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To: Supervisor Hilda L. Solis, Chair
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From: Sachi A. Hamai
Chief Executive Officer

REPORT ON THE SENATE BUDGET PROPOSAL "NO PLACE LIKE HOME" RELATED TO LEVERAGING MENTAL HEALTH SERVICES ACT (PROPOSITION 63) FUNDING TO CREATE MORE PERMANENT SUPPORTIVE HOUSING (ITEM NO. 9, BOARD MEETING OF JANUARY 12, 2016)

This memorandum provides the final report on the Board action of January 12, 2016, which: 1) instructed the Chief Executive Officer, County Counsel, the Health Agency Director, Director of the Department of Mental Health, Community Development Commission, and the Treasurer and Tax Collector to provide a comprehensive written analysis of the "No Place Like Home" initiative once details are released; and 2) directed the Chief Executive Officer and the Sacramento advocates to work directly with the Senate President, Assembly Speaker, the Administration and other key stakeholders to ensure that any new initiatives considered by the State take into account the disproportionately high numbers of homeless individuals residing in the County and adequately address the issues identified in the County's comprehensive analysis.

Overview

On July 1, 2016, Governor Brown signed **County-supported AB 1618** (Chapter 43, Statutes of 2016) which establishes the "No Place Like Home" Program. This program redirects \$130.0 million in Proposition 63, Mental Health Services Act (MHSA), funds to securitize \$2.0 billion in bond funding for the construction of supportive housing for homeless individuals with mental illness. Bond proceeds will be distributed to counties

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on a competitive basis for acquisition, design, construction or reconstruction of permanent supportive housing. In addition, the approved FY 2016-17 State Budget Act includes first-year funding of \$267.0 million from the bond proceeds and appropriates \$6.2 million in Proposition 63 funds for technical and application assistance to counties. A separate budget trailer bill containing provisions for the securitization of the bond funds is expected to be considered by the Legislature in August.

The “No Place Like Home” Program includes the following elements for the allocation and the administration of bond funds:

Competitive Grants - Provides \$1.8 billion in competitive grants to counties. The Program organizes counties into four competitive groupings based on population:

- Los Angeles County
- Large counties with a population greater than 750,000
- Medium counties with a population between 200,000 to 750,000
- Small counties with a population less than 200,000

The competitive grants will be administered by the California Department of Housing and Community Development (HCD) and awarded based on the number of homeless individuals residing in each county, as determined by the Department. Within the \$1.8 billion competitive pot, eight percent is set aside for the 30 rural counties with a population of less than 200,000. There will be at least four rounds of annual competitive grant allocations. The first round is expected in early 2017. Subsequent rounds of the competitive grant allocations may occur annually to fully exhaust any remaining funds.

Alternative Process - Counties with at least five percent of the State’s homeless population - Los Angeles, San Francisco, San Diego, and Santa Clara - may choose between competing for the \$1.8 billion in competitive grants or to apply for funds based on their proportional share of statewide homeless population, as calculated by HCD. Counties applying for funds under the alternative process must demonstrate the capacity to directly administer loan funds for permanent supportive housing serving the target population and the ability to prioritize services for individuals with mental health supportive needs who are homeless or at risk of chronic homelessness. Counties will not be able to compete for both competitive grants and in the alternative process.

“Over the Counter” Pot - All counties may compete for the \$200.0 million pot based on their proportional homeless count with a minimum of \$500,000 available. Monies not awarded from this pot in the first 18 months will revert to the overall competitive pot.

Services - “No Place Like Home” will provide permanent supportive housing for individuals who are eligible under the Mental Health Services Act and who are homeless, chronically homeless or at risk of chronic homelessness. Counties will be required to commit to providing services for 20 years. The supportive housing units may be occupied by individuals coming out of correctional facilities or transitioning from foster care.

Administrative Funding - Five percent of the bond funds will be directed to HCD for administrative costs. HCD will be allowed to designate up to four percent of the funding in the competitive grant program to establish a “default reserve.” Funds directed to the “default reserve” would be available to cure or avert a default on any loan. The reserve may also be made available to repair or maintain any rental housing development assistance to protect the Department’s security interest.

Guidelines and Regulations - HCD may adopt guidelines and regulations for the “No Place Like Home” Program in consultation with the California State Association of Counties and other stakeholders. In addition, the “No Place Like Home” Program Advisory Committee will be established to: 1) assist HCD in the development of the Program; 2) make recommendations on the guidelines; 3) review the process for allocating funds; and 4) provide advice and guidance on statewide homeless issues.

Membership on the Advisory Committee will include a representative from: 1) various State agencies; 2) a county chief administrative officer or a member of a county board of supervisors from a small county; 3) a county chief administrative officer or a member of a county board of supervisors from a large county; 4) a director of a county behavioral health department; 5) an administrative officer of a city; 6) an affordable housing organization; 7) a resident of supportive housing; 8) a community mental health organization; and 9) a local or regional continuum of care organization that coordinates homeless funding.

County Impact

The Department of Mental Health (DMH) notes that the “No Place Like Home” Program will provide needed funding for the development of affordable supportive housing units for homeless individuals with serious mental illness. The County is expected to receive approximately 38.3 percent of the bond allocation based on the number of homeless individuals residing in the County, for total funding in the range of \$600.0 million to \$650.0 million. DMH reports that the sponsors of “No Place Like Home” estimate that the bond funding will support the construction of 14,000 permanent supportive housing units statewide. Assuming that funds would be leveraged at the same rate as the

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County's initial MHSA capital projects, and if operating expenses are included, DMH estimates that the County could expect to fund between 3,282 and 5,362 supportive housing units (38.3% x 14,000 units).

The Department of Mental Health also indicates that "No Place Like Home" will result in reductions in the County's MHSA funding. According to DMH, the County's annual allocation for MHSA plans (Community Supports and Services, Prevention and Early Intervention, and Innovations) totaled \$458 million in FY 2015-16 and is expected to total \$547.6 million in FY 2016-17. In the first year of the "No Place Like Home" Program, an estimated \$5.0 million in MHSA funding will be redirected from the County to repay the bonds. In future years, MHSA revenue will decrease by the County's share of the bond repayment. When all of the bonds are sold, DMH estimates that the County's MHSA funding will be reduced by approximately \$36.0 million to \$37.7 million per year at the height of the bond repayment period. The annual impact will initially rise and then begin to decline as the initial bonds are paid off.

The Department of Mental Health reports that in the initial stages, the County can absorb the redirection of MHSA funding for the bond repayment. The Department notes that supportive services funding will not be required until units are built and occupied. Projections of future MHSA revenue under "No Place Like Home" are limited, resulting in challenges projecting potential shortfall (due to bond repayment reduction of MHSA plus additional service delivery, rental subsidy, and operating costs). The Department also notes that the County will be required to commit to funding supportive services for those in housing for 20 years. Additional costs may include capitalized operating reserves to maintain affordability for clients and to cover the operating expenses associated with property management and building maintenance, etc. A portion of the service costs will be offset with Federal revenue which will reduce the MHSA funding needed. Also, operating reserves leveraged locally will reduce the MHSA funding needed for operating reserves.

This office will continue to work with the Department of Mental Health and other affected departments to determine the County impact of the "No Place Like Home" Program.

We will continue to keep you advised.

SAH:JJ:MR
VE:ma

c: Executive Office, Board of Supervisors
County Counsel