



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

**SUBJECT: UPDATED INTERIM HOUSING
BUDGETARY FORECAST**

DATE: May 24, 2023

Approved

Date: 5/25/2023

SUMMARY AND OUTCOME

Since the September 29, 2021, Rules and Open Government Committee approval of a memorandum from then Mayor Liccardo and Councilmembers Peralez, Jimenez, Foley and Mahan are seeking to bring online a total of 1,000 interim housing units and 300 HomeKey motel units, the City Council has reaffirmed on several occasions its intent to leverage Federal, State, and City resources to reduce unsheltered homelessness in San José. This affirmation included City Council's approval of the Mayor's March Budget Message for Fiscal Year 2023-2024, which directed the Administration to explore the reallocation of Measure E funding to support efforts to reduce unsheltered homelessness.

This memorandum updates the projections included in Manager's Budget Addendum (MBA) #3, *Fiscal Sustainability of Interim Housing Operations and Maintenance Costs*¹, issued on May 12, 2022 and approved along with City Council's approval of the June Budget Message for Fiscal Year 2022-2023. City Council's approval of MBA #3 directed the inclusion of the costs to operate and maintain the future inventory of interim housing and converted hotels as Committed Additions to future Five-Year General Fund Forecasts.

While actual revenues and costs will vary from these revised projections, this document serves as a planning tool to measure the current and future impact of the City's long-term support of increasing the supply of interim housing. Table 1 below summarizes the anticipated costs of the interim housing supply previously committed to by the City Council, and the inventory that is anticipated to come online in the near future. The table also displays a preliminary estimate of future ongoing allocations from the General Fund that will likely be necessary to support the long-term operations and services of these facilities, including the potential impact if a portion of the Measure E resources recommended to support interim housing construction and operations, as included in the 2023-2024 Proposed Operating Budget, is not approved by the City Council.

¹ MBA #3: <https://www.sanjoseca.gov/home/showpublisheddocument/85667/637878137024730000>

Table 1: Forecast of Interim Housing Costs and Estimated Levels of General Fund Support (\$ Millions)

	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Current Committed							
703 Interim Housing Beds, 280 Hotel Rooms, 45 Supporting Parking Spaces							
Current Committed Cost	26.7	34.3	40.1	36.2	37.9	39.6	41.3
Estimated Ongoing General Fund Support – <i>Including Reallocation of \$18.9 million of Measure E</i>					5.0	10.0	15.0
Estimated Ongoing General Fund Allocation to Support Ongoing Operating Costs – <i>No Reallocation of \$18.9 million of Measure E</i>				5.0	10.0	15.0	20.0
Current Committed + Future Buildout							
1,003 Interim Housing Beds, 280 Hotel Rooms, 156 Supportive Parking Spaces							
Current Committed + Future Buildout Cost	44.1	62.2	56.7	53.3	55.5	57.6	59.9
Estimated Ongoing General Fund Support – <i>Including Reallocation of \$18.9 million of Measure E</i>		5.0	10.0	20.0	30.0	40.0	45.0
Estimated Ongoing General Fund Allocation to Support Ongoing Operating Costs – <i>No Reallocation of \$18.9 million of Measure E</i>		8.0	15.0	25.0	35.0	40.0	45.0

BACKGROUND

On September 29, 2021, the Rules and Open Government Committee approved a memorandum from then Mayor Liccardo and Councilmembers Peralez, Jimenez, Foley and Mahan seeking to have 1,000 pandemic-era Emergency Interim Housing (EIH) units and 300 HomeKey motel units under construction or completed by December 2022. City Council’s approval of the Mayor’s March Budget Message for Fiscal Year 2022-2023 directed the Administration *to allocate a sufficient amount of one-time funding—through a combination of Federal, State, and General Fund resources—to enable the development, construction, and ongoing operations of emergency and interim housing at six sites, including quick-build communities and converted motels....[and] begin allocating increasing levels of ongoing General Fund resources, as necessary, to ensure that the combination of anticipated external and internal funding resources suffices to operate these housing facilities for the next half-decade.* Accordingly, the 2022-2023 Adopted Operating Budget allocated a total of \$40.0 million from the General Fund (\$21.5

million) and the American Rescue Plan Fund (\$18.5 million) to continue the development of 1,000 EIH sites and seed funding for their future operating and maintenance costs.

City Council's approval of the 2022-2023 Adopted Budget also designated the inclusion, as Committed Additions to future Five-Year General Fund Forecasts, the costs to operate and maintain the existing and future inventory of Bridge Housing Communities (BHC), EIH sites, and converted hotels and motels to shelter unhoused community members in San José. Simply put, if Federal, State, and other external resources are not sufficient to operate these facilities, future ongoing General Fund allocations will be committed to close the gap.

The current City Council reaffirmed and strengthened previous commitments by their approval of the March Budget Message for Fiscal Year 2023-2024, directing the Administration to: *identify expanded staffing and other resources needed, including staffing resources in the Public Works Department, to deliver at least 500 new EIH units by the end of this calendar year to meet our collective goal of operating 1,000 interim units citywide. In parallel with delivering the 1,000 units already sited, we should begin identifying sites for the next 1,000 units.*

And, Across all of these strategies – from EIH to other low-barrier solutions, including safe parking sites – the City Manager should allocate sufficient resources and funding to create new capacity to move at least 1,000 people who are currently living in the most environmentally-destructive and unsafe encampments into safer alternatives by the end of the calendar year.

While staff is currently leveraging City, Federal, and State resources to develop and maintain EIH sites, open safe parking sites, and provide outreach and support services to unsheltered residents, an additional infusion of resources is needed to meet the aggressive goals set by the Mayor and City Council.

The memorandum is an update to the cost projections included in MBA #3, *Fiscal Sustainability of Interim Housing Operations and Maintenance Costs*, issued on May 12, 2022 and approved along with City Council's approval of the June Budget Message for Fiscal Year 2022-2023.

ANALYSIS

For ease of reference, the term “interim housing” in this memorandum refers to any City-funded BHC site, EIH site, converted hotels, and supportive parking sites. This memorandum provides several budgetary forecasts: 1) an updated forecast for interim housing that has previously been committed to by the City Council; and 2) forecast implications resulting from the potential delivery of three interim housing opportunities in 2023-2024 and another in 2024-2025. As these two forecasts assume the reallocation of Measure E funding included in the 2023-2024 Proposed Budget, an analysis is included to show the budgetary impact to the General Fund should the City Council decline to reallocate Measure E funds to support future interim housing construction and operations costs. It should be noted that these are planning estimates to assess the relative impacts over the long-term. Actual costs and obligations to the General Fund will vary year-to-year depending on the availability of other external funding sources, Measure E

revenues received by the City, operating and construction costs, and potential future modifications to City Council direction.

Currently Committed Interim Housing

The City currently operates six BHC and EIH sites as of May 2023, totaling 499 beds. A seventh site, Monterey/Branham EIH, the construction of which is funded with a State of California Project HomeKey grant, is scheduled to come online at the start of 2024-2025. The City also funds the operation of five hotels that have been converted to interim housing, totaling 280 rooms. Funded by a variety of revenue streams discussed below, the cost to provide onsite services and management of these facilities² is forecasted through 2029-2030 in Tables 2 and 3. These costs vary somewhat by site given the makeup and size of each community, and are subject to change. In general, these costs are higher than what was previously included in MBA #3 in May 2022 based on updated estimates from the Housing Department. However, revisions to the service model that may reduce costs are under consideration and will be brought to the City Council later this calendar year. Further, a request for proposals for many of these sites will be issued for new operating contracts that will be effective beginning January 1, 2024.

Table 2: Currently Committed – Bridge Housing and Emergency Interim Housing Sites Estimated Operating Costs (\$ Millions)

Site	Beds	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Mabury	40	1.9	2.2	2.3	2.4	2.6	2.7	2.8	2.9
Felipe	40	2.1	2.2	2.3	2.4	2.5	2.7	2.8	2.9
Monterey Bernal	78	3.7	3.9	4.1	4.3	4.5	4.7	5.0	5.2
Rue Ferrari	124	3.7	3.9	4.1	4.3	4.5	4.7	5.0	5.2
Evans Lane	121	2.9	3.0	3.2	3.3	3.5	3.7	3.9	4.1
Guadalupe	96	3.4	3.4	3.5	3.7	3.9	4.1	4.3	4.5
Monterey/Branham	204			5.6	5.6	5.8	5.9	6.1	6.3
Total	703	17.7	18.6	25.1	26.0	27.3	28.5	29.9	31.1

Table 3: Currently Committed – Converted Hotels Operating Costs (\$ Millions)

Site	Rooms	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Pavilion Inn*	39*	2.8							
Plaza Hotel	43	1.3	1.5	1.6	1.7				
SureStay Hotel	76		3.0	3.0	3.0				
Arena Hotel	89			0.4	2.4	2.4	2.5	2.6	2.8
Pacific Motor Inn	72			0.4	3.1	3.2	3.3	3.5	3.7
Total	280	4.1	4.5	5.4	10.2	5.6	5.8	6.1	6.5

*The Pavilion Inn was approved for transfer to the Santa Clara County Housing Authority at the end 2022-2023.

² For most EIH and BHC facilities, property management and support services are performed by the same vendor. An exception is Evans Lane, where one vendor performs property management at a cost of \$1.1 million, while another vendor performs supportive services at \$1.8 million.

New to the Interim Housing Forecast are the operating costs related to supportive parking sites, primarily for RVs. Approximately \$1.7 million from the American Rescue Plan (ARP) Fund was allocated to develop the Santa Teresa Supportive Parking site on a parcel owned by the Valley Transportation Authority (VTA). Scheduled to come online shortly, this location will provide supportive services to 45 RVs.

Table 4: Currently Committed – RV Supportive Parking Operating Costs (\$ Millions)

Site	Vehicles	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Santa Teresa Supporting Parking	45		1.2	1.3	1.3	1.4	1.5	1.5	1.6

In 2022-2023, the City Council authorized six positions in the Public Works Department to provide maintenance and rehabilitation services at interim housing sites. These staffing costs and associated contractual services are shown in Table 5 below. The Administration expects these costs and staffing needs to shift over time as the Public Works Department gains experience as to the most optimal way to maintain these housing facilities. The City should also expect that a periodic one-time infusion of funds may be needed to supplement funding if a large capital rehabilitation is needed. Finally, Table 5 also includes the Public Works Department staffing costs (funded by the recommended reallocation of Measure E resources) as included in the 2023-2024 Proposed Operating Budget to continue developing future sites in line with prior City Council direction. While these costs are not technically committed additions, this site development activity is ongoing work from previous years.

Table 5: Site Development, Maintenance and Repairs (\$ Millions)

Cost Item	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Site Development Staffing	0.5	0.7	0.7	0.7				
Maintenance Staffing	0.8	1.2	1.2	1.3	1.3	1.4	1.4	1.4
Contractual Services and Materials	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Total	1.8	2.4	2.5	2.6	1.9	2.1	2.1	2.1

The costs itemized in Tables 2 through 5 above are funded from a variety of Federal, State, County, and City sources. Table 6 below displays the funding sources within each category that the Administration is relatively confident will be available in the future. Additional external funding may become available in the future, including potential philanthropic contributions for future site construction. However, it is important to ensure financial sustainability based on known available resources. Moreover, as the State’s budgetary projections have weakened and the most recent Project HomeKey call for projects includes requirements that make it a difficult funding source for future EIH sites, the City should anticipate minimal external resources going forward.

Table 6 also includes revenues generated from Measure E. The Measure 15% Allocation represents the level of funding available from prior and future revenues allocated to homelessness support services as included in City Council Policy 1-18. The \$1.8 million figure in 2022-2023 represents the amount expected to be spent on Public Works site development and maintenance efforts, while the \$17.1 million figure in 2023-2024 represents a combination of unspent revenues, as well as new revenues in 2023-2024. For purposes of this Forecast, total Measure E revenues are anticipated to increase from \$50 million in 2023-2024 and 2024-2025 to \$65 million in the outyears; however, this is a highly volatile revenue source and actual receipts could significantly vary. Finally, the \$20.9 million of Measure E funds recommended to be reallocated from future affordable housing production to interim housing is displayed, which includes \$2.0 million for Public Works site development staffing and \$18.9 million for future construction and operating costs.

Table 6: Anticipated and Recommended Sources of Funding (\$ Millions)

Funding Source	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Federal Sources								
Emergency Solutions Grant (CV1)	0.8							
Community Development Block Grant (CV1 and CV3)	10.5							
HOME – ARP Act	6.1							
ARP Fund	17.5*							
Federal Earmark		3.4						
State Sources								
Homeless Housing Assistance and Prevention (HHAP)	20.0	15.0	15.0					
Project HomeKey			6.5	10.6	2.2			
Permanent Local Housing Allocation (SB2)	0.8	6.8	7.1	3.6	3.6	5.0	5.0	5.0
County Sources								
Office of Supporting Housing Grant (Monterey/Branham)					2.0	2.0		
City Sources								
General Fund	21.5							
Measure E 15% Allocation	1.8	17.1	7.1	9.3	9.3	9.3	9.3	9.3
Measure E Reallocation – Site Development Staffing		2.0						
Measure E Reallocation – EIH and Safe Parking Operations		18.9						
Total	79.0	63.2	35.7	23.5	17.1	16.3	14.3	14.3

*This amount is reduced from \$20.0 million to account for the \$2.5 million used for the expansion of the Guadalupe EIH site.

Table 7 below puts together the available revenues to support currently committed interim housing costs through 2029-2030 into a combined source and use statement. Looking at the revenues and costs in this format shows that the various revenue sources are accumulated in the first few years of the forecast and are spent down in the outer years of the forecast. This spend down is represented by the Ending Fund Balance, which rises to \$93.3 million in 2024-2025, and is assumed to be spent down to \$13.7 million by 2029-2030. To sustain interim housing operations over the forecast period, an ongoing General Fund contribution of \$5.0 million is assumed to begin in 2027-2028 and increases to \$15.0 million by 2029-2030 as the General Fund contribution is ramped up over a multi-year period to eventually be able to support operating and maintenance expenses of over \$41 million. It is important to restate that the General Fund ongoing contribution amounts are for future planning purposes, the actual amounts – and years in which the contributions occur – will vary based on the availability of other revenue sources and the actual costs to operate and maintain the sites.

Table 7: Source and Use for Committed Sites (\$ Millions)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Source of Funds								
Beginning Fund Balance (Carryover Funds)		55.4	91.9	93.3	76.7	57.6	41.0	25.7
Federal Sources	34.9	3.4						
State Sources	20.8	21.8	28.6	14.2	5.8	5.0	5.0	5.0
County Sources					2.0	2.0		
General Fund	21.5					5.0	10.0	15.0
Measure E 15% Allocation	1.8	17.1	7.1	9.3	9.3	9.3	9.3	9.3
Measure E Reallocation – Site Development Staffing		2.0						
Measure E Reallocation – EIH and Safe Parking Operations		18.9						
Total Source	79.0	118.6	127.6	116.8	93.8	78.9	65.3	55.0
Use of Funds								
Bridge and Interim Housing Sites (Table 2)	17.7	18.6	25.1	26.0	27.3	28.5	29.9	31.1
Converted Hotels (Table 3)	4.1	4.5	5.4	10.2	5.6	5.8	6.1	6.5
RV Supportive Parking (Table 4)		1.2	1.3	1.3	1.4	1.5	1.5	1.6
Site Development, Maint., and Repairs (Table 5)	1.8	2.4	2.5	2.6	1.9	2.1	2.1	2.1
<i>Subtotal Expenditures</i>	<i>23.6</i>	<i>26.7</i>	<i>34.3</i>	<i>40.1</i>	<i>36.2</i>	<i>37.9</i>	<i>39.6</i>	<i>41.3</i>
Ending Fund Balance	55.4	91.9	93.3	76.7	57.6	41.0	25.7	13.7
Total Use	79.0	118.6	127.6	116.8	93.8	78.9	65.3	55.0

Future Buildout of Interim Housing

As discussed previously, the currently committed sites account for 703 BHC/EIH beds, 280 hotel rooms, and a supportive parking site to accommodate 45 RVs. By 2029-2030, the cost to operate these sites is estimated to exceed \$41 million. While this level of current and ongoing investment is substantial, it does not achieve the goals set by previous City Councils – and reaffirmed by the current City Council – to deliver a total of 1,000 EIH units. Table 7 below incorporates the development, construction, and operating costs for the following:

- **Berryessa RV Supportive Parking.** In June 2023, the Administration will recommend to the City Council the execution of a ten-year lease with a five-year extension option for a 6.3-acre site at 1300 Berryessa. Staff intends to implement site improvements (placeholder cost of \$4.0 million) to accommodate approximately 76 to 85 RV and 35 car parking spaces for homeless residents. The annual cost to operate and provide supportive services for this site is estimated at \$3.2 million. This site is tentatively scheduled to come online toward the middle of 2023-2024.
- **State Small Homes.** The Governor’s Office and the State Department of General Services have engaged City staff to identify viable sites to locate a total of 200 small shelter homes, which would be provided by the State at little to no cost to the City. Due to the limited number of viable locations, the Administration is preliminarily recommending 104 units for installation at the Cerrone site, and 96 units at the Cherry Avenue site. While the cost of the homes is anticipated to be minimal – depending upon the type of unit selected (in-unit bathrooms may require an outlay of City funds) – site prep work related to grading and utility connections will be required, with a placeholder estimate of \$5.0 million per site. The cost to operate and provide supportive services is estimated at \$3.4 million per site. Staff is in discussion with the State to potentially access the State’s Encampment Resolution funding to help offset operating costs. However, as no commitments have been made, Table 8 below does not assume any revenue from the State to operate and provide services to Small Homes sites. These sites are tentatively scheduled to come online in the second half of 2023-2024.
- **Rue Ferrari EIH Expansion.** The expansion of the Rue Ferrari EIH by at least 100 units is currently under design and expected for delivery in 2024-2025, with a tentative construction cost of \$15.0 million and operating costs of \$3.4 million.
- **Additional Maintenance.** Additional maintenance staffing and contractual services will be required as new sites come online, tentatively assumed at \$1.0 million as the above sites are delivered.

In this forecast scenario, General Fund contributions of \$5.0 million begin in 2024-2025 and would rise to \$45.0 million by 2029-2030 as the General Fund contribution is ramped up over a multi-year period to eventually, along with other funding sources, be able to support operating and maintenance expenses of nearly \$60 million. This significant level of investment is

tentatively forecasted to support at least 1,003 interim housing unit beds, 280 converted hotel rooms, and 156 supportive parking sites for RVs and cars.

Table 8: Source and Use for Committed Sites and Future Buildout (\$ Millions)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Source of Funds								
Beginning Fund Balance (Carryover Funds)		55.4	74.5	53.0	29.8	13.6	4.4	1.1
All Other Sources (Table 7)	55.7	25.2	28.6	14.2	7.8	7.0	5.0	5.0
General Fund	21.5		5.0	10.0	20.0	30.0	40.0	45.0
Measure E 15% Allocation	1.8	17.1	7.1	9.3	9.3	9.3	9.3	9.3
Measure E Reallocation – Site Development Staffing		2.0						
Measure E Reallocation – EIH and Safe Parking Operations		18.9						
Total Source	79.0	118.6	115.2	86.5	66.9	59.9	58.7	60.4
Use of Funds								
Current Committed Costs (Table 7)	23.6	26.7	34.3	40.1	36.2	37.9	39.6	41.3
Berryessa Site Lease		1.4	1.5	1.5	1.6	1.7	1.7	1.8
Berryessa RV Supportive Parking		5.5	3.2	3.3	3.5	3.6	3.8	4.0
State Small Homes – Cerrone		5.0	3.6	3.6	3.6	3.6	3.6	3.6
State Small Homes – Cherry		5.0	3.6	3.6	3.6	3.6	3.6	3.6
Rue Ferrari EIH Expansion			15.0	3.5	3.7	3.9	4.1	4.3
Additional Maintenance		0.5	1.0	1.1	1.1	1.2	1.2	1.3
Subtotal Expenditures	23.6	44.1	62.2	56.7	53.3	55.5	57.6	59.9
Ending Fund Balance	55.4	74.5	53.0	29.8	13.6	4.4	1.1	0.5
Total Use	79.0	118.6	115.2	86.5	66.9	59.9	58.7	60.4

Impact of Measure E Reallocation

As noted previously, in response to the City Council’s approval of the March Budget Message for Fiscal Year 2023-2024, the 2023-2024 Proposed Operating Budget includes the reallocation of \$38.0 million of uncommitted Measure E funding previously allocated for affordable housing to homelessness prevention, support, and management. This includes \$20.9 million for interim housing: \$2.0 million for Public Works Department staffing costs – anticipated to be spent over a three-year period – to continue to the necessary work to facilitate site identification, design and construction of interim housing; and \$18.9 million to further support interim housing construction and long-term operating and maintenance costs. The recommended reallocation of \$2.0 million is critical to support the City’s current work to increase the inventory of interim housing. While the infusion of \$18.9 million reallocation significantly increases the City’s near-term capacity and flexibility to engage in alternative approaches to interim housing, actions similar to the leasing of the Berryessa RV supportive parking site, if the City Council chose to not accept the recommended reallocation of the \$18.9 million, the work to develop interim housing options as shown in Table 8 would continue. However, the medium-term budgetary tradeoff would be that ongoing General Fund contributions would need to occur earlier and larger in the forecast period as shown below in Tables 9 and 10.

Table 9: Source and Use for Committed Sites – Removal of \$18.9 Million Measure E Reallocation
 (\$ Millions)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Source of Funds								
Beginning Fund Balance (Carryover Funds)		55.4	73.0	74.4	57.8	43.7	32.1	21.8
All Other Sources (Table 8)	57.5	44.3	35.7	23.5	17.1	16.3	14.3	14.3
General Fund	21.5				5.0	10.0	15.0	20.0
Measure E Reallocation – EIH and Safe Parking Operations								
Total Source	79.0	99.7	108.7	97.9	79.9	70	61.4	56.1
Use of Funds								
Current Committed Costs (Table 7)	23.6	26.7	34.3	40.1	36.2	37.9	39.6	41.3
Ending Fund Balance	55.4	73.0	74.4	57.8	43.7	32.1	21.8	14.8
Total Use	79.0	99.7	108.7	97.9	79.9	70.0	61.4	56.1

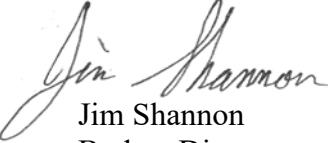
Table 10: Source and Use for Committed Sites and Future Buildout – Removal of \$18.9 M Measure E Reallocation (\$ Millions)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Source of Funds								
Beginning Fund Balance (Carryover Funds)		55.4	55.6	37.2	19.1	8.0	3.9	0.7
All Other Sources (Table 8)	57.5	44.3	35.7	23.5	17.1	16.3	14.3	14.3
General Fund	21.5		8.0	15.0	25.0	35.0	40.0	45.0
Measure E Reallocation – EIH and Safe Parking Operations								
Total Source	79.0	99.7	99.3	75.7	61.2	59.3	58.2	60.0
Use of Funds								
Current Committed Costs and Future Buildout (Table 7)	23.6	44.1	62.2	56.7	53.3	55.5	57.6	59.9
Ending Fund Balance	55.4	55.6	37.2	19.1	8.0	3.9	0.7	0.2
Total Use	79.0	99.7	99.3	75.7	61.2	59.3	58.2	60.0

A more detailed update on site identification for EIH and supportive parking, including exploration of philanthropic donations of leased land and buildings for EIH sites, will be provided at a City Council meeting in June 2023. Due to the City’s significant investment, future updates to the revenues and costs associated with interim housing will be included in future Bi-Monthly Financial Reports provided to the Public Safety, Finance, and Strategic Support Committee, and the Mid-Year Budget Review.

COORDINATION

This memorandum was coordinated with the Housing Department and the City Attorney’s Office.


 Jim Shannon
 Budget Director