
Casa Esperanza Homeless Center

Review of Operations

Completed by:

**City of Santa Barbara
County of Santa Barbara
November 2014**

1. Introduction

Due to ongoing financial challenges, Casa Esperanza has undergone several programmatic and administrative changes. On September 17, 2013, Casa Esperanza closed its drop-in day center services for non-shelter residents and suspended the Community Kitchen lunch program for non-shelter residents. They currently operate a sobriety-based shelter program for their 100-bed year-round shelter program (April – November); which expands to a 200-bed winter shelter (December – March). In March 2014, the top two management positions at Casa Esperanza were laid off. Since that time, the shelter has been operating under two separate volunteer directors.

During the Fiscal Year 2015 budget approval process, Casa Esperanza requested an additional funding increase of \$125,000 in General Fund support from both the County of Santa Barbara and the City of Santa Barbara. City Council approved \$125,000 and authorized an initial disbursement totaling \$60,000, with the balance to be disbursed upon completion and approval of a review of Casa Esperanza's operations to be conducted by the City of Santa Barbara and the County of Santa Barbara. The County Board of Supervisors approved \$120,000 to be disbursed upon completion of the review as well.

The Review is organized in the following sections:

- Section 2, Program Overview
- Section 3, Financial Overview
- Section 4, Debt Overview/Restructure Plan
- Section 5, Staffing
- Section 6, Shelter Comparisons
- Section 7, Challenges & Opportunities
- Section 8, Conclusions/Recommendations

2. Program Overview

Casa Esperanza Homeless Center (Casa) has been providing services in Santa Barbara since 1999. Their mission is to help as many people as possible move from homelessness to housing. They operate under a Conditional Use Permit (CUP), which limits the number of beds they can provide to a maximum of 230 winter shelter beds (December 1 – March 31) and a maximum of 100 program beds during the remainder of the year (April 1 – November 30). Their CUP also allows the provision of day center services and lunch for a maximum of 200 individuals.

As mentioned in the introduction, Casa Esperanza has recently changed their operations from serving anyone in need to providing sobriety-based shelter, meals and related services for individuals who are ready to improve their lives and reintegrate into society. They currently operate as a 24 hour per day/7 day per week homeless shelter offering 48,000 bed nights

annually. Casa provides services to help prevent homelessness, provide safe shelter, and assist homeless households in securing and maintaining stable, independent housing and economic self-reliance.

The year-round shelter program provides 100 beds per night year round. These beds are allocated as follows: 60 homeless to housing (Transitional Living), which includes 2 beds for AB109 (Probation); 15 beds for (Mental Health); 5 beds which are made available for Social Services; and 20 medical respite beds which are comprised of ten beds which are provisionally available to Cottage Hospital and ten beds for people who are evaluated as medically fragile, requiring additional assistance during recuperation.

The 60 Homeless to Housing beds offered consist of a 100-day transitional living program for homeless individuals who seek to be sober and are ready to move forward into a productive life. The program provides case-management which includes housing, job development, recovery, and mental health services. Volunteer “navigators” augment the services provided by case managers. The navigators are trained and supervised by experienced staff regarding mental health programs, substance abuse programs, housing options, legal services, job development and other community services available to the residents of Casa Esperanza. Each navigator creates a relationship with the client to support the weekly goals made by their case manager.

Casa Esperanza contracts with County Alcohol Drug and Mental Health Services (ADMHS) to provide 15 mental health beds and case management services for homeless individuals with mental illness. In addition to case management services, these individuals are assisted with personal hygiene and medication management, and they are monitored for physical health issues, dental and vision issues.

Casa previously had a contract with County Social Services to provide 5 beds for their referrals, and Social Services had a rotating case worker who assigned clients and reviewed client progress. A contract with Social Services is scheduled to come before the Board of Supervisor’s on December 9, 2014 that revises this agreement to 3 beds on a per bed billable basis.

The 20 bed Medical Respite Program provides shelter for homeless patients from the streets or discharged from the hospital or clinics. This program provides a clean, safe place for patients to recuperate and continue with self-care rather than trying to recuperate on the streets. The program provides an opportunity for making linkages to other services offered including permanent housing and case management. Most clients are enrolled in Med Cal insurance while at Casa Esperanza. Individuals with chronic conditions, disabilities or those who are vulnerable take priority. A registered nurse from Parrish Nursing supervises the medical beds and ensures that each patient is evaluated on intake and an appropriate plan is implemented for their recovery, thus ensuring each patient receives the care they need until they can care for themselves.

Additional on-site services include meal provision and medical services. Community Kitchen provides meals (breakfast, lunch and dinner) to the men, women and families participating in their programs. Casa Esperanza receives food donations daily from various sources and distributes all excess food to other homeless agencies. The Santa Barbara County Public Health

Department operates out of Casa Esperanza to provide acute medical services year round. Hours are Monday through Friday, 8:00 am to 12:00 noon. Health and support services are provided to people experiencing homelessness throughout the county.

From December 1st through March 31st, Casa Esperanza expands its capacity from 100 to 200 beds. The services mentioned above are available for the additional 100 people who enter the shelter during the winter months.

Casa estimates that it will serve 850 unduplicated clients this year; provide 144,000 meals, and 48,000 bed nights; provide medical respite care to over 400 individuals; secure housing for than 70 clients; secure placement of 70 clients in treatment facilities; and reunite 70 clients with their families.

Casa Esperanza’s proposed outcomes for Fiscal Year 2015 are represented below. Their progress in meeting these goals will be tracked by Casa and reported to the City and County.

PROGRAM OUTPUTS – Number of Persons receiving service, i.e. meals served, clients counseled, meetings held, etc.

| Output Goal | Annual Goal # |
|---|---------------|
| 1. Out of 850 clients, 650 will receive case management, medical and social services. | 76% |

MEASURABLE OUTCOMES – The expected *change or result* client will experience from program outputs.

| Outcome Measure | % Outcome Goal |
|--|----------------|
| 1. Out of 650 clients, 70 will secure placement in treatment facilities. | 11% |
| 2. Out of 650 clients, 70 will secure permanent housing. | 11% |
| 2. Out of 650 clients, 70 will be reunited with family. | 11% |
| 2. Out of 650 clients, 300 will obtain employment, benefits/entitlements, and/or receive education benefits. | 46% |
| 2. Out of 650 clients, 200 will retain employment, benefits or entitlements. | 31% |

Casa Esperanza's actual Fiscal Year 2014 accomplishments are shown below, as reported on their Community Development Block grant and County Human Services grant programs:

CASA ESPERANZA

| July 1, 2013 – June 30, 2014 | YTD |
|---|-----|
| Output | |
| 960 clients will accept help from (over 85,000 duplicated visits) providers from public health, social services, legal aid, domestic violence, rape crisis, alcohol & drug services, adult protective services, mental health services and/or VA. | 783 |
| 650 will receive case management, medical and social services. | 691 |
| Outcome | |
| 300 out of 650 clients will secure permanent housing and/or placement in treatment facilities. | 107 |
| 300 out of 650 persons will obtain employment, benefits/entitlements, be reunited with family, receive education benefits. | 244 |

3. Financial Overview

Over a period of six (6) years, Casa Esperanza borrowed a total of \$2,153,900 from the Gildea Foundation and \$391,172 from other foundations in order to pay the annual operating expenses of services for the homeless that were not adequately supported by grant or contribution revenues. An additional \$1,994,212 was owed on their building, which brought their total outstanding debt to \$4,578,636. As of June 30, 2014, the value of their property, net of depreciation, was \$4,198,487. In an effort to keep the debt from increasing, Casa Esperanza has reduced their annual operating expenses by 42% over the past two years; from \$3.1 million (Fiscal Year 2012 actual) to \$1.8 million (Fiscal Year 2015 budgeted) (see Table 2).

According to their approved Fiscal Year 2015 budget, Casa Esperanza receives support equaling 34% from Foundations, 24% from Contributions and 42% from Government (see Table 1). This compares to 22% from Foundations, 30% from Contributions and 47% from Government in Fiscal Year 2012. They lost a Housing and Urban Development (HUD) Continuum of Care grant totaling approximately \$170,000 when they closed the day center in Fiscal Year 2014, which accounts for the reduction in government funding. Also, contributions were higher in Fiscal Year 2014 due to an Emergency Appeal that brought in \$428,000 (see Table 2).

Although they show an excess for Fiscal Year ending June 30, 2014 of \$1,126,052, all but \$846 was due to loan forgiveness of principal and interest from the Gildea Foundation (see Table 2).

Table 1 also indicates the amount of funding that was secured as of November 11, 2014. Casa anticipates receiving the balance of funds by June 30, 2015.

Table 2 shows a continued decrease in the cost per bed night from Fiscal Year 2012 to Fiscal Year 2015. This is due to the reduction of staff and the elimination of the drop-in day center and lunch programs for non-shelter residents.

Table 1
Estimated Fiscal Year 2015 Revenue Sources

| | Funding Source | Approved Budget | % of Budget | Secured as of 11-11-14 | % Secured |
|--|--|---------------------|-------------|------------------------|------------|
| | Cottage Hospital | 121,000 | | 121,000 | 100% |
| | S.B. Foundation Thrive | 19,640 | | - | 0% |
| | St. Francis Foundation | 150,000 | | - | 0% |
| | Gildea Foundation | 75,000 | | 75,000 | 100% |
| | Other Foundations | 250,000 | | 136,500 | 55% |
| | Foundation Total | \$ 615,640 | 34% | \$ 332,500 | 54% |
| | Contributions Total | \$ 449,500 | 25% | \$ 138,046 | 31% |
| | City of S.B. CDBG | 51,000 | | 51,000 | 100% |
| | City of S.B. General Fund Human Services | 39,000 | | 39,000 | 100% |
| | City of S.B. General Fund - Winter Shelter | 77,100 | | 77,100 | 100% |
| | City of S.B. General Fund - Additional Funds | 125,000 | | 125,000 | 100% |
| | County of S.B. General Fund Com Services | 110,700 | | 110,700 | 100% |
| | County of S.B. General Fund Human Services | 20,000 | | 11,481 | 57% |
| | County of S.B. General Fund ADMHS Beds | 66,000 | | 66,000 | 100% |
| | County of S.B. General Fund Additional Funds | 120,000 | | 120,000 | 100% |
| | County of S.B. Probation | 60,000 | | 60,000 | 100% |
| | County of S.B. ADMHS Mental Health | 61,200 | | 61,200 | 100% |
| | County of S.B. HCD ESG Shelter | 11,190 | | 11,190 | 100% |
| | County of S.B. HCD ESG Rapid Rehousing | 11,190 | | 11,190 | 100% |
| | County of S.B. Public Health Subs Abuse | 15,000 | | 15,000 | 100% |
| | City/County Total | \$ 767,380 | 42% | \$ 758,861 | 99% |
| | TOTAL REVENUE | \$ 1,832,520 | | \$ 1,229,407 | 67% |

Notes: Pending contract with the County for 3 Social Service beds to be billed on per bed basis, not to exceed 27,100
County of S.B. General Fund Human Services grant is approved at \$11,481.

Table 2
Revenue and Expense Comparison

| | 6/30/2012 | 6/30/2013 | 6/30/2014 | 6/30/2015 |
|--|---------------------|---------------------|---------------------------|---------------------|
| | Audited FS | Audited FS | Audited FS | Budget |
| Revenue | | | | |
| Foundation | \$ 494,279 | \$ 590,489 | \$ 1,584,147 ¹ | \$ 615,640 |
| Contributions | 587,011 | 502,746 | 885,749 ² | 449,500 |
| City of Santa Barbara-General Fund | 137,981 | 127,575 | 130,075 | 241,100 |
| City of Santa Barbara-CDBG, HOME & HPRP | 336,229 | 167,528 | 96,121 | 51,000 |
| County of Santa Barbara-General Fund | Unknown | Unknown | Unknown | 316,700 |
| County of Santa Barbara-Prob, ADMHS, ESG | 403,378 | 453,605 | 426,620 | 158,580 |
| Housing and Urban Development | 160,210 | 172,083 | 9,878 | - |
| Other | 71,742 | 56,314 | 8,823 | - |
| Total Revenue | \$ 2,190,830 | \$ 2,070,340 | \$ 3,141,413 | \$ 1,832,520 |
| Expense | | | | |
| Salaries | \$ 1,130,617 | \$ 957,579 | \$ 657,692 | \$ 773,416 |
| Other employee benefits | 154,390 | 149,329 | 135,440 | 141,787 |
| Payroll Taxes | 106,521 | 95,986 | 75,192 | 90,876 |
| Client Expenses | 21,378 | 14,719 | 7,617 | 5,484 |
| Advertising and Promotion | 2,102 | 1,900 | - | - |
| Automobile | 2,428 | 4,268 | 2,939 | 6,386 |
| Bus Tokens | 2,147 | 19,412 | 5,459 | 4,933 |
| Office Expenses | 10,225 | 5,994 | 4,869 | 4,436 |
| Supplies | 57,208 | 38,240 | 31,782 | 52,668 |
| Computer Expense | 20,076 | 15,186 | 8,449 | 5,262 |
| Interest | 171,553 | 198,234 | 206,964 | 130,247 |
| Depreciation and Amortization | 144,146 | 144,760 | 141,733 | 139,012 |
| Equipment Rental | 9,778 | 12,292 | 5,062 | 4,331 |
| Grant Writing | - | - | - | 9,000 |
| Insurance | 32,634 | 32,618 | 54,257 | 109,000 |
| Utilities | 90,384 | 99,960 | 96,503 | 103,000 |
| Food Expense | 23,335 | 6,694 | 3,618 | 22,284 |
| Penalties | 7,025 | - | - | - |
| Printing Expense | 25,078 | 17,521 | 15,598 | 24,673 |
| Postage | 15,415 | 5,448 | 3,918 | 6,415 |
| Project Healthy Neighbor | 14,103 | 10,708 | - | - |
| Rent | 11,828 | 11,128 | 4,423 | - |
| Relocation Expense | 16,286 | 14,261 | 780 | - |
| Repairs & Maintenance | 54,327 | 81,515 | 18,999 | 25,000 |
| Security | 3,285 | 780 | 3,450 | 2,800 |
| Telephone | 42,440 | 30,545 | 24,766 | 23,665 |
| Medical Services | 57,861 | 54,531 | 27,231 | 4,000 |
| Community Kitchen | 364,495 | 407,712 | 202,481 | - |
| Client Housing Assistance | 154,930 | 110,202 | 70,732 | 11,190 |
| Professional Services (Accounting, Legal, etc.) | 186,502 | 147,891 | 109,148 | 21,000 |
| Ten-Year Plan | 172,062 | 103,150 | 75,084 | - |
| Miscellaneous expenses | 32,803 | 23,402 | 21,175 | 111,633 |
| Total Expense | \$ 3,137,362 | \$ 2,815,965 | \$ 2,015,361 | \$ 1,832,498 |
| Gain/(Loss) | \$ (946,532) | \$ (745,625) | \$ 1,126,052 ¹ | \$ 22 |
| Annual Cost/ Bed | \$ 23,949 | \$ 21,496 | \$ 15,384 | \$ 13,989 |
| Daily Bed Rate | \$ 66 | \$ 59 | \$ 42 | \$ 38 |
| Notes: | | | | |
| 1 - Includes \$1,125,206 Loan Forgiveness from Gildea Foundation | | | | |
| 2 - Includes \$428,000 from Emergency Appeal | | | | |

4. Debt Overview/Restructure Plan

In July 2013, Casa Esperanza realized it needed to dramatically restructure its operations because they had borrowed \$2.5 million to fund their operations, and they could no longer afford the diversity of programs they were providing. The Board of Directors (Exhibit A) formed a Finance Committee and invited two outside advisors to assist in crafting a plan to stabilize Casa's finances and keep them solvent. This committee developed, and the board approved, a three part financial rescue plan which included the following basic components:

1. **Raise enough money to meet current payroll.** The goal was to raise a minimum of \$300,000 through an appeal to the community and funders. A total of \$428,000 was raised.
2. **Develop and implement a budget which includes funding only from sources with a "reasonable expectation" of receiving.** In Fiscal Year 2014, their budget was reduced by approximately \$1 million, and their day center and open lunch programs were discontinued. They reduced staffing levels and reduced the salaries for the staff that remained.
3. **Restructure their balance sheet and deal with the large amount of debt that had accumulated over the previous six years.** They negotiated a direct debt reduction plan with their lenders. Their largest lender, the Gildea Foundation, forgave \$1 million in principal and \$126,000 in interest, and they agreed to reduce the interest on the remaining \$1,153,900 from 5% to 3% on a fully amortized 10 year loan. They also agreed to donate \$75,000 per year for 10 years to help offset interest expense and repayments of the balance on their loan. The other foundation debt totaling \$391,172 was previously interest only at 5%, with no provision for systematic repayment. Casa Esperanza has restructured these to be fully amortized and repaid by June 30, 2024, and they have a small Business First Line of Credit (\$39,352 at June 30, 2014) which is anticipated to be fully repaid by August 2015.

In addition to the debt described above, Casa has an outstanding mortgage with Business First totaling \$994,212 at a 7% interest rate with a balloon payment due on August 1, 2017. They plan to refinance as soon as possible and obtain a 20-year or 30-year amortized loan, which will reduce their monthly mortgage expense.

At the end of Fiscal Year 2014, Casa Esperanza's debt totaled \$3,578,636 (Table 3). Of that amount, \$1,000,000 was forgiven by the County of Santa Barbara and the City of Santa Barbara on September 30, 2014 per the deed of trust. Their debt is now approximately \$2,578,636.

This restructuring plan will allow Casa to fully pay all outstanding debt, excluding mortgage, in ten years in amounts that are less than they budget for depreciation. They feel that this will allow them to effectively fundraise for current and future programs.

Table 3
Long Term Liabilities as of June 30, 2014.

| | Long Term Liabilities | Amount |
|----------------------|-----------------------|------------------|
| Note Payables | | |
| | County of S.B. | 500,000 |
| | City of S.B. | 200,000 |
| | City of S.B. | 300,000 |
| | Business First | 994,212 |
| | Gildea Foundation | 1,153,900 |
| | Other Foundations | 391,172 |
| | Business First LOC | 39,352 |
| Total | | 3,578,636 |

5. Staffing

As mentioned in Section 4, in the summer of 2014 Casa Esperanza reduced their staffing levels and reduced the salaries for the staff that remained. They also laid off their top two management positions, the Executive Director and the Operations Manager. Since March 2014, Casa Esperanza has been operating under two separate unpaid volunteer Interim Directors, first Bob Bogle and now Joe Tumbler. Casa has recently recruited a new full time Executive/Managing Director, Jessica Wishan, who will begin this month. Jessica comes to Casa with significant experience dealing with the homeless population. Her most recent position was Project Director for the San Diego Continuum of Care. Prior to that, she was the Director of PATH’s San Diego homeless shelter. Her resume is attached as Exhibit B.

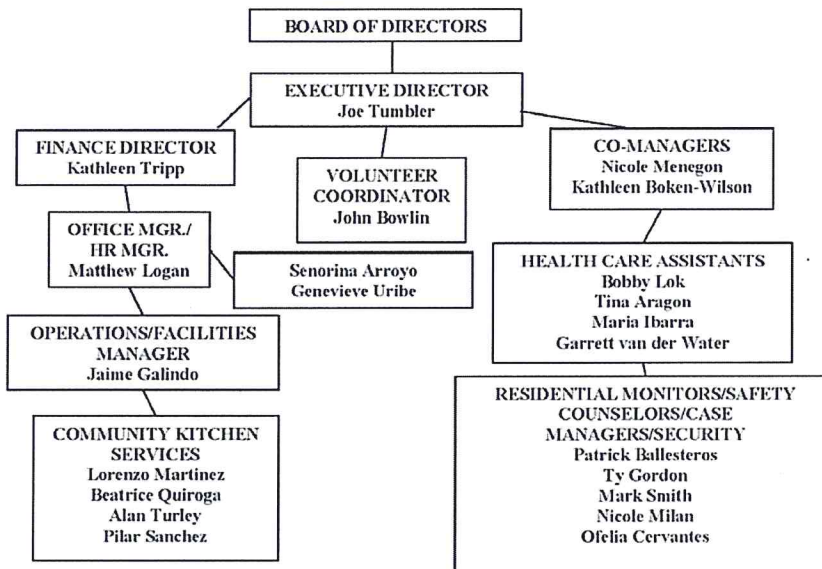
Casa employs thirteen (14) full-time and seven (8) part-time employees (see Organization Chart below). The positions are broken down as follows:

| | | |
|------------------------|----------|---|
| Administration: | 3 FTE | Executive Director, Finance Director & Office/HR Manager |
| Operations/Facilities: | 1 FTE | Operations/Facilities Manager |
| Program Support: | 3.25 FTE | 2.25 FTE Community Kitchen/1FTE Volunteer Coordinator |
| Program: | 7.5 FTE | Case Managers/Residential Monitors/Health Care Assistants |
| Off Site Program: | .5 FTE | Family Advocate, La Cumbre Jr. High School |
| Security: | 1.75 FTE | Security Counselors |

Hourly rates range from \$11.00 per hour to \$34.85 per hour (excluding Executive Director).

In addition, as mentioned in Section 2, Casa currently has 6 volunteer Navigators who work one-on-one with clients to support the weekly goals made by their case manager; 4 have completed training and 2 who are almost midway through the training; most are from the Psychology Department at UCSB.

**CASA ESPERANZA HOMELESS CENTER
ORGANIZATIONAL CHART**



6. Shelter Comparisons

Four homeless shelters were chosen from the California Homeless Shelters and Social Services website (<http://www.homelessshelterdirectory.org/california.html>) for comparison purposes (see Table 4). Selection was based on counties comparable to Santa Barbara by population, number of beds, and those that served individuals, not just families. This was a somewhat difficult process as there are many different shelter models.

Three of the four comparison shelters receive a smaller percentage of overall government funding than Casa Esperanza. The Santa Cruz shelter receives proportionately an equal percentage of overall government funding, as well as local (county, cities) and federal/state funding as Casa. The bed rate for Casa Esperanza is higher than each of the four comparison shelters; however their cost for the comparison year includes the day center and open lunch programs. Casa’s bed rate is calculated at \$38 per night for Fiscal Year 2015, which is more in

line with the comparison shelters and reflects the operational changes that have been made during the past few years.

Casa submitted their own list of comparable shelters; however they were much larger organizations in larger counties, with budgets averaging \$6 million per year. For this reason, they are not included in the review.

Table 4
Shelter Comparisons by County

| | Casa Esperanza Santa Barbara 7/1/12-6/30/13 100-200 | Homeless Services Center Santa Cruz 7/1/11-6/30/12 180-280 | Mission Solano Rescue Mission Solano 1/1/12-12/31/12 269 | The Gathering Inn Placer 10/1/12-09/30/13 60 | Committee on the Shelterless Sonoma 7/1/12-6/30/13 234-339 | Casa Esperanza Santa Barbara 7/1/14-6/30/15 100-200 |
|--|--|--|--|--|--|--|
| County | | | | | | |
| # of Beds | | | | | | |
| Revenue | | | | | | |
| Government grants | \$ 920,791 | \$ 946,819 | \$ 664,122 | \$ 154,420 | \$ 807,444 | \$ 767,380 |
| Other contributions, gifts, grants | 1,093,228 | 847,406 | 1,178,824 | 446,500 | 1,063,580 | 1,065,140 |
| Capital fundraising | - | 798,690 | - | - | - | - |
| Rent & Fees income | 5,900 | 184,627 | - | 14,157 | 167,557 | - |
| Donated auto sales | - | - | 121,562 | - | - | - |
| Thrift store | - | - | 344,618 | - | - | - |
| Investment income | 7 | 35 | - | 220 | 74,661 | - |
| Fundraising events | - | - | 44,308 | 112,311 | 708,988 | - |
| Other income | 50,414 | 95,422 | 105,080 | - | - | - |
| Total Revenue | \$ 2,070,340 | \$ 2,872,999 | \$ 2,458,514 | \$ 727,608 | \$ 2,822,230 | \$ 1,832,520 |
| Expenses | | | | | | |
| Payroll | \$ 1,202,894 | \$ 1,294,442 | \$ 1,095,264 | \$ 543,186 | \$ 2,051,590 | \$ 1,006,079 |
| Fees for services | 147,891 | - | 137,295 | - | 185,455 | 21,000 |
| Office expenses | 5,994 | 9,918 | 26,274 | 36,553 | 100,154 | 4,436 |
| Occupancy/Utilities | 142,413 | 158,140 | 480,077 | 47,050 | 272,236 | 129,465 |
| Travel/Transportation Services | 19,412 | 43,908 | 1,793 | 50,601 | 53,185 | 4,933 |
| Interest | 198,234 | - | 50,464 | 50,950 | 37,892 | 130,247 |
| Depreciation | 144,760 | 227,490 | 131,161 | 46,577 | 294,718 | 139,012 |
| Insurance | 32,618 | 23,224 | 35,362 | 20,850 | 29,554 | 109,000 |
| Equipment and supplies | 12,292 | - | 37,828 | 50,054 | 72,175 | 4,331 |
| Food & related supplies | 6,694 | 53,972 | - | - | - | 22,284 |
| Repair & Maintenance | 81,515 | 155,339 | - | - | - | 25,000 |
| Auto and truck expense | 4,268 | - | 80,234 | - | - | 6,386 |
| Taxes and licenses | - | - | 9,541 | - | - | - |
| Ten-Year Plan | 103,150 | - | - | - | - | - |
| Client Housing Assistance | 110,202 | - | - | - | - | 11,190 |
| Community Kitchen | 407,712 | - | - | - | - | - |
| Other expenses | 195,916 | 198,106 | 137,573 | 45,366 | 118,400 | 219,135 |
| Total Expenses | \$ 2,815,965 | \$ 2,164,539 | \$ 2,222,866 | \$ 891,187 | \$ 3,215,359 | \$ 1,832,498 |
| Net Income (loss) | (745,625) | 708,460 | 235,648 | (163,579) | (393,129) | 22 |
| Annual Cost/ Bed | 21,496 ² | \$ 12,025 | \$ 8,263 | \$ 14,853 | \$ 13,741 ² | 13,989 |
| Daily Bed Rate | 59 | \$ 33 | \$ 23 | \$ 41 | \$ 38 | 38 |
| Total Government Grants | 44% | 46% | 27% | 21% | 29% | 42% |
| Fed/State Government Grants/Total Revenue | 24% | 24% | unknown | 21% | 12% | 12% |
| Local Government Grants/Total Revenue | 20% | 22% | unknown | 0% | 17% | 30% |
| 1 Excludes Capital fundraising | | | | | | |
| 2 Includes day center and open lunch programs | | | | | | |

7. Challenges and Opportunities

Merger Potential

In order to realize operational and cost effectiveness, Casa Esperanza is exploring the possibility of a merger with People Assisting the Homeless (PATH), a 501(c)(3) organization based in Los Angeles. Any merger would be conditioned on community and funder acceptance and further conditioned on all funds raised in Santa Barbara staying in Santa Barbara.

PATH is a family of agencies working together to end homelessness for individuals, families, and communities throughout Southern California. They provide housing and supportive services from San Diego to San Luis Obispo, although they are relatively new to the Central Coast.

PATH is in the process of reviewing and considering the overall status of Casa Esperanza. The two organizations are also in discussions regarding entering into a Management Agreement for PATH to provide programmatic advice and support while merger talks progress. Whether or not this merger is completed, Casa Esperanza must be on solid financial ground moving forward.

Neighborhood Relations

Largely due to Casa Esperanza's programmatic and administrative changes, their relationship with the Milpas neighborhood has greatly improved over the past year. Casa's semi-annual report the City Planning Commission was held on October 16, 2014. There were no members of the public speaking in opposition of the shelter as they have in past years. In addition, the Milpas Action Task Force (MATF) report was favorable and indicated a much better relationship between Casa and the neighborhood.

Ongoing Funding

Casa Esperanza has described a funding plan for the future that includes:

- Applying to prior funders, describing Casa's improved circumstances, and asking for ongoing support for their shelter operations.
- Applying to new funding sources that have not been available due to Casa's previous programs and outcomes.
- Approaching the City, County and Cottage Hospital with a clear description of their costs of operations and ask for reimbursement at levels that cover their costs of service delivery.

8. Conclusions/Recommendations

Casa Esperanza has undergone significant changes during the past year. After operating for six years in a deficit, they ended Fiscal Year 2014 with a slight surplus, and they have adopted a realistic balanced budget for Fiscal Year 2015. They have made progress in strengthening their finances and operations, and they are dealing with their outstanding debt. The changes have made them better neighbors in the Milpas community. They have recruited an experienced Director and are considering a merger with a well-established homeless service organization.

In light of the progress Casa Esperanza has made to turn its organization around and become financially stable, our recommendation is that the County and City release the restriction on the extra one-time funding allocated for Fiscal Year 2015 and allocate the remaining funds on a monthly basis through June 2015.

Should Casa Esperanza require additional funding for Fiscal Year 2016 and beyond, our recommendation is that they approach the County and City during their respective budget processes and provide each jurisdiction an update on the merger discussions and Casa Esperanza's current financial status, including success in obtaining budgeted contributions and private grants.

There has been much debate as to how much government support is needed to make Casa Esperanza viable for the long term. The Urban Institute's *Human Service Nonprofits and Government Collaboration* report in 2010, reported that "although human service nonprofits have a myriad of revenue sources, such as fees, donations and investment income, government revenues are the largest single source of funding for three out of five nonprofits". Forty-three percent of nonprofits with budgets over \$1 million report that government is the single largest source of income for their agencies. The report did not, however, indicate specific percentages of government funding or the government funding source (federal/state or local county/city). Other sources that did indicate specific percentages of government support were not comparable because they include health and educational non-profit organizations that generate significant user fees.

Neither the research or shelter comparison information was useful in determining an overall level of funding that local government should provide for Casa Esperanza. Rather, it will be up to each jurisdiction to make its own policy decisions.

Exhibit A

| Casa Esperanza Homeless Center | | | | |
|--------------------------------------|------------------------------------|------------------|--|------------------------|
| Board of Directors (as of 7/17/14) | | | | |
| Name | Phone | Fax | Address | Email |
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