withhold early action on the CAAHS Fund proposal. Considering the Governor's CAAHS initiative as part of the regular budget process will afford the Legislature several benefits.

- Allows the Legislature to consider how the proposal aligns with its own homelessness priorities.
- Allows the Legislature the opportunity to engage the administration on the remaining questions and issues we identify in this report.
- Provides the Legislature access to updated revenue information and better insight into the state's economic condition before investing hundreds of millions of dollars into a new program.

Framework for Developing Homelessness Plan

To help the Legislature develop its own homelessness plan, this section outlines the issues we suggest the Legislature consider when developing a plan.

- **Identify Goals.** Identifying the Legislature's goals is the first step in creating a plan to address homelessness. Given the scope of the homelessness crisis, a desire to take a broad approach towards addressing the many forms of homelessness—for example, street-based homelessness, associated mental illness, and housing instability—is understandable. A trade-off of a broad, crosscutting approach is that any investment will have limited effects. On the other hand, while efforts to focus on particular aspects of the homelessness crisis could have meaningful impacts, it would mean foregoing action in other areas. Setting these types of goals is not an easy task when there is a desire to completely and immediately eradicate homelessness. However, setting clear goals would help the Legislature structure programs and funding in a way that steadily moves the state towards curbing homelessness. In setting these goals, the Legislature could draw on work done by the administration, including the Governor's Council of Regional Homeless Advisors.
- **Identify Solutions That Align With Goals.** The structure of the state's homelessness programs should work towards achieving the goals identified by the Legislature. For example, if the Legislature is interested in preventing homelessness, then state resources should focus on (1) rental subsidies that help people at risk of homelessness remain in stable housing and (2) an expansion of the state's affordable housing stock. Building emergency shelters would not align with this goal.
- **Set Clear State and Local Responsibilities.** Having clear state and local responsibilities will deter inefficiencies and foster accountability among all of the entities involved in addressing homelessness statewide. The Governor's approach continues to place the primary responsibility for addressing homelessness with local governments. However, public statements suggest the Governor thinks a larger state role is warranted. We suggest the Legislature consider what role it thinks the state should have in addressing homelessness. For example, the state could exercise significant control, directing the specific actions of local governments. Alternatively, the state could continue to provide resources to local government and offer them significant flexibility on the use of the funds.
- **Identify State Governance Structure.** As we have discussed previously, the state has experienced a number of problems because of the fragmented nature of its housing and homelessness programs. An effective governance model will provide clear leadership and guidance towards accomplishing the goals set by the Legislature. The Governor is considering a new governance model that consolidates

all of the state's housing and homelessness programs. As the Legislature weighs the merits of a consolidated governance structure, we urge the Legislature to consider the following questions. (The Governor's budget proposes various reorganizations and consolidations, we provide further analysis of those proposals in our February 7, 2020 report, *The 2020-21 Budget: Assessing the Governor's Reorganization Proposals*.)

- Would the consolidation make programs more effective?
- Would the consolidation improve efficiency?
- Would the new structure improve accountability?
- Is the consolidation based upon a policy rationale?
- Does the consolidation reflect Legislative priorities?
- Do the benefits outweigh the costs?
- How should the consolidation be implemented?
- Is the consolidation well planned?

■ **Establish Funding Strategy.** Based on the Legislature's decision about what role is appropriate for the state, we suggest the Legislature identify the revenue sources for its homelessness programs and determine whether funding should be one time or ongoing in nature.

- **Revenue Sources.** For example, the state could allocate a portion of this year's surplus (as proposed by the Governor), redirect existing resources, or raise new revenues for homelessness programs.
- **One-Time or Ongoing Funding.** We also suggest the Legislature determine if one-time or ongoing resources are more suitable for fulfilling its objectives. For example, ongoing resources would be appropriate for rental subsidies where need would be recurring, while infrastructure investments could be supported with one-time funding.

■ **Develop Rigorous Oversight Mechanism.** In order to ensure that the state makes progress towards curbing homelessness, we suggest the Legislature establish a rigorous oversight mechanism. Oversight efforts should assess the performance of state entities that administer homelessness programs and local partners. This could be done through a number of oversight activities, including budget and policy committee hearings and periodic reports.

ALTERNATIVE 2020-21 ACTION

We recognize that homelessness is a dire problem with significant statewide consequences. A desire to quickly bring relief to those individuals that are experiencing and at risk of homelessness stands in contrast to our recommendation to develop a clear, strategic plan. In the absence of a plan, we encourage the Legislature take one-time action this year utilizing existing state mechanisms to support local efforts to address homelessness.

Provide Grants to Local Governments Similar to Prior Years. In recognition of the immediacy of this issue, we encourage the Legislature provide one-time resources in 2020-21 to local governments using existing mechanisms, rather than committing to a new system—as proposed by the Governor—that may not ultimately fit into the Legislature’s plan. Mechanisms already are in place through the HCFC to support local governments’ efforts to combat homelessness. These mechanisms could be used again in 2020-21, while the Legislature develops its own plan. The Legislature could redirect the \$750 million in homelessness funding proposed by the Governor, or a different amount, for this purpose. If the Legislature uses these existing mechanisms, we suggest maintaining rigorous oversight to ensure accountability and monitor outcomes.

One-Time Action Provides Time to Develop Homelessness Plan. Taking one-time action allows the Legislature to support local efforts to address homelessness while it develops a plan. Through that process, the Legislature can determine the state’s role in addressing the problem, the balance between one-time and ongoing funding, and how to effectively oversee progress.

CONCLUSION

We urge the Legislature to develop a clear strategy for the state's response to the homelessness crisis. The scale of the homelessness crisis in California is significant and even substantial investments in resources could quickly dissipate without demonstrating much progress if investments are made without a clear plan. While there is no obvious right answer as to how the state should address the homelessness crisis, we find the Governor's budget does not present a clear strategy. In the absence of a clear strategy, whether the Governor's proposed approach would make a meaningful impact on the state's homelessness crisis is uncertain. A strategy that aligns with defined goals and delineates responsibilities among stakeholders would set the state on a productive path towards reducing homelessness and preventing more individuals from becoming homeless. In the meantime, we suggest taking one-time actions—using the funds proposed by the Governor or another amount—to provide funding to local governments using mechanisms similar to those used in prior years.

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LAO PUBLICATIONS

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