

INTERIM HOUSING FORECAST

Introduction

Facing the growing challenge of homelessness, the City of San José is prioritizing interim housing as a key strategy for providing temporary shelter and support, aiming to transition residents to permanent housing. The City of San José Interim Housing Forecast delivers a concise financial overview for fiscal years 2025 to 2029, focusing on the expected costs and revenues of interim housing initiatives.

The Interim Housing Forecast helps to understand the resource requirements for the development and maintenance of temporary sheltering facilities to help reduce the number of unsheltered homeless residents. This report provides a five-year financial outlook for the interim housing program – consisting of bridge community housing sites, emergency interim housing sites, converted motels and hotels, and supportive parking sites – from 2024-2025 to 2028-2029, focusing on expected revenues and expenditures based on current assumptions. The City Council has committed to the long-term operations and maintenance of 1,279 bridge/emergency interim housing site beds, 280 hotel room beds, and 127 supportive parking spaces.

Key Assumptions Underlying the Financial Forecast

The financial outlook for San Jose's interim housing portfolio considers a number of assumptions of available funding sources and expected costs. Actual revenues and costs will vary, and adjustments will likely be needed as conditions change. It is important to note that this Forecast only considers funding sources that were either previously committed or have a very strong likelihood of being received in the future. As these funding sources are not sufficient (see discussion below), the City will actively pursue additional funding streams from federal, State, and regional partners, as the challenge of addressing unsheltered homelessness requires broad community and cross-governmental support.

In the interim, as shown in Table 1 below, in order for the continued development and operations of the City's existing and future committed additions to the interim housing portfolio, ongoing General Fund contributions will be required beginning in 2024-2025.

Table 1: Interim Housing Revenue Funding and Costs (\$ in millions)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Estimated Available Funding*	69.1	33.8	25.1	13.9	10.8
Interim Housing Costs	91.6	73.1	72.5	76.0	79.8
Surplus / (Shortfall)	(22.4)	(39.3)	(47.4)	(62.1)	(68.9)
Required Ongong General Fund Contributions	25.0	40.0	50.0	63.0	70.0
Revised Surplus / (Shortfall)	2.6	0.7	2.6	0.9	1.1

*Includes the Revised Surplus/(Shortfall) from the prior fiscal year

Over the last several years, the City's interim housing portfolio has been sustained by significant influxes of external funding from the federal government and the State of California, and previous one-time contributions from the General Fund. However, all federal sources are expected to be

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depleted by the end of 2023-2024, the currently authorized State funding will be spent down by the end of 2026-2027, and most of the previous one-time General Fund allocations will be spent by the end of 2024-2025. As a result, in order to develop and operate the City’s interim housing portfolio as directed by the City Council, ongoing General Fund contributions to the interim housing portfolio will need to begin in 2024-2025 in the amount of \$25.0 million and increase to \$70.0 million by 2028-2029. A detailed discussion of the funding source and cost assumptions follows.

Funding Mitigation Strategies

It is important to note that the ongoing General Fund contributions shown above do not assume any additional revenue sources beyond those previously committed. However, in accordance with prior City Council direction, staff will pursue additional funding sources to the extent feasible, including from regional partners that are impacted and have responsibility for reducing and addressing the impacts of unsheltered homelessness. If identified in time, any additional revenue sources will be brought forward as part of the 2024-2025 Proposed Budget.

Revenue Assumptions

As previously directed by the City Council, the financial strategy for supporting interim housing relies on a mix of funding sources, including sources from the State of California, County of Santa County, and City. The federal government had previously provided funds for interim housing support, but those resources are anticipated to be fully expended in 2023-2024. The following is a discussion of the revenue sources in Table 2: Interim Housing Funding Sources.

Table 2: Interim Housing Funding Sources (\$ in millions)

Sources	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
External Funding	26.8	16.3	13.5	2.0	-
County	-	-	2.0	2.0	-
State	26.8	16.3	11.5	-	-
Homeless Housing Assistance and Prevention Grant	13.0	8.0	7.0	-	-
Homekey Grant	7.6	4.3	2.3	-	-
Other	6.2	4.0	2.2	-	-
City Funding	42.3	15.0	10.9	9.3	10.0
Measure E (Ongoing)	7.1	7.8	8.6	9.3	10.0
Measure E (Prior Year Allocations)	11.3	7.1	2.4	-	-
General Fund (One-Time)	23.9	-	-	-	-
Total	69.1	31.2	24.4	11.3	10.0

External Funding Sources

- State of California, HHAP (Homeless Housing Assistance and Prevention) Program:**
 The single largest source of external funding, the City has consistently secured HHAP funds over the last several years. In 2024-2025, the City expects to recognize and spend the remaining \$13 million from HHAP (round) 4. The City was recently notified of its \$28.9 million allocation for HHAP 5; of this amount, \$15 million is tentatively estimated, consistent with previous allocations, to support interim housing operating costs in 2025-

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2026 and 2026-2027. However, the Administration is currently evaluating the most appropriate use of HHAP 5 to support the various City services that support individuals experiencing homelessness, including outreach and engagement, mobile showers and laundry, transportation, and other services. Recommended allocations for HHAP 5 will be brought to the City Council in the coming weeks. Future HHAP rounds have not been authorized by the State.

- **State of California, Homekey Funding:** Another cornerstone of state support, Project Homekey, facilitates the conversion of hotels, motels into interim housing for those at risk of homelessness, and for the construction of emergency interim housing sites. The acquisition of \$107.5 million from Homekey has been instrumental in creating the City's interim housing inventory. From 2024-2025 through 2026-2027, \$14.2 million of Homekey funds are earmarked for operating support of interim housing for the Arena Hotel, Pacific Motor Inn, and the soon-to-be-open emergency interim housing facility at Branham and Monterey.
- **State of California, Permanent Local Housing Allocation (PLHA) Program (State Senate Bill 2):** For several years the City has received resources from the PLHA program, the majority of which are programmed to support interim housing operations. A total of \$10.1 million is expected to be available from 2024-2025 through 2026-2027. Future PLHA funding has not been authorized by the State.
- **State of California, Encampment Resolution Fund:** The City is expecting to receive approximately \$2.2 million from a disbursement from the Encampment Resolution Fund that will help the transition of unsheltered residents to the planned interim housing site on Cherry Avenue.
- **County of Santa Clara:** The County of Santa Clara will provide a total of \$4.0 million from 2026-2027 through 2027-2028 to support operations at the Branham and Monterey interim housing site. Separately, the County funds 800 temporary housing beds in San José totaling over \$20 million annually.

City Funding: General Fund and Measure E Revenues

- **Measure E Revenues:** On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This new tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. While this tax is a general purpose tax and can be used for any governmental purpose, by their approval of City Council Policy 1-18, Section 22, the City Council has directed that this tax revenue be allocated for the development of new affordable housing, homeless prevention, and homelessness support programs.

In 2023-2024 collections are currently estimated at \$45.0 million, which is significantly below the prior year collections of \$56.3 million and the budgeted revenue estimate of \$50.0 million. The Real Property Transfer Tax is significantly impacted by high dollar

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commercial property transactions. While the total number of real estate transactions have been experienced year-over-year increases compared to 2022-2023, fewer high-value commercial property transfers have occurred, resulting in the significant estimated year-over-year decline in collections. In 2024-2025, transactions are anticipated to continue growing slightly, pushing up collections up slightly to \$50.0 million. In the out-years of the Forecast, Real Property Transfer Tax collections are anticipated to increase annually as the real estate market rebounds. Annual revenue increases from \$55.0 million to \$70.0 million between 2025-2026 to 2028-2029.

In accordance with City Council policy, 15% of Measure E revenues (after subtracting the 5% allocated for Program Administration) are allocated for homeless support programs. This forecast assumes that the entire 15% allocation is prioritized to support interim housing, with \$7.1 million available in 2024-2025 and increasing to \$10.0 million by 2028-2029. Measure E revenues that the City Council designated for interim housing in prior years are assumed to be depleted by the end of 2026-2027.

- **General Fund Contributions (One-Time):** As directed by the City Council in prior budgets, one-time allocations from the General Fund have supported the development and operation of interim housing facilities. A total of \$23.9 million is expected to be remaining in 2024-2025, including \$600,000 received in the General Fund from Valley Water to temporarily house unsheltered residents from certain stretches of Coyote Creek.

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Expenditure Assumptions

Table 3: Interim Housing Costs (\$ in millions)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Bridge Housing Communities / Emergency Interim Housing (1,279 beds)					
Mabury (38 beds)					
Operations	1.9	2.0	2.1	2.2	2.3
Felipe (38 beds)					
Operations	2.0	2.1	2.2	2.3	2.5
Bernal-Monterey (78 beds)					
Operations	2.4	2.5	2.7	2.8	2.9
Rue Ferrari (258 beds)					
Operations	4.6	7.7	8.1	8.5	8.9
Construction	2.7	-	-	-	-
Evans Lane (121 beds)					
Operations	4.2	4.4	4.6	4.8	5.1
Guadalupe (96 beds)					
Operations	3.3	3.5	3.7	3.9	4.1
Branham-Monterey (204 beds)					
Operations	7.0	7.4	7.7	8.1	8.5
Via del Oro (150 beds)					
Operations	2.7	5.6	5.9	6.2	6.5
Construction	1.4	-	-	-	-
Cerone (200 beds)					
Operations	-	7.5	7.8	8.2	8.6
Lease	-	0.4	0.4	0.4	0.4
Construction	20.4	-	-	-	-
Cherry (96 beds)					
Operations	-	3.6	3.8	3.9	4.1
Construction	15.0	-	-	-	-
Motel / Hotel Conversions (280 beds)					
First Street Interim Housing (76 beds)					
Operations	3.0	3.0	-	-	-
Plaza Hotel (43 beds)					
Operations	2.4	2.5	2.7	2.8	2.9
Arena Hotel (89 beds)					
Operations	4.0	4.2	4.4	4.7	4.9
Pacific Motor Inn (72 beds)					
Operations	3.8	4.0	4.2	4.4	4.6
Supportive Safe Parking (127 RV spaces)					
Santa Teresa Supportive Parking (42 RV spaces)					
Operations	1.5	1.6	1.7	1.8	1.9
Berryessa Supporting Parking (85 RV spaces)					
Operations	3.8	5.8	6.1	6.4	6.7
Lease	1.7	1.8	1.8	1.9	2.0
Construction	1.2	-	-	-	-
Major Repair and Maintenance					
Public Works Department					
Staff and Contractual Services	2.5	3.6	2.7	2.8	2.9
Total	91.6	73.1	72.5	76.0	79.8

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Estimated costs to construct, operate and maintain the City's interim housing sites projects is provided in Table 3: Interim Housing Costs above. This breakdown encapsulates both operational and construction expenses across existing and planned sites. Construction costs encompass all development-related expenditures such as design and construction, whereas operational costs cover the necessary outlays for running the sites post-completion, including staffing, supplies, utilities, and security.

Operating Costs

The cost to provide services at each site varies due to different service levels required at each site, unique site characteristics, and staffing and non-personal/equipment costs that vary by operator. Operations are provided by third-party vendors who are selected through a competitive bidding process. As a Request for Proposals (RFP) has been issued for the operations of both sites and the new operating contracts will be brought forward for City Council review and approval later this fiscal year, this forecast includes the following assumptions for operating costs beginning July 1, 2024.

- **Overall operating cost adjustments.** Tentatively, costs are forecasted to increase 10% from 2023-2024 to 2024-2025. This increase is associated with the inclusion of prevailing wage (3%) in the new contracts, increases to reflect the day-to-day minor repair and maintenance costs borne by the operator (3%), and an overall labor cost of living increase (4%). Increases in the outyears are tentatively set at 5%.
- **Existing Sites.** Current costs at each existing site in 2023-2024 were used as a baseline, inflated by the percentages above and adjusted, for most sites, to assume lower security costs in accordance with the recommendations in the Homebase Emergency Interim Housing Report.
- **New Sites – Via Del Oro, Cerone, and Cherry.** Annual operating costs of approximately \$32,000 per bed is assumed for these sites, which is inflated by the above percentages in each year of the forecast. This cost is based on the existing Rue Ferrari site prior to the expansion. Assumed start dates are as follows: Via del Oro on January 1, 2025, and Cerone and Cherry on July 1, 2025.
- **New Sites – Branham-Monterey.** The operating costs for Branham-Monterey are based on the per bed cost of Guadalupe, inflated annually, as the same vendor will operate both sites. The forecast assumes a start date of July 1, 2024.
- **New Sites – Pacific Motor Inn.** Operating costs are provided by the selected operator, with a start date of July 1, 2024.
- **New Sites – Berryessa Supportive Parking.** This cost is based on the City's experience with its other supportive parking site, but modified for Berryessa's unique characteristics with a start date of October 1, 2024.

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Major Repairs and Maintenance Costs

While day-to-day or minor repair costs fall under the responsibility of the operators, significant repairs and maintenance tasks are managed and funded by the Public Works Department. As more sites become operational, there is an expectation of gradual increases in staffing and contractual services necessary to support large-scale repair and maintenance efforts, ensuring the longevity and functionality of these housing solutions. As Public Works only recently took over the responsibility for major repairs and maintenance, these costs are expected to be adjusted in future forecasts.

Construction Costs

Construction expenses cover both expansion and new development costs. The actual construction costs are subject to City Council approval when the construction contract is awarded and will vary from estimates as project designs are refined and bids received. Key assumptions are included below.

- **Rue Ferrari (expansion).** The construction costs for expanding the Rue Ferrari site are estimated at \$26.6 million, starting in 2023-2024. An estimated remaining amount of 10% is allocated for project delivery in 2024-2025. Total cost per bed for the expansion is approximately \$200,000.
- **Via del Oro.** Via del Oro's development is estimated at \$13.5 million, utilizing a modular unit quick-build approach that aims to streamline construction and reduce costs. After taking into account an additional cost of \$3.0 million offset by philanthropic donations and fee discounts, the total cost per bed is approximately \$110,000. Of the total City contribution cost of \$13.5 million, approximately \$12.1 million is expected to be encumbered or spent in 2023-2024, with a remaining \$1.4 million anticipated to be spent in 2024-2025.
- **Cerone.** For the development of Cerone, the construction cost is projected at \$22.7 million, which assumes a contribution of \$12.7 million from the State, and an additional \$10.0 million from the City. This cost assumes a similar modular-unit quick build approach and per bed cost amount of \$113,500, similar to Via Del Oro. Of the \$22.7 million cost, \$2.3 million is tentatively anticipated to be encumbered or spent in 2023-2024, with the remaining \$20.4 million anticipated to be spent in 2024-2025.
- **Cherry.** Developing the Cherry site is anticipated to cost \$15.0 million, with the entire amount slated for expenditure in Fiscal Year 2025. This reflects the project's timeline and the focused investment in developing this new interim housing site.
- **Berryessa Supportive Parking.** The construction cost for Berryessa Supportive Parking is estimated at \$12.3 million, with approximately \$11.1 million encumbered or spent starting in 2023-2024. The remaining amount of \$1.2 million will be expended in 2024-2025.

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