

Reallocation of Uncommitted Measure E Funding

Approved by the voters in March 2020, Measure E enacted a Real Property Transfer Tax, a general purpose tax that is received in the General Fund whose revenues can be used for any governmental purpose. However, City Council Policy 1-18, Section 22 designates specific uses for the funding. After allocating 5% of the revenues for program administration, the remaining revenue is allocated for affordable housing development (75%), homeless support programs, shelter construction, and operations (15%), and homelessness prevention, gender-based violence programs, legal services, and rental assistance (10%).

The City Council's approval of the March Budget Message directed the Administration "*to explore the use of uncommitted Measure E resources for reallocation to homeless prevention, support and management investments as part of the overall strategy to fund the priorities described in this message.*" The 2023-2024 Proposed Budget meets this direction as described below.

The Administration was guided by the following considerations when determining the amount of uncommitted Measure E resources for reallocation to the meet the City Council's direction:

- Funding levels for homelessness prevention and support should be significant – for City staffing capacity, for outreach capacity, and to drive the development of EIH and safe parking sites – to provide resources in 2023-2024 that can be expended over a multiyear period;
- Sufficient levels of Measure E resources to support previously approved affordable housing projects and those projects that successfully competed for an allocation of funding from the Housing Department's most recent Notice of Funding Availability (NOFA) should be retained;
- To provide maximum flexibility to meet the above objectives, consider both Measure E resources received in prior years through 2022-2023, and revenues anticipated for 2023-2024; and
- Because Measure E revenues in 2022-2023 are expected to fall short of the \$65 million revenue estimate, ensure that a portion of uncommitted Measure E resources remain unspent to absorb a likely revenue loss to ensure funding commitments stay intact.

As shown below in Table 1, \$105.9 million of Measure E resources have previously been allocated for the production of affordable housing but have not yet been committed by the City Council for specific uses. Of this amount, the 2023-2024 Proposed Operating Budget recommends retaining \$52.8 million (50%) for pending affordable housing production.

An additional amount of \$15.1 million is recommended to establish the Measure E Revenue Stabilization Reserve. The 2022-2023 budgeted estimate for Real Property Transfer Tax revenues (Measure E) is \$65.0 million. However, due to the significant slowdown within the residential and commercial real estate market, this estimate (already lower than prior year collections of \$110 million) is unlikely to be met. As a result, the Administration recommends allocating \$15.1 million into a reserve to provide capacity to absorb the likely revenue shortfall in the current year to ensure that funding commitments stay intact.

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Determination of the Level of Uncommitted Measure E Resources	
(Table 1)	
Uncommitted Affordable Housing Allocation	
Current and Prior Year Uncommitted Affordable Housing Allocation	\$70.3 million
2023-2024 Uncommitted Affordable Housing Allocation	\$35.6 million
Total Uncommitted Measure E	\$105.9 million
Amount Retained for Affordable Housing Purposes	
Inflation Reserve for Previously Approved Projects	\$11.0 million
Commercial Space for Previously Approved Projects	\$1.3 million
Fully Fund Affordable Housing Projects from Recent NOFA	\$35.5 million
Affordable Housing Acquisition Reserve	\$5.0 million
Amount Retained for Affordable Housing	\$52.8 million
Measure E Revenue Stabilization Reserve	
Measure E Revenue Stabilization Reserve	\$15.1 million
Amount Recommended for Reallocation to Homelessness Prevention, Support, and Management Services	\$38.0 million

An amount of \$38.0 million is recommended for reallocation to homelessness prevention, support, and management as outlined in Table 2 and described below.

Recommended Reallocation of Uncommitted Measure E Resources		
(Table 2)		
Recommended Investments	Reallocated Amount	Anticipated Expenditure Timeframe
Interim Housing – Site Acquisition, Development, and Operations	\$20.9 million	Multi-year
Homelessness Response and Outreach	\$10.5 million	3-year
Homelessness Prevention	\$4.8 million	1-year
Homelessness Coordination Team	\$1.8 million	3-year
Investments to Reduce Unsheltered Homelessness	\$38.0 million	

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Interim Housing – Site Acquisition, Development, and Operations (\$20.9 million)

- Staffing resources of \$2.0 million overseen by the Public Works Department – anticipated to be spent over a 3-year period - are recommended to continue to facilitate the site identification, design, and construction/improvement of sites for EIH, safe parking, or other uses to shelter currently unsheltered homeless residents at a more rapid pace.
- An additional infusion of \$18.9 million of one-time resources will further support construction efforts and long-term operating and maintenance costs of interim housing communities, motels, safe parking sites, and similar approaches to reduce the City's unsheltered homeless population. To align with previous and current City Council direction to sustain interim housing communities over the long-term, total annual costs of the existing seven EIH sites (including the recently authorized Monterey/Branham site) and five other EIH/safe parking sites could reach \$50 million by 2029-2030, of which a substantial portion would need to come from local City sources, such as the General Fund or an ongoing reallocation of a portion of Measure E funding, unless external resources can be identified, which will be aggressively pursued to the extent possible. Allocating additional one-time funds now further supplements other external resources expected to be received in the near future, such as future rounds of Homeless Housing, Assistance and Prevention (HHAP) and Project HomeKey awards from the State of California. As described in Manager's Budget Addendum #3, *Fiscal Sustainability of Interim Housing Operations and Maintenance Costs*¹, issued as part of the 2022-2023 budget development process, the City's ability to continue to construct and operate EIH sites is contingent upon both a large infusion of City funds and external funding from HHAP, Project HomeKey, and other sources. An updated analysis of the long-term financial impact of EIH-related investments will be issued as a Manager's Budget Addendum later in May 2023.

Homelessness Response and Outreach (\$10.5 million)

- Staffing and contractual services funding of \$7.0 million overseen by the Housing Department – anticipated to be spent over a three-year period – will provide for enhanced levels of homeless outreach, engagement, and data tracking, as well as pilot a small team of trauma-informed specialists that can work in close concert with Beautify San José and the Police Department in advance of or to maintain abated encampments.
- Additional funding of \$3.5 million (adding to previously allocated carryover funding of \$1.5 million for a total program cost of \$5.0 million) extends the San José Bridge Program through 2023-2024, ensuring capacity for approximately 120 participants of formerly unsheltered residents that receive employment and housing services while they help beautify the city, with the goal to transition to permanent housing and employment.

¹ Manager's Budget Addendum #3, *Fiscal Sustainability of Interim Housing Operations and Maintenance Costs*, May 10, 2022: <https://www.sanjoseca.gov/home/showpublisheddocument/85667/637878137024730000>

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Prioritizing Community and Organizational Needs (Cont'd)

Homelessness Prevention (\$4.8 million)

- City Council's approval of the Mayor's March Budget Message for Fiscal Year 2023-2024 directed the Administration to double the 2023-2024 Base Budget allocation of Measure E funds for homelessness prevention of \$4.75 million. The 2023-2024 Proposed Operating Budget meets this direction by reallocating \$4.75 million from uncommitted Measure E funds previously designated for affordable housing development to homelessness prevention, for a total amount of \$9.5 million.

Homelessness Coordination Team (\$1.8 million)

- Staffing resources of \$1.8 million – anticipated to be spent over a 3-year period – will support a three-person team in the City Manager's Office to coordinate the City's efforts on ending homelessness and improving the quality of life for both the housed and unhoused, including overall project coordination and accountability, policy work around allowable encampment areas, data analysis, and interdepartmental and interagency coordination.

Additional detail regarding the recommended allocations described above can be found within the following sections of the 2023-2024 Proposed Operating Budget: Office of the City Manager, Housing Department, Public Works Department, City-Wide Expenses, and General Fund Capital, Transfers, and Reserves.