

Rising Homelessness Threatens Higher City Costs

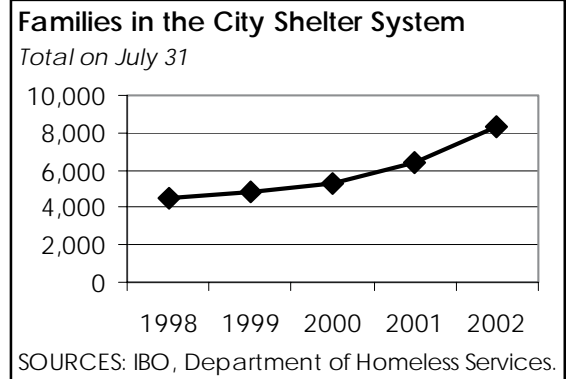
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City Shifts Spending of Federal Community Development Grant

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The number of families in the city's shelter system has grown substantially in recent months. The rising shelter census is problematic for many reasons, not least because of the effects of homelessness on the families themselves. Moreover, if the trend continues, the city will likely end up needing tens of millions of dollars more this year to fund emergency shelter. The increased cost could be as much as \$58 million—\$27 million in city funds—according to a new analysis by IBO.

The rising census. Between July 2001 and July 2002, the number of homeless families in city shelters rose 23 percent, from 6,400 families at the end of July 2001, to 8,333 families a year later. The average number of families in the shelter system each night was higher in 2002 than ever before, reflecting an increase in the census that began in June 1998, and has steadily continued.



The shelter census rises when more families enter the system, and/or when fewer families leave. The increase of the last several years appears to be primarily driven by growing numbers of families entering the system. The average length of stay in family shelters grew only slightly in 2002—from 312 nights to 315—while the average number of families found eligible to enter the system increased from 530 per month in 2001 to 703 per month in 2002.

It is not entirely clear why the shelter population is rising so sharply. Rents in New York City have risen steadily over the last several years, including an almost 5 percent increase between calendar years 2001 and 2002, making it harder for low-income families to find housing. The time limits and sanctions imposed as part of welfare reform may also have contributed, as well as the worsening economy.

The Department of Homeless Services (DHS) released a strategic plan in June 2002 that outlined ideas to reduce the number of homeless people in New York City, including increased funding for preventative services and more permanent housing opportunities. Many of the initiatives described in the plan are relatively long term, and are unlikely to have a noticeable impact on the number of families in the shelter system in the next year.

The cost to the city. The city anticipated some of this growth in the family shelter system, and added \$56.3 million in new funds to the 2003 budget, bringing the total budget for family shelter and services to \$317 million. Of the increase, \$26.5 million (47 percent) is city funds, \$11.2 million (20 percent) is state funding, and \$18.7 million (33 percent) is from the federal government. However, even this \$56 million may not be enough to cover growing costs.

IBO considered three scenarios in projecting additional shelter costs. Scenario 1 assumes that the shelter system census remains at 8,333 families (the number of families as of last July) through the end of the fiscal year in June 2003. This would be an increase of about 5 percent over the total at the end of fiscal year 2002. It would cost the city an additional \$5.7 million—including \$2.7 million in city funds—above the \$56.3 million already added to the 2003 budget for new family capacity to provide shelter for these families.

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Under scenario 3's more conservative 20 percent growth rate—comparable to the growth in the family shelter population during 2001—the cost of sheltering the additional families will exceed the current budget by \$38.7 million, including \$18.2 million in city funds.

If the average cost of a shelter night rises—which could occur if the agency is forced to seek out new and more expensive shelter options—the total additional cost will rise further. For example, if the average nightly cost rose to \$95, it would require additional city funds of \$1.6 million under scenario 1, another \$3.2 million under scenario 2, and \$2.6 million under scenario 3.

In short, even a modest rise in the number of families entering the system, unless accompanied by a decrease in the length of time families stay in emergency shelter, would mean the city must add money to the budget for homeless services in order to meet demands for family shelter. Any increase in the average nightly cost of emergency shelter will compound this shortage.

New needs for emergency shelter funding will make it more difficult for the city to close its budget gap, and for the agency to fund the long-term programs it envisions implementing in its strategic plan.

Written by Molly Wasow Park

Growth in Family Shelter Costs Under Three Growth Scenarios			
	Scenario 1	Scenario 2	Scenario 3
Percent change in family shelter population, July 1, 2002 to June 30, 2003	5.3%	29%	20%
Additional funds needed	\$5.7 million	\$58.1 million	\$38.7 million
City Funds (at 47 percent of total)	\$2.7 million	\$27.3million	\$18.2 million

SOURCE: IBO.
NOTE: Assumes average length of stay of 315 nights and average nightly cost of \$90.

Given the state of the economy, however, it seems possible that the shelter census will continue to grow. Scenario 2 assumes that the family shelter population will grow at a rate of 29 percent, as it did in fiscal year 2002. This would result in a June 2003 shelter census of 10,506 families, and it would cost an additional \$58.1 million, including \$27.3 million in

City Shifts CDBG Spending

For years, New York City has targeted the bulk of its more than \$200 million a year in federal Community Development Block Grant (CDBG) funding to the maintenance of housing the city owns because landlords had failed to pay their property taxes. As it sells off this inventory, the city is shifting how it uses its community development grant, with a growing share of the grant now funding child care and other services.

Following the World Trade Center attack, the city won a waiver from the federal government that provides greater latitude in using CDBG dollars. The city can spend up to

25 percent—rather than the standard 15 percent—of its CDBG funds for a variety of “public services” in 2003 (similar waivers are expected for fiscal years 2004 and 2005). New York will also be allowed to use CDBG funds to pay for existing services at current service levels—normally public services activities funded through CDBG must be either new or an expansion of existing services.

This waiver has therefore allowed the city to replace tax-levy funds spent on existing social services with CDBG money, thus helping to close the budget gap. The largest such shift is for child care services; the city will substitute \$18.8 million in CDBG dollars for city funds in fiscal year 2003. CDBG funds also have replaced city funds in the sanitation

department's program for cleaning vacant lots.

The city also is spending a greater share of its CDBG grant on infrastructure projects, which did not require a waiver. For example, in calendar year 2002 the city is planning to spend CDBG money to upgrade Human Resource Administration (\$11.5 million) and Administration for Children's Services facilities (\$1.4 million), and for Department for the Aging senior center improvements (\$4 million). Additionally, the decision to use \$6 million for Department of Homeless Services family services did not require a waiver since it was an expansion of an existing program.

CDBG Spending Shifts		
Percent of total grant funds, in calendar years		
	2001	2002
Housing		
<i>In Rem</i>	43.2%	28.6%
Other	20.6%	23.0%
Public Service	11.8%	19.1%
Public Facilities & Infrastructure	11.4%	16.7%
All Other	13.0%	12.7%

SOURCE: IBO, Consolidated Plans.
NOTE: 2002 figures are adjusted to annualize the effect of the Public Service waiver for 2002

Overall, the percentage of CDBG funds spent on housing is expected to decline from about 64 percent in 2001—a share which has remained relatively steady over the last several years—to 55 percent in 2002. At the same time, the share of funds used for public services and public facilities/ infrastructure will increase to 16 and 17 percent respectively, from about 11 percent each in prior years. The proportion of funds devoted to economic development and to administration will remain relatively constant.

CDBG for housing. The city still spends a majority of its CDBG funds on housing, but how the city uses these federal dollars is changing. The decline in the number of tax-foreclosed, or *in rem*, units from 57,708 in 1994 to 9,477 in 2002 has led to a drop in the CDBG dollars needed to maintain these city-owned apartments. But CDBG expenditures on other housing programs, in particular the preservation of privately owned housing, have increased.

CDBG spending on housing preservation has been increasing steadily, both in absolute dollars and, in most years, as a percent of total housing expenditures. The housing

department has spent a steadily increasing amount of CDBG money on the Emergency Repair Program and on targeted housing code enforcement. These are both growing program areas, and the added CDBG funds represent increases in total spending, not a substitution for city tax-levy dollars. In addition, the housing agency is now planning to use \$1.2 million in CDBG funds for the Third Party Transfer program, which transfers distressed, tax-delinquent buildings directly to new private ownership.

City's grant falls. For calendar year 2002, the city's CDBG formula grant fell about \$10 million, from \$228.7 million to \$218.3 million. This drop brings New York's grant to its lowest point in several years, although such fluctuation is not unprecedented. But an increase in revenues from CDBG-funded programs will more than offset this decline.

The grant amount is based on two general factors: the size of the total federal appropriation for CDBG, and the formula that determine grants to municipalities. For 2002, the total appropriation for CDBG fell by about 1.3 percent. New York City's grant fell by more than the national average because of changes in formula elements, such as population, poverty, and age of the housing stock, relative to other cities.

In 2002, an increase in CDBG-related program income and accruals, such as reimbursements for maintenance work done through the Emergency Repair Program, will more than make up for the lower grant. In 2001, New York added \$47.7 million to its grant through these other sources, while in 2002, the city plans to spend more than \$70 million in program income on top of its grant, largely from the proposed sale of an urban renewal area in Lower Manhattan. The September 11 attacks have delayed action, but the city still hopes to complete the sale in 2003. As a result, the city has a total of \$290.1 million in available CDBG funds for calendar 2002, which is almost \$12 million more than was available in 2001. (The special appropriation of \$2.7 billion in CDBG funds for Lower Manhattan economic recovery is separate from the city's annual formula grant, and is under the control of the Lower Manhattan Development Corporation).

As the city strives to close the large budget gaps it faces for fiscal year 2004 and beyond, it will likely continue to use CDBG funds to help achieve budget balance.

Written by Molly Wasow Park