

## Give 'Em Shelter: Various City Agencies Spend Over \$900 Million on Homeless Services

### SUMMARY

In 2001, New York City spent \$880 million in expense budget funds, plus another \$76 million in capital funds, on emergency shelter, housing, and services for the homeless.

Court decisions have mandated a "right to shelter" in New York City, which requires the city to provide shelter to anyone who requests it and who has nowhere else to go. This legal obligation has significantly shaped New York City homeless policy and spending. In 2001, the city spent:

- \$493.0 million on emergency shelter and services,
- \$127.5 million on homeless prevention programs, and
- \$121.6 million on permanent housing for the homeless.

The city's Department of Homeless Services (DHS) has lead responsibility for the provision of services to the homeless, but six other city agencies also provide shelter, services, and housing for homeless adults and families. DHS spending accounted for 54 percent of all city spending on programs for the homeless in 2001.

Roughly one-third of funding for homeless shelter, services, and housing in New York City comes from city tax-levy money. Another third is state funds, and the final third comes from the federal government. State and federal grant requirements, combined with the requirements imposed by the courts, limit the city's ability to reshape its delivery of services and housing for the homeless.

The legislation that originally created DHS required the Mayor's Office of Management and Budget to provide the City Council with a breakdown of all city spending on homelessness. This has not happened in recent years, and as a result, there is no one with the information or authority necessary to ensure that the hundreds of millions of dollars that the city spends on homelessness are used in a coordinated, efficient manner.

Overall, the city's substantial spending on homelessness is characterized by an emphasis on short-term solutions and fragmented responsibility. This fragmentation may undermine effective policies to combat homelessness, and may waste critical resources and result in duplicative administrative efforts, particularly in terms of contracting with service providers. **IBO**

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## INTRODUCTION

On any given night there are more than 30,000 homeless people in the New York City shelter system. Seven city agencies are involved in providing shelter and services for these individuals and families, as well as homeless people not in the shelter system, and those at risk of homelessness. Together, these agencies spent more than \$880 million in 2001 (city fiscal year), plus another \$76 million in capital funds.

Driven by legal mandates, the bulk of city spending on homelessness is for emergency shelter and services for currently homeless people. Comparatively little is spent on permanent housing or prevention programs. The city's Department of Homeless Services (DHS), established in 1994, is by law the lead agency for addressing issues of homelessness. The Mayor's Preliminary Budget proposal for 2003 accentuates the emphasis given to temporary shelter by increasing the DHS budget for shelters while cutting other programs for prevention and permanent housing. In its current straitened fiscal circumstances, the city faces a dilemma: while homelessness, and hence the demand for legally required emergency shelter, are likely to rise as the economy slumps, spending on programs that could prevent homelessness or provide more permanent solutions is curtailed.

In this report, IBO looks at total citywide spending on homelessness, the sources of these funds, and how money for the homeless is spent. We then consider the implications of these spending patterns. The legal mandate to provide emergency temporary shelter has contributed to escalating expenditures. Furthermore, because responsibility for homeless programs is divided among several agencies, service delivery is fragmented and uncoordinated, which drains scarce resources and may result in counterproductive policy responses to the problem of homelessness.

## BACKGROUND

*The right to shelter.* New York City is the only municipality in the country where residents have a legal "right to shelter." This right to shelter resulted from the consent decree that the city signed to settle lawsuits brought in the late 1970s and early 1980s, and has been refined through further lawsuits during the last two decades.

In 1979, the founder of the Coalition for the Homeless brought a class action lawsuit against the City of New York,

charging that the city had a legal obligation to provide shelter for all homeless men. The lawsuit, *Callahan v. Carey*, was settled in 1981; the consent decree established a right to shelter, which was extended to homeless women in 1983. The Legal Aid Society filed *McCain v. Koch* in 1986, and the resulting court decision both extended the right to shelter to families with children, and prohibited the city from leaving families in intake offices overnight.

During the Giuliani Administration, homeless advocates returned to court, successfully blocking plans to evict families from shelters if they failed to comply with shelter or public assistance regulations, as well as work requirements for shelter.

As a result of the *Callahan* consent decree and the court order in the *McCain* case, New York City must provide shelter for anyone who needs it. Families must be housed in "Tier II" shelters, emergency apartments, assessment shelters, and hotels, all of which must have private bathrooms and other amenities. The city may not leave families at intake facilities overnight. The city must have shelter capacity for eligible families and individuals, or it runs the risk of violating the *Callahan* consent decree and *McCain* court order. Not surprisingly, it is quite expensive to fulfill this "right to shelter."

*Rising number of homeless.* The size of the homeless population has fluctuated over time, but recent trends suggest that both the adult and family homeless shelter counts are rising. In January 2002, there was an average of 7,870 single adults in the shelter system. The January 31, 2002 census of the family system stood at 6,921 families, or a total of 23,196 children and adults. (See the charts on pages 3 and 4.)

The seasonality of adult shelter use is a well-documented trend; individuals are much more likely to take advantage of shelter services in the winter months, and remain outside when it is warm. However, in New York City that seasonal effect diminished in 2000, and was even smaller in the summer of 2001. Although adults are still somewhat more likely to use the shelter system in colder months, there has been an overall growth in shelter use over the past couple of years that dwarfs the seasonal trend.

Family shelter populations do not typically exhibit the same seasonal trends, but it is equally clear that the family shelter census in New York City is also rising.

Advocates and scholars generally classify homeless single adults into two broad categories: chronically homeless and

short-term homeless. Chronically homeless individuals are homeless for long periods of time, and a significant proportion of these men and women suffer from mental illness, chemical addictions, or both. Short-term homeless people are more likely to be homeless for circumstantial causes such as divorce, domestic violence, or joblessness, and have fewer major obstacles to returning to mainstream housing.

Most people who become homeless remain so for only relatively short periods of time. Chronically homeless adults, however, are major consumers of resources. Studies of shelter use by single adults in New York City, for example, show that "persons staying [in shelters] more than 180 days consumed three times as many days as their proportionate representation in the [homeless] population" (Culhane et al., 1998). Among single adults, mental illness, substance abuse, and age are associated with longer shelter stays.

Families generally stay in the shelter system longer than single adults. The average length of stay for a family in the New York City shelter system is 319 days as of January 2002, as compared with 310 days in January 2001, and 287 days in January of 2000. Roughly 25 to 30 percent of families in the shelter system at any given time have been there for more than one year.

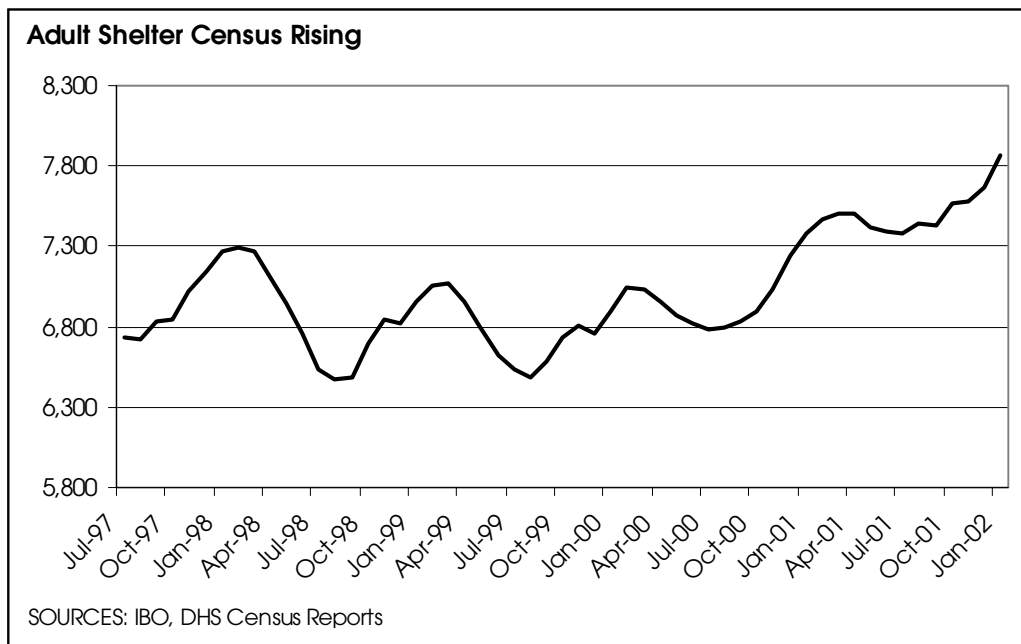
*Homelessness is costly for governments.* Homelessness is a costly problem for New York City and State. IBO estimates, for example, that city expense budget spending for housing and other homeless related services was over \$880 million. There are four general types of costs associated with homelessness.

First, there are public expenditures directly related to addressing the needs of currently and formerly homeless people. This category includes emergency shelter, the services provided at shelters such as mental health treatment, transitional housing programs, and targeted permanent housing such as single-room occupancy (SRO) and supportive housing.

The second class of spending is for homelessness prevention. This is arguably a very broad category; New York City engages in some activities that are clearly intended to keep people in their homes, such as anti-eviction programs, but under some definitions, any income support program could be considered homeless prevention. The operational definition used in this analysis is limited to programs directly designed to address the potential for homelessness.

A third type of expenditures is on services that are often consumed by homeless people, but which are not specifically targeted to them. For example, homeless individuals often rely on emergency room visits for medical care, and may be jailed for offenses specifically related to homelessness (such as panhandling). Clearly, emergency rooms and correctional facilities do not exclusively, or even primarily, serve homeless people, but these are real costs associated with homelessness.

The final category includes broader social costs, such as lower quality of life for housed New Yorkers and tourists, and lost future revenue for children who are unable to succeed in school as a result of their homelessness. These social costs are almost impossible to quantify, and of course are not direct public expenditures.



In addressing the question "how much does New York City spend on homelessness," IBO included as many of the direct expenditures on homelessness as the available data permit, and prevention activities that are specifically related to keeping people in housing, such as anti-eviction measures. Using the cost framework outlined above, this total includes type one expenditures—shelter and services directly targeted to currently and formerly homeless people—and those

homeless prevention programs (type two costs) that keep vulnerable people in their homes. In 2001, the total city expense budget spending on these types of housing and services for the homeless was roughly \$880 million.

The rest of the report is organized into three sections: spending by agency, spending by purpose, and sources of funds.

## SPENDING BY AGENCY

*Department of Homeless Services.* The Department of Homeless Services (DHS) is the lead agency for addressing homelessness in New York City. In 2001, DHS spent \$476 million; the 2002 modified budget is \$549 million.

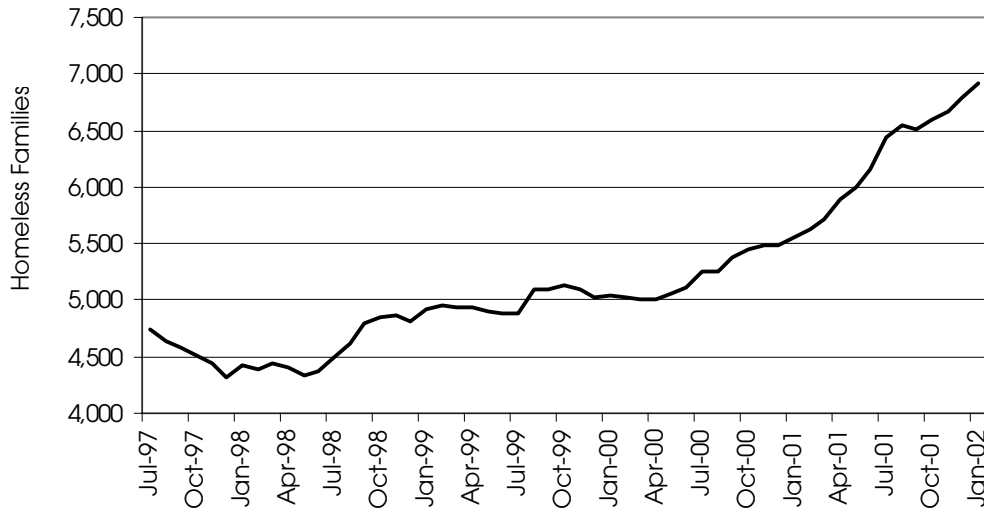
The vast majority of DHS spending is used to provide emergency shelter and transitional services. In fiscal year 2001, DHS spent about \$182 million for adult shelter and

services, and \$232 million for family shelter and services. The remaining funds—about \$62 million—were directed towards outreach, permanent housing for formerly homeless single adults and families, and agency-wide activities, including administration.

The DHS budget has generally fluctuated with homeless census counts. The one obvious exception to this pattern was the drop in spending between 1994, when DHS became an independent agency, and 1995. Prior to 1994, most of the city's homeless services were provided by the Human Resources Administration (HRA). DHS entered into contracts with nonprofit organizations to manage shelters and provide services, which allowed the department to lower its headcount and otherwise cut costs. As a result, agency expenditures fell dramatically between 1994 and 1995, even when including contract costs.

In the wake of the September 11 terrorist attacks, the Giuliani Administration ordered all agencies other than police, fire, and public schools to cut their city spending by 15 percent. Because much of the DHS budget is funded through federal and state aid, and because shelter provision is mandated by law, programs for the homeless are more insulated from cuts than some other services areas. The DHS budget, in fact, increased as a part of these modifications. Mayor Bloomberg's

**Family Shelter Census Also Rising Steadily**



SOURCES: IBO, DHS Census Reports

IBO has not addressed the third category of spending: mainstream services that may be utilized by homeless people. These services may be very expensive. For example, homeless adults living on the streets or in shelters are particularly vulnerable to illnesses, and typically rely on public hospital emergency rooms for treatment. Once a homeless person has been admitted to the hospital, doctors may be reluctant to release the patient, knowing that he or she is unlikely to have access to the basic aftercare services—such as a bed available 24 hours a day—that are needed to recover. As a result, homeless men and women consume a disproportionate share of bed space in public hospitals, which is a costly "housing" option. IBO does not have the data necessary to identify spending on these mainstream services consumed by homeless people, but it is clear that these expenditures only add to the cost of homelessness.

Furthermore, other public entities, such as the New York City Housing Authority and the Metropolitan Transit Authority, spend some funds on the homeless, but because they are not city agencies, they are outside the scope of this analysis. State programs, and the vast number of nonprofit organizations that serve the homeless with private and federal funds are also not included. In short, this analysis describes only a portion of the total public and private spending attributable to homelessness in New York City.

Preliminary Budget for 2003 added another \$14.3 million to the DHS budget, and \$43.5 million in 2004, to increase capacity in both family and adult shelters.

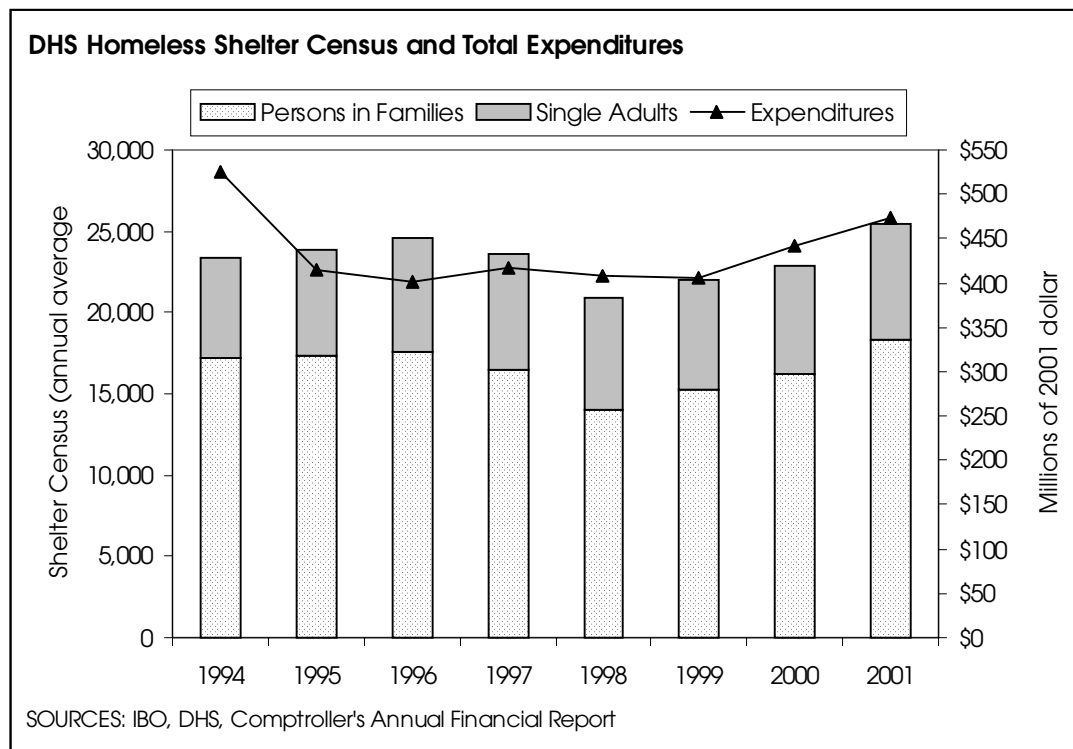
DHS also committed about \$17 million in capital funds in 2001. Almost all of this money was used to support renovations and upgrades of existing shelter facilities. DHS's four-year capital plan calls for spending \$109.4 million, again for shelter renovations. DHS plans to spend roughly 60 percent of its capital funds—\$65.6 million—on upgrades and repairs of adult shelters. Although adults account for a smaller portion of the homeless census than do families, individual shelters are more likely to be in old, publicly owned facilities in need of major repairs, such as armories. Many of the armories have been granted landmark status, which adds to the cost of renovations. The remaining capital funds for shelter renovations are used for family shelters. DHS will also spend about \$5 million for agency equipment over the next four years, primarily on computers.

*Human Resources Administration.* HRA spent roughly \$316.5 million on homeless services in 2001, making this agency the largest provider of homeless services in the city outside of DHS. HRA homeless-related spending fell into three general categories: prevention, domestic violence shelter and services, and emergency housing and permanent housing subsidies for individuals with HIV/AIDS.

Total HRA spending on homelessness prevention in 2001 was \$124.4 million. A major component of HRA's prevention services—known as "Jiggetts Relief"—is, like the shelter provided by DHS, court ordered. In 1987, the Legal Aid Society filed suit against the state, claiming that the state's shelter allowance (the portion of the welfare grant that pays recipients' rent) in New York City for families on public assistance was too low. A series of legal decisions have required the state to provide interim relief to families, pending the release of a new shelter allowance schedule. The state provides Jiggetts Relief to families whose rent exceeds the shelter

allowance, and who owe back rent. Jiggetts Relief includes both back rent payments and assistance with rent into the future. About 17,000 households currently receive Jiggetts Relief. In 2001, HRA spent \$63.4 million on Jiggetts, including the city, state, and federal shares for this program. Like other public assistance programs, the city pays for 25 percent of Jiggetts Relief.

HRA spent \$12.4 million in 2001 on its Diversion Teams, which are located at the Emergency Assistance



Many other city agencies, including HRA; the Department of Housing Preservation and Development (HPD); and the Department of Mental Health, Mental Retardation, and Alcoholism Services (DMH) are also major providers of services to the homeless. Another three agencies spend small amounts on homeless services. Thus in order to accurately assess what the city spends on homelessness, we must look beyond the DHS budget.

Unit and city Job/Income Support Centers. The teams help families which are at risk of homelessness by working with them to identify alternative living arrangements or negotiating with landlords to prevent eviction. HRA also had four contracts with nonprofit organizations to provide anti-eviction legal services to families receiving public assistance. These contracts totaled \$10.8 million in 2001. A variety of other HRA prevention programs help public assistance recipients

with payment of security deposits or back rent, and facilitate families' access to private apartments.

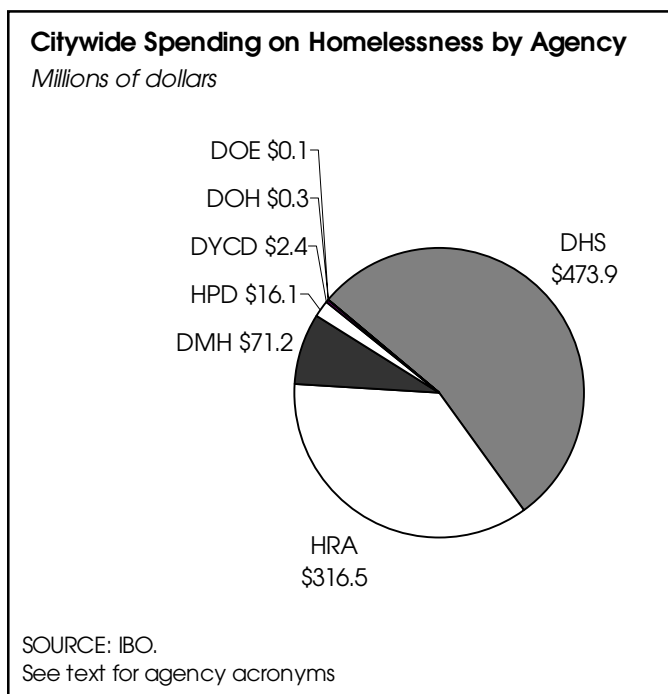
HRA also provides shelter and services for women who are victims of domestic violence. Many of these women and their children are forced to leave their homes, and thus would be homeless without HRA assistance. In addition to emergency shelter, HRA provides counseling, safety planning assistance, substance abuse treatment, education, and employment training for domestic violence victims. In 2001, the budget for domestic violence services totaled \$45.6 million.

Finally, HRA provides housing, case management, and other services for individuals with HIV or AIDS. The budget for HIV/AIDS related spending totaled \$146.5 million in 2001. This total includes \$22.8 million for hotels used to provide emergency shelter, and \$94 million for more permanent scatter site and supportive housing.

*Housing Preservation and Development.* HPD directed approximately \$16.1 million to housing and services for the homeless, which supports prevention programs, emergency shelter, and permanent housing. HPD programs in this total include \$2.5 million in anti-eviction aid for low-income households and SRO residents, and roughly \$10.4 million for emergency relocation services for tenants displaced as a result of fires or vacate orders issued by the Department of Buildings, Fire Department of New York or HPD's Division of Code Enforcement. Most of the remaining funds are for permanent housing through the federal Shelter Plus Care rental subsidy program.<sup>1</sup>

*Other Agencies.* Other agencies with smaller expenditures for homeless services include the Department of Youth and Community Development, the Department of Health, and the Department of Employment. The total amount spent by these agencies is very small relative to that spent by HRA, DMH, and HPD.

In total, agencies other than DHS represented about 46 percent of city spending on homelessness.



## USE OF FUNDS

We have categorized city spending on homelessness into six purposes: emergency shelter (including integral services); other services for the homeless not included in a shelter contract; homelessness prevention; provision of permanent housing; outreach to the homeless; and other (primarily administrative expenses). New York City committed more than \$493 million dollars for emergency shelter and services in 2001, compared to roughly \$72 million for other services, \$127 million for prevention, \$122 million for permanent housing, and \$16 million for outreach.

*Shelter.* DHS funds both shelter and services for the homeless, and in most cases, it is not possible to separate these two functions. DHS will, for example, contract with a nonprofit agency to operate a shelter, as well as provide mental health services or substance abuse treatment to the residents of the shelter. The contract covers both the physical shelter and the social services. All family shelters and 80 percent of adult shelters provide some social services to their clients, such as mental health or substance abuse treatment and employment counseling. The specific services provided vary by facility. Because it is not possible to separate DHS expenditures, and DHS is the largest provider of both shelter and services, we have combined them into a single line in the chart on the following page.

*Department of Mental Health.* The Department of Mental Health committed about \$71.2 million for homeless programs in 2001. The bulk of these funds were spent on contracts with nonprofit organizations providing mental health treatment to homeless people. About \$17.5 million of the DMH total was spent on alcoholism and substance abuse treatment programs. Much of the DMH mental health and substance abuse services for the homeless are provided at DHS facilities or through nonprofit agencies, many of which are also providing other services to homeless people.

<b>Spending on Homelessness by Agency and Purpose, 2001</b>								
<i>Millions of dollars</i>								
	DHS	HRA	DMH	HPD	DYCD	DOH	DOE	<b>Total by Purpose</b>
Emergency Shelter and Services <sup>a</sup>	\$394.3	\$85.9		\$10.4	\$2.4			<b>\$493.0</b>
Services only <sup>a</sup>			\$71.2			\$0.2	\$0.1	<b>\$71.5</b>
Prevention		124.4		3.0				<b>127.4</b>
Permanent Housing	19.1	99.7		2.8				<b>121.6</b>
Outreach	15.8		See note b					<b>15.8</b>
Other	44.6	6.5						<b>51.1</b>
<b>Total by Agency</b>	<b>\$473.9</b>	<b>\$316.5</b>	<b>\$71.2</b>	<b>\$16.1</b>	<b>\$2.4</b>	<b>\$0.2</b>	<b>\$0.1</b>	<b>\$880.4</b>

SOURCE: IBO  
NOTES: Individual items may not sum to total due to rounding.  
<sup>a</sup>The first line includes emergency shelter plus services provided as part of shelter contracts. The "Services only" line includes services provided separately from shelter contracts (although the services may be provided at shelters).  
<sup>b</sup>DMH does fund some programs that conduct outreach to homeless mentally ill individuals. It is not possible to accurately separate these expenditures from the other services funded through the agency.

but DHS also spends small amounts on employment services.

*Prevention.* Both HPD and HRA have homeless prevention programs. The City Council added \$2.5 million to HPD's 2001 budget for anti-eviction legal services; this funded 15 contracts with nonprofit organizations to assist tenants faced with eviction. Almost half of this money was targeted to the nonprofit groups operating the East Side and West Side

DHS shelter expenses include contracts with nonprofit organizations which operate shelters, the operating costs for the few remaining city-run shelters, security costs, food contracts, and other maintenance and management costs. In addition, in fiscal year 2001, DHS committed almost \$41 million for hotels for families with children. DHS is not legally allowed to leave families in the Emergency Assistance Unit (EAU) overnight, so as caseloads increase, DHS must find short term alternatives until families can be placed in longer-term housing. Although hotels are intended to be used only as a very temporary measure while a family awaits placement in a Tier II facility (shelters providing private rooms and services), use of hotels is growing. In January 2001, there were 1,387 families in hotels, while in January 2002, there were 2,674 families in hotels.

*Services.* Outside of DHS, funds used for services for the homeless are overwhelmingly spent on health care. DMH has \$70.8 million in contracts with nonprofit organizations, primarily for mental health care—\$53.3 million—and alcoholism and substance abuse services—\$17.5 million. Some DMH funds are used to support outreach programs run by nonprofit organizations. It is not possible to identify precisely how much DMH money was spent on outreach, so all DMH funds have been classified as services.

New York City also provides some physical health care, such as tuberculosis screening for homeless people, for which the Department of Health spent \$256,000 in 2001. A small amount of money is available for employment training and services. The Department of Employment estimates that it spends about \$130,000 per year on services for the homeless,

SRO Law Projects, which provide legal representation and advice to SRO tenants. HPD's homeless prevention programs, although relatively small, are significant because these are the only publicly funded prevention programs for households not receiving public assistance.

HRA, as described above, spent more than \$124 million on homelessness prevention in 2001. These funds pay for anti-eviction legal services, Diversion Teams, and a variety of programs that assist families with back rent payments.

*Permanent Housing.* The largest share of expense budget commitments for permanent housing comes from HRA spending on scatter site and supportive housing for people with HIV/AIDS—\$99.7 million in 2001 (IBO, 2002).

DHS provides some limited permanent housing programs, although the agency's mission does not actually include the provision of permanent housing for homeless people. DHS committed about \$14 million in operating funding for nonprofit-operated single-room occupancy housing for adults in 2001; this money was used to pay for building and staff costs, rather than individual rent subsidies. DHS expenditures for permanent housing also included about \$1.6 million for the Adult Rental Assistance Program, which gives employed homeless adults rental assistance and supportive services for up to two years. DHS also provided private landlords \$3.4 million in bonuses for renting permanent apartments to homeless families with Section 8 vouchers, under the Emergency Assistance Rehousing Program (EARP).

HPD's limited expense budget spending—\$2.8 million—on

permanent housing for homeless people is almost entirely funded by the federal Shelter Plus Care program, which provides either tenant- or project-based rental subsidies.

HPD's capital budget for homeless housing is more extensive. In 2001, HPD committed almost \$59 million in capital funds for the Supportive Housing Loan Program (formerly the SRO Loan Program). The program provides financing for nonprofit organizations which are building or rehabilitating permanent housing for homeless individuals, including adults suffering from mental illness or HIV/AIDS. All tenants must be low income, and 60 percent of the units must be rented to homeless individuals residing in the emergency shelter system. Just over \$34 million of the total funds committed for the Supportive Housing Loan Program were city funds. The remaining \$24 million came from federal grants, primarily the Housing Opportunities for People With AIDS (HOPWA) program and the Home Investment Partnership Program, known as the HOME program. Clearly, there has been significant fluctuation in the Supportive Housing Loan Program over the last five years. The program has grown as a result of the New York/New York II agreement between the city and state to build more supportive housing, but has also been affected by technical problems, such as difficulties in obtaining certificates of occupancy, and movement of funds between the expense and capital budgets.

<b>Supportive Housing Loan Program, 1997-2001</b>					
	1997	1998	1999	2000	2001
Capital commitments (millions of dollars)	\$11.8	\$49.5	\$7.0	\$44.5	\$58.5
Units completed	223	68	451	491	483
SOURCES: IBO, Capital Commitment Plans; Mayor's Management Reports.					

In 2001, about 3,200 homeless families who were placed into permanent housing received federal Section 8 vouchers or public housing. The bulk of the Section 8 vouchers available for homeless families are administered by NYCHA, and are thus not included in this analysis.

*Outreach.* DHS spent \$15.8 million on outreach programs in 2001. DHS has seven outreach teams, which seek out people living on the street, provide them with services, and encourage them to enter shelters. Six of these outreach teams are operated by nonprofit organizations: one in each borough, and two in Manhattan. The final team is operated by DHS, and is citywide.

## **SOURCES OF FUNDS**

Close to 70 percent of the city's 2001 modified budget for all

services—from police to libraries to the mayor's office—comes from city funds, while state and federal aid accounts for about 30 percent of the modified budget. Homeless programs, however, are funded quite differently. For 2001, about 37 percent of the modified budget for homeless programs are from city funds. The state paid for about 34 percent of services and housing for the homeless, while federal funds accounted for about 29 percent of the total modified budget.<sup>2</sup>

This overall breakdown of funding sources masks some programmatic differences. DHS adult shelters are 50 percent state funded, and 50 percent city funded, while in most cases, funds for family shelters are 50 percent federal Temporary Assistance for Needy Families (TANF) dollars, 25 percent state money, and 25 percent city. HRA housing programs for people with HIV/AIDS, on the other hand, draw upon federal funds from the HOPWA program, but are primarily city funded. HOPWA dollars are also used for HRA case management services, including some housing referral services. HRA domestic violence programs are typically 50 percent federally funded, and the city and state each fund 25 percent.

City funds accounted for only \$1.9 million of the \$70.8 million DMH spent on contracts for the homeless in fiscal year 2001—less than three percent of the total. The

majority—\$40.8 million—of DMH funds for homeless services came from the state Office of Mental Health. Some of this state funding for mental health services in New York City is provided through the Community Mental Health Reinvestment Act of 1993. The act reallocates funds that were once used for state-

operated inpatient psychiatric facilities to local communities to provide a wide range of services. Homeless mentally ill individuals are considered a special population, and are particularly targeted for receipt of reinvestment act funds. Other DMH services are funded through Medicare and Medicaid, the federal Supplemental Security Income Program, and federal health and human service grants targeted to the homeless.

Grant restrictions, combined with the requirements imposed through the consent decree and court order, limit the city's ability to reshape its delivery of services and housing for the homeless. Because a relatively small portion of funds for homeless housing and services are city dollars, New York City has only limited flexibility to determine the ways in which the money is used. For example, a significant portion of emergency shelter in New York City is funded through TANF.



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TANF regulations also allow funds to be spent for homelessness prevention, but not for the acquisition or development of permanent housing. TANF funds may be used for rental subsidies, but after four months, each month's rent will count as a month towards welfare time limits (Sard, 2001; Sard and Harrison, 2001). (New York City and State have not used TANF funds for rental subsidies.) HOPWA funds are specifically targeted to people with HIV/AIDS, Emergency Shelter Grants are only for emergency shelter and services, and some limited prevention programs, and so on.

## **IMPLICATIONS OF CITY SPENDING PATTERNS**

*Emphasis on emergency spending.* Legally, the city must provide shelter for anyone who requests it and who has nowhere else to stay. New York must expend the resources necessary to comply with this requirement. As a result, New York City directs more than half of its total spending on housing and services for homeless people to emergency shelter.

Nevertheless, this may be a short-sighted strategy for addressing the needs of homeless people in the city. Although some of the research on the topic is flawed and/or limited in focus, there is some evidence that, in the long run, homelessness prevention strategies may be more cost effective than providing emergency shelter. Evidence is also available demonstrating the cost effectiveness and efficacy of permanent housing over emergency shelter.

The Inspector General of the federal Department of Health and Human Services looked at homelessness prevention programs around the country (HHS, 1990). These programs provided families that had exhausted all other financial resources with one-time assistance to avoid eviction. The report found that the programs were highly effective in keeping families in their homes, and that "the average benefit paid by the eight homeless prevention programs was one-sixth the cost of a typical stay in a shelter." The average family received \$440—or \$684 in 2001 dollars—for mortgage, rent, or utility assistance. Although this research did not include New York City, other research conducted in New York City at about the same time found that anti-eviction legal services programs were similarly cost effective (Lindblom, 1991).

These and other studies of prevention programs, however, generally do not include control groups. Instead, researchers calculate cost-effectiveness based on the assumption that all the households would have become homeless in the absence of assistance. However, there are few, if any, accurate predictors of who will actually become homeless. A study of first time

shelter users in New York City, for example, found that only 22 percent had ever been evicted. Without a workable predictor of homelessness, it is very difficult to design a prevention program that targets only people who would otherwise become homeless. As a result, the studies that do exist have, in general, overstated the cost effectiveness of homelessness prevention programs (Shinn & Baumohl, 1998). Nevertheless, programs and strategies to prevent homelessness could, by providing relatively inexpensive one-time legal or financial assistance, allow New York to avoid the high costs of emergency shelter for at least some families. The efficacy of these programs certainly merits further research.

There is also evidence that subsidized housing is an effective tool to prevent and end homelessness for at least some households. Studies of formerly homeless families that received subsidized housing found very low shelter readmission rates, and public assistance households receiving subsidized housing are less likely to become homeless than other public assistance families (Shinn & Baumohl, 1998). For most households, a housing subsidy was the only service necessary to remain housed—social service delivery had little effect on housing outcomes for all but the most medically-challenged households.

NYCHA administers Section 8 vouchers targeted to homeless families in New York City. The NYCHA Section 8 payment standard for a two-bedroom apartment is \$993 per month. Even assuming that a homeless household has no income to contribute to rent, the annual cost of a rental subsidy is about \$12,000. In 2001, DHS spent about \$129 million on shelter (without added social services) for homeless families. This translates to a nightly cost of \$64 per family, or \$23,257 per year. Alternatively, the average DHS per diem reimbursement rate for contracted Tier II shelters was \$81, or \$28,657 annually.<sup>3</sup> It is less expensive to provide families with a year of rental subsidies than a year of emergency shelter, and there is some evidence that doing so will successfully prevent future homelessness, even in the absence of other services.

Comparing the cost of rental subsidies and shelters for single adults produces a similar outcome. The average annual shelter cost for a single adult is lower, about \$17,000 per year. This annual average translates into about \$1,400 per month, which is well above the New York area fair market rent of \$874 for a one bedroom, or \$785 for a studio apartment.

There are several factors that could limit the effectiveness of rental subsidies in combating homelessness, however. First, households must be able to find an apartment in which to use

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the subsidy. In 2001, DHS had 2,700 Section 8 vouchers for homeless families through the EARP program, but had to return 900. A full one-third of families that received vouchers were unable to locate apartments that met rent requirements and were owned by landlords willing to accept the federal subsidy. Second, there are more individuals and families in the shelter system over the course of a year than there are on any given night. Providing rental subsidies to all households who are homeless at any time would require a more far-reaching, and thus more costly, program.

In addition, it is possible that if the city significantly increased the availability of permanent housing to homeless families, then demand for these services would increase. Families that are living doubled-up with relatives, or otherwise living in inadequate housing, might avoid the shelter system when it means actually living in a shelter, but be more willing to label themselves as "homeless" if it potentially meant access to better quality housing as a result. To the extent that this were to occur, the costs could be considerable.

Nevertheless, recent budget trends make it clear that as the number of homeless people increases, the city is forced to pour millions of dollars into the emergency shelter system to provide short-term solutions to their homelessness. Even in the face of the city's fiscal difficulties, the DHS budget has grown by 8 percent over the past year, and will continue to rise as long as the number of people in need of emergency shelter continues to rise. By targeting individuals or families that are heavy shelter users for permanent housing solutions, the city could potentially save money in the long run.

While a housing subsidy may be sufficient for many households, over any given period of time a significant fraction of the shelter-using population consists of individuals facing serious mental illness or substance abuse problems. For this population, a housing voucher alone is not enough to end homelessness. Dennis Culhane et al. looked at the cost effectiveness of housing for individuals who require intensive services (Corporation for Supportive Housing, 2001). Individuals who are placed in supportive housing typically reduce their consumption of shelter and services by more than \$16,000 per unit per year. The cost of providing a supportive housing unit is just over \$18,000 per year (including debt service to pay down development costs). Thus the expense of providing supportive housing is almost fully offset by the savings in service consumption, and the net cost of providing a unit of supportive housing is less than \$2,000 per year. When excluding the limited number of expensive, state-licensed mental health community residences from the

analysis, the average net cost of providing a supportive housing unit is less than \$1,000.

*Fragmentation of spending.* No single office in city government has the information and responsibility to monitor and coordinate the nearly \$1 billion in homelessness programs spread across multiple agencies. Service delivery is fragmented and uncoordinated, which most likely results in inefficient use of scarce resources and may result in counterproductive policy responses to the problem of homelessness.

Federal homeless policy has increasingly emphasized coordination of spending and service delivery. In order to receive federal funds, local communities are required to form "continuum of care" organizations, which, in principle, bring together nonprofits, local government, and other stakeholders to integrate the planning and delivery of shelter and services to the homeless. It is not clear to what extent this integrated model actually improves service delivery, but it is a widespread component of social service theory and program implementation.

New York City homelessness programs, on the other hand, are spread over seven city agencies. The legislation that initially formed DHS required the city Office of Management and Budget to submit an annual report on citywide spending on homelessness to the City Council, although this has apparently not happened in recent years. As a result, there is no office or official in city government with the ability or responsibility to oversee and coordinate spending and policy.

Non-governmental service providers may also bear unnecessary costs as a result of this fragmentation. A significant portion of homeless housing and services are provided through contracts with nonprofit organizations. In many cases, the same nonprofit organization holds multiple contracts with several city agencies. For example, the Legal Aid Society and the Northern Manhattan Improvement Corporation each holds contracts with both HPD and HRA for anti-eviction legal services. There is also significant overlap between the contract lists for DMH and DHS. Applying for a city contract is a complex and time-consuming process, and the nonprofit organizations serving the city's homeless must engage in this process for each contract.

Administering these many contracts, as well as the overlapping programs that exist in many agencies, raises city overhead costs. Because responsibility for different services and programs related to homelessness is scattered among a number of agencies, without any entity to monitor cross-agency

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spending or program development, it is unlikely that these scarce resources are being used efficiently.

Furthermore, the split responsibilities that come with fragmented funding may have an effect on policy decisions. For example HPD is the lead city agency for the provision of subsidized housing, and is therefore the best equipped to provide the permanent housing which could reduce homelessness. However, the HPD budget does not change with an increase in homelessness. Instead, DHS receives additional funding to provide emergency shelter. In Mayor Bloomberg's Preliminary Budget for 2003, for example, DHS is allocated millions of dollars of new money to respond to rising shelter populations. In contrast, HPD's capital plan, which lays out spending for new housing development, is cut by \$380 million over four years. The disconnect between the agencies' responsibilities makes it difficult to develop coordinated, long-term policies to address homelessness.

Consolidating all homeless services in one agency is not necessarily the solution. Different agencies have comparative advantages in providing different services. HPD has the expertise and the experience necessary to build new permanent housing, while DHS does not. It is not possible to measure the extent to which the city's fragmented funding for homeless shelter and services has had a negative impact on the delivery of housing and services, or on the nonprofit contractors that are responsible for providing these services. However, current social service theory argues that more integrated services are better for clients. Fragmentation in the city's delivery of homeless services may have a deleterious effect on New York's ability to combat homelessness.

## CONCLUSION

New York City policy is heavily focused on providing emergency shelter. Recent budget cuts suggest that the emphasis on emergency shelter is likely to increase rather than decrease in the near future. The Giuliani Administration cut funding for several HPD anti-eviction programs; although these funds were restored for the remainder of 2002, they are not funded in the future. The adult Rental Assistance Program, one of the few permanent housing programs in DHS, was cut by \$300,000, and the family Rental Assistance Program was eliminated for 2003 and beyond. HRA lost \$1 million for rent subsidies for domestic violence victims. At the same time, both the December 2001 modifications to the 2002 budget and Mayor Bloomberg's 2003 Preliminary Budget added funds for legally mandated emergency shelter space.

The changes made in December and those in the Preliminary Budget are relatively small, but they contribute to the city's general pattern of emergency spending on homelessness. New York City homeless policy is focused on emergency shelter and services for those who are currently homeless. Together, the *Callahan* consent decree and the city's looming budget gaps limit the city's ability to shift this emphasis to more permanent—and potentially less costly—solutions.

*Written by Molly Wasow Park*

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## END NOTES

<sup>1</sup> HPD also administers Section 8 vouchers targeted to homeless families. Section 8 is an entirely federally-funded program, and is not included in this analysis.

<sup>2</sup> Any funding source that originates with the federal government is classified as federal funds, even if the state allocates the money, as is the case with welfare funds. State funds represent a separate source, paid for from state tax revenue. Funding sources were not available for all budget items.

<sup>3</sup> Based on state regulations, DHS per diem reimbursements assume that shelters operate at 97 percent of capacity over the course of a year. Although facilities may actually serve more families, total annual reimbursement is capped.