

BRIEFING PAPER

Supportive Housing as a Cost-Effective Way to Reduce Homeless Shelter Capacity

As the number of homeless single adults in municipal shelters rises and as City shelter expenses increase, the Bloomberg Administration and the City Council must look towards cost-effective measures to reduce shelter capacity and address rising homelessness. Supportive housing, which provides permanent housing with supportive services for homeless individuals living with mental illness and other disabilities, is a proven and cost-effective way to reduce both shelter capacity and the adult homeless population. Combined with other housing assistance (including rental assistance programs for employed homeless individuals and supported rental housing), a targeted supportive housing initiative would reduce both the adult shelter population and expensive shelter capacity.

In the late 1980s and early 1990s, supportive housing initiatives – most notably, the first New York/New York Agreement – reduced the adult shelter population by 37 percent over five years and reduced shelter capacity by some 4,000 beds. At the same time, as studies have documented, the cost to taxpayers of supportive housing was nearly identical to that of emergency shelter, hospital stays, and other emergency care. Thus, supportive housing has historically resulted in reduced shelter capacity, improved health and housing outcomes for homeless disabled adults, and negligible additional costs to taxpayers.

Unfortunately, recent cutbacks in supportive housing investments have had a clear result: Rising adult homelessness and rising shelter expenses. The average daily census of homeless single adults in New York City shelters has risen from 6,100 people per night in 1994 to 7,900 currently, the highest level since 1991. City expenditures on shelter and services for homeless single adults have increased by \$59 million since FY 1995,¹ and over the past eighteen months alone the City has opened five new adult shelters. At the same time, the City has announced plans to close an 850-bed shelter and replace it with two 400-bed facilities with combined costs of \$15-17.5 million per year.

This briefing paper outlines a strategy for reducing shelter capacity through targeted investments in supportive housing. The paper discusses the following:

1. *Trends in adult shelter use*
2. *Comparative costs of supportive housing and shelter*
3. *The experience of the New York/New York Agreement*
4. *The plan to close the 30th Street shelter*
5. *Strategy for reducing shelter capacity through supportive housing investments*

¹ City of New York, Office of Management and Budget (2001).

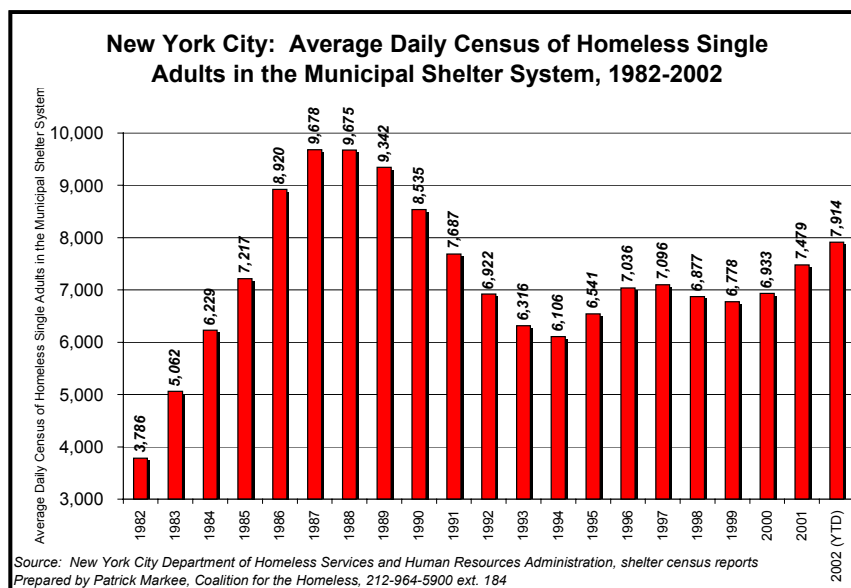
1. Trends in Adult Shelter Use

In considering a strategy to reduce adult shelter capacity, three factors must be considered: the daily census, turnover in the adult shelter system, and patterns of shelter utilization.

Adult shelter census: Over the past two decades, the average daily census of homeless single adults lodged in the New York City shelter system (which refers to a point-in-time count of the number of homeless single men and women residing in the municipal shelter system) has risen and fallen during three distinct periods.

- Early-to-late 1980s:* During this period the adult shelter population rose dramatically from 3,786 people per night in 1982 to 9,675 per night in 1988. Shelter capacity exceeded 11,000 beds during the late 1980s to respond to wintertime peak demand for emergency shelter.
- Late 1980s to the mid-1990s:* During these years the adult shelter census fell by 37 percent, from 9,675 people per night in 1988 to 6,100 people per night in 1994. During this period the capacity of the adult shelter system was reduced by some 4,000 beds.²
- Mid-1990s to the present:* Since 1994, the adult shelter census has risen from 6,100 people per night to 7,900 per night currently, the highest level since 1991.

The second period, in the early 1990s, coincided with City and State supportive housing initiatives, including projects developed under the Koch Administration, the first New York/New York Agreement (signed in 1990), and AIDS supportive housing programs. In contrast, the late 1990s witnessed substantial reductions in such initiatives. The only significant commitment, the New York/New York II Agreement (signed in 1999), provided only 1,500 units over five years, only 40 percent of the commitment under the first NY/NY Agreement.



Turnover in the adult shelter system: While point-in-time counts indicate the number of homeless single adults lodged on a given night, they do not reflect the dynamics of the system – that is, the thousands of different individuals who cycle through the municipal

² While capacity dropped, the number of facilities actually increased, due in large part to a policy initiative begun under the Dinkins Administration and continued under the Giuliani Administration to develop smaller, services-enriched shelters. Capacity at four large armory shelters was reduced as a result of 1992 and 1994 court orders in two separate litigations arguing for the enforcement of State regulations on shelter capacity limits.

shelter system each year. Analysis of the City's shelter client database by University of Pennsylvania researcher Dennis Culhane reveals that the turnover rate – that is, the number of different individuals who use the average shelter bed in a given year – has declined through the 1990s. In 1987, the turnover rate was 5.74 persons per bed while currently it is approximately 3 persons per bed.³ Thus, over the past year approximately 24,000 different individuals utilized the roughly 8,000 beds in the adult shelter system.

Patterns of adult shelter utilization: The turnover rate captures the aggregate dynamics of the adult shelter system, but does not account for different patterns of utilization of the shelter system by subpopulations of homeless single adults. A separate analysis of three years of records from the shelter client database by researchers Randall Kuhn and Dennis Culhane⁴ found three distinct patterns of shelter use:

- a. *Chronic shelter users*, who represent only 9.8 percent of all shelter users, utilized 46.9 percent of all shelter resources. This group was characterized by long, one-time shelter stays, and high incidence of psychiatric and physical impairments. The average stay for this group was 638 days over three years.
- b. *Episodic shelter users*, who comprise 9.1 percent of shelter users, utilized 18.1 percent of shelter resources. This group had relatively brief, but frequent, shelter stays, and also had high rates of disabilities and addiction disorders. The average shelter stay for this group was 264 days over three years.
- c. *Transitional shelter users*, who represent 81.0 percent of all shelter users, utilized only 35.1 percent of all shelter resources. In contrast to the other groups, this cohort was characterized by both brief and infrequent (usually one-time) shelter stays, and low incidence of disabilities. The average stay for this group was only 58 days over three years.

The findings of this research are clear: By targeting housing resources at the first two groups, shelter capacity can be dramatically reduced although these groups only comprise 19 percent of all individuals who utilize the shelter system over several years. Confirming the results of this study is a recent analysis by the Department of Homeless Services finding 1,200 current “long-term shelter stayers” – i.e., individuals who have resided in the system for at least two of the last four years.

2. Comparative Costs of Supportive Housing and Emergency Shelter and Services

The most comprehensive analysis to date of the comparative cost of supportive housing was conducted by Dennis Culhane and published in May 2001.⁵ Culhane compared the use of emergency shelter, State psychiatric institutions, other hospital care, Medicaid-funded services, and correctional institutions for individuals with severe mental illness placed into New

³ Culhane, Dennis P., *et al* (1999), “Homelessness and Public Shelter Provision in New York City,” in Schill, Michael, editor, *Housing and Community Development in New York City: Facing the Future* (SUNY Press, 1999, pp. 203-232), p. 211. Data on current shelter utilization provided by Department of Homeless Services.

⁴ Kuhn, Randall, and Dennis Culhane (1998), “Applying Cluster Analysis to Test a Typology of Homelessness by Pattern of Shelter Utilization: Results from Analysis of Administrative Data,” in *American Journal of Community Psychology* (Volume 28, Number 2, 1998).

⁵ Culhane, Dennis P. *et al* (2001), “The Impact of Supportive Housing for Homeless People with Severe Mental Illness on the Utilization of Public Health, Corrections, and Emergency Shelter Systems: The New York-New York Initiative,” in *Housing Policy Debate* (forthcoming, pre-publication draft, May 2001).

York/New York housing and a control group of homeless individuals with severe mental illness who were not placed into NY/NY housing.

In summary, the study found that the NY/NY Agreement resulted in dramatic cost savings in emergency care – a reduction in services costs of \$16,282 per housing unit, from a total cost to taxpayers of \$40,449 per person per year before placement. Even taking into account the capital costs for developing the housing, the net cost of the NY/NY Agreement was only \$1,098 per unit per year, or a total net cost of only \$6.9 million. In terms of emergency shelter, the annual cost reduction (accounting for the turnover in NY/NY housing) was \$3,779 per housing unit, and the total cost savings to the Department of Homeless Services was \$13.66 million.

3. The New York/New York Agreement and Early-1990s Reductions in Shelter Capacity

As noted above, the dramatic reductions in the adults shelter population and shelter capacity – a decline in the adult shelter census of 37 percent between 1989 and 1994, and a reduction in shelter capacity of some 4,000 beds – occurred alongside three supportive housing initiatives:

projects developed under the Koch Administration (including rehabilitation of commercial SRO hotels), the first New York/New York Agreement (signed in 1990), and AIDS supportive housing programs.

The first NY/NY Agreement was clearly the largest of these three initiatives, and produced 3,615 supportive housing units. Between July 1989 and March 2001, the NY/NY Agreement provided housing for 8,072 different individuals.⁶ Nearly three-

quarters of all people placed into NY/NY housing had stayed for some period of time in the municipal shelter system, while many of the remaining NY/NY participants had utilized drop-in centers and/or street outreach services.

The Culhane cost-comparison study provides compelling data on the dramatic reduction of shelter usage due to NY/NY housing placements. Comparing shelter usage before and after NY/NY placement, the study found an 85.6 percent decline in the number of days spent in the

Impact of the New York/New York Agreement on Use of the Municipal Shelter System

Comparison of groups of homeless individuals with severe mental illness

	Individuals placed into NY/NY housing	Control group (no NY/NY housing placement)
Before NY/NY Housing Placement (two years)		
Total people with shelter records	2,750	2,265
Total days sheltered	636,319	544,700
Average number of days in shelter (shelter users)	231.4	240.5
After NY/NY Housing Placement (two years)		
Total people with shelter records	776	1,754
Total days sheltered	91,751	408,883
Average number of days in shelter (shelter users)	118.2	233.0

Source: Culhane, Dennis P. et al (2001), "The Impact of Supportive Housing for Homeless People with Severe Mental Illness on the Utilization of Public Health, Corrections, and Emergency Shelter Systems: The New York-New York Initiative," in Housing Policy Debate (forthcoming, pre-publication draft, May 2001).

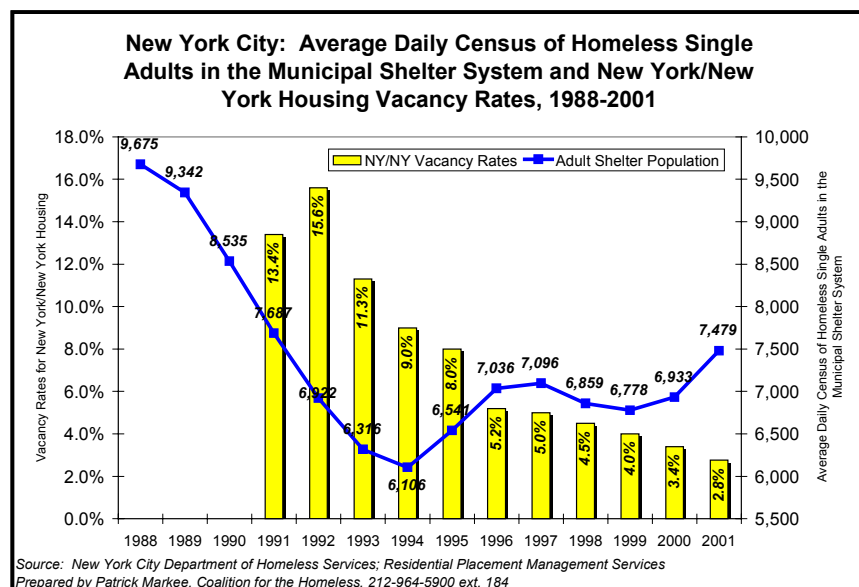
Prepared by Patrick Markee, Coalition for the Homeless, 212-964-5900 ext. 184

⁶ New York City Human Resources Administration, Office of Health and Mental Health Services, New York/New York placement report (2001).

shelter system.⁷ In contrast, the comparison group of homeless individuals with severe mental illness who were not provided with NY/NY housing had only a 6.5 percent decline in shelter usage over the same period. Shelter stays were also much shorter as a result of NY/NY placements. Average stays for shelter users after NY/NY placement were cut in half (from 231 days to 118 days), while the control group experienced almost no change (240 days to 233 days over the same period).

Not only did NY/NY housing placements result in fewer days of shelter use, but the number of individuals using the shelter system declined dramatically after placement. The study analyzed records for 2,750 individuals who were placed into NY/NY housing, and for two years after placement only 776 utilized the shelter system again, for much shorter stays. In contrast, among the control group of 2,265 individuals who were not placed into NY/NY housing, 1,754 utilized the shelter system in the subsequent two years. Thus, the first NY/NY Agreement is directly responsible for much of the dramatic reduction in the single adult shelter population that occurred in the early 1990s.

In contrast, the growing scarcity of NY/NY housing and other supportive housing has coincided with increases in the adult shelter population since 1994. As the accompanying chart illustrates, reductions in the vacancy rate of NY/NY housing –



currently at around 2 percent – correlate with the recent rise in the adult shelter census, just as high vacancy rates coincided with reductions in the shelter census in the early 1990s. Currently there are only around 200 vacant NY/NY housing units, although some 1,500 applications for NY/NY housing are approved for adult shelter residents annually.

4. The Plan to Close the 30th Street Shelter and Replace It with Two Costly Shelters

Since at least early 2000 the City has had plans to close the 30th Street Men's Shelter, an 850-bed facility located on the northern end of the Bellevue Hospital complex in Manhattan, to make way for a proposed biotech research facility affiliated with the NYU Medical Center. To date, the City has declared its intention to address the shelter's closing with an almost one-to-one replacement of beds.

In February 2000 the City announced plans to contract for a 400-bed shelter in the East Williamsburg section of Brooklyn. The contract generated enormous controversy, in part because of its unusual size and duration – \$175.9 million over 22 years. In addition, in

⁷ Culhane, Dennis P. *et al* (2001), pp. 8-9.

September 2000 the City Comptroller's office objected to the terms of the contract due to the fact that a convicted felon is the owner of the property where the new facility would be located and reportedly stands to garner a substantial profit from the purchase (the proposed acquisition cost is \$2.6 million). Finally, several community groups, residents, and businesses in the East Williamsburg area filed a lawsuit in 2001 challenging the contract, and while a State court ruled largely in favor of the defendants there is currently an appeal pending.

As for the remaining 450 beds, DHS has received a proposal for an additional 400-bed facility in the Bronx, although there is currently no contract for the additional facility. While there is no information about the cost of the proposed Bronx facility, it is assumed that it would carry costs similar to the East Williamsburg shelter. In total, then, the City would spend an estimated \$300-350 million over two decades (between \$15 and \$17.5 million per year) to develop and operate these two shelters. This would be in addition to other projected increases in adult shelter expenditures (including three shelters opened during the 2001-2002 winter and plans for an additional women's shelter in the Bronx). Indeed, Mayor Bloomberg's February 2002 budget plan includes a \$17.9 million increase in adult shelter expenses by FY 2004.

5. Strategies for Reducing Shelter Capacity through Supportive Housing Investments

A proven, and cost-effective, approach to reducing adult shelter capacity (and homelessness among single adults) is an initiative to develop permanent supportive housing, combined with an expansion of rental assistance programs for employed homeless individuals. There are various scenarios that City should explore, outlined below and described in detail in the table appended to this briefing paper.

Scenario #1: State-City Supportive Housing Initiative

Under this proposal, the State and City would share capital costs for developing supportive housing, with the State carrying the operating and services costs. Over ten years, such an initiative could develop 2,500 units. It is important to keep in mind that the recognized need for supportive housing for homeless individuals with mental illness exceeds this scenario.⁸ The Campaign for a New York/New York III Agreement has called on Governor Pataki and Mayor Bloomberg to commit to a multi-year agreement for 9,000 supportive housing units (7,500 units for homeless individuals living with mental illness, and 1,500 for homeless families with special needs). The Campaign has asked the Governor and Mayor to make a "down-payment" amounting to a third of that agreement – i.e., 2,500 units of supportive housing for homeless individuals with mental illness.

Scenario #2: State-City Supportive Housing Initiative Combined with State Scattered-Site Supported Housing

Under this proposal, the State and City would again share capital costs for developing supportive housing units, with the State carrying the operating and services costs. In addition, the State would fund operating support and services for scattered-site supported housing units (perhaps in cooperation with the City). Over ten years, this approach would develop 1,000 supportive housing units and provide 1,500 scattered-site units.

⁸ A 1998 plan developed by the New York City Department of Mental Health identified a need for 10,000 units of supportive housing for mentally-ill homeless individuals in New York City.

**Coalition for the Homeless
STRATEGIES TO REDUCE ADULT SHELTER CAPACITY**

SCENARIO #1

State-City Supportive Housing Initiative

<i>2,500 Supportive Housing Units*</i>					
	One-Year	10-Year			
	Cost Per	Cost Per	Number	Total 10-Year	
	Unit	Unit	of Units	Cost	State Share City Share
Capital costs***	\$ 125,000	\$ 125,000	2,500	\$ 312,500,000	\$ 156,250,000 \$ 156,250,000
Operating expenses	\$ 4,000	\$ 40,000	2,500	\$ 100,000,000	\$ 100,000,000
Services	\$ 8,000	\$ 80,000	2,500	\$ 200,000,000	\$ 200,000,000
Total				\$ 612,500,000	\$ 456,250,000 \$ 156,250,000

SCENARIO #2

State-City Supportive Housing Initiative Combined with State Scattered-Site Supported Housing

<i>1,000 Supportive Housing Units and 1,500 Scattered-Site Supported Housing Units</i>					
	Cost Per	10-Year	Number	Total Cost	State Share City Share
	Unit	Cost	of Units		
Capital costs***	\$ 125,000	\$ 125,000	1,000	\$ 125,000,000	\$ 62,500,000 \$ 62,500,000
Operating expenses	\$ 4,000	\$ 40,000	1,000	\$ 40,000,000	\$ 40,000,000
Services	\$ 8,000	\$ 80,000	1,000	\$ 80,000,000	\$ 80,000,000
Scattered-Site	\$ 12,000	\$ 120,000	1,500	\$ 180,000,000	\$ 180,000,000
Total				\$ 425,000,000	\$ 362,500,000 \$ 62,500,000

SCENARIO #3

State-City Supportive Housing Initiative Combined with Expansion of City Rental Assistance Program

<i>1,000 Supportive Housing Units and Expansion of 1,200 Rental Assistance Participants</i>					
	Cost Per	10-Year	Number	Total Cost	State Share City Share**
	Unit	Cost	of Units		
Capital costs***	\$ 125,000	\$ 125,000	1,000	\$ 125,000,000	\$ 62,500,000 \$ 62,500,000
Operating expenses	\$ 4,000	\$ 40,000	1,000	\$ 40,000,000	\$ 40,000,000
Services	\$ 8,000	\$ 80,000	1,000	\$ 80,000,000	\$ 80,000,000
Rental Assistance	\$ 7,700	\$ 77,000	1,200	\$ 92,400,000	\$ 92,400,000
Total				\$ 337,400,000	\$ 182,500,000 \$ 154,900,000

*This is the current recommendation of the Campaign for a New York/New York III Agreement

**Note: The City share of the Rental Assistance expansion could be shared with the State.

***Note: According to the Corporation for Supportive Housing, capital costs for NY/NY supportive housing units currently range between \$100,000 and \$125,000 per unit.

Scenario #3: State-City Supportive Housing Initiative Combined with Expansion of City Rental Assistance Program

Under this proposal, the State and City would again share capital costs for developing supportive housing units, with the State carrying the operating and services costs. In addition, the City would expand the existing Rental Assistance Program to assist an additional 1,200 individuals, bringing the total number of adults participating in the program to 1,500. (There is also the potential to share the cost of the Rental Assistance Program expansion with the State.) Over ten years, this approach would develop 1,000 supportive housing units and assist 1,200 additional Rental Assistance Program participants.

Note that under most of these scenarios, the total cost over ten years is roughly the same as (or less than) the projected 20-year cost of the two planned 400-bed replacement shelters. Moreover, this analysis does not account for additional planned shelter expenses (i.e., the three shelters, with a total of 370 beds, opened this past winter). Most important, this analysis does not include savings in hospital care, Medicaid, and other services that would accrue from the development of supportive housing – again, the total net cost to taxpayers of the first New York/New York Agreement was only \$6.9 million.⁹

Conclusion

As the Bloomberg Administration and the City Council grapple with rising adult homelessness and a growing shelter system, it is essential to recall that, in the midst of the supportive housing initiatives of the late 1980s and early 1990s (including the first New York/New York Agreement), the adult shelter census fell by 37 percent and the shelter system was downsized by some 4,000 beds over a five year period. Thus, there is a successful precedent for replacing shelter capacity with supportive housing development. In addition, this reduction in shelter capacity was accomplished at negligible cost to taxpayers – indeed, the first NY/NY Agreement virtually “paid for itself” through reduced expenditures on shelter, hospital stays, and other emergency care. Before New York City experiences levels of adult homelessness unseen since the late 1980s, targeted investments in supportive housing must be made.

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For more information, please contact

Patrick Markee, Senior Policy Analyst, 212-964-5900 ext. 184.

⁹ Culhane, Dennis P. *et al* (2001), p.1.