



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Councilmember Dev Davis
Councilmember Omar Torres
Councilmember Peter Ortiz

SUBJECT: MAYOR’S JUNE BUDGET MESSAGE

DATE: June 8, 2023

Approved:

Date: 6/8/2023

RECOMMENDATIONS:

Approve the Mayor’s June budget message with the following modifications:

1. Maintain the existing, Council-approved Measure E allocation formula for both: 1) unspent prior year revenues and 2) FY 23-24 revenues:
 - a. Change the Measure E allocations in the Proposed Budget to conform with the chart outlined in the May 16th presentation to the City Council (Item 3.3, Slide 4):

	Prior Year Measure E Revenues	2023-2024 Measure E Revenues	Total Amount
Previously Allocated for Affordable Housing	\$70,313,209	\$35,625,000	\$105,938,209
Previously Allocated for Homeless Prevention	\$2,712,628	\$4,750,000	\$7,462,628
Previously Allocated for Homeless Support	\$14,004,809	\$7,125,000	\$21,129,809
Previously Allocated for Program Administration		\$2,500,000	\$2,500,000
Total	\$87,030,646	\$50,000,000	\$137,030,646

- b. Adopt the Revised Measure E Spending Plan detailed at the end of this memo.
 - c. If FY 22-23 or FY 23-24 Measure E revenues fall short of the budgeted projections, staff is directed to adjust the allocations proportionally across the spending categories above.
2. Supplement the Measure E Spending Plan described above, and allocate additional funding to the City’s affordable housing and homelessness initiatives from the following other City funding sources:
 - a. *To support new Affordable Housing development:* Utilize the \$26.6 million identified in MBA #45 for a new affordable housing NOFA. This includes \$10.2 million in expected FY 22-23 carryover that is not needed to cover the four remaining affordable housing projects and \$16.4 million in expected FY 23-24 revenue.
 - b. *To support Interim Shelter & other Homeless Support programs:* Allocate up to \$15 million from the General Fund Ending Fund Balance over two years. As part of the Review and Approval of the FY 22-23 Annual Report, or earlier if possible,

Staff is directed to return to Council with a spending plan for these funds that includes allocations for Homeless Response Staff, Homeless Coordination team, interim shelter operations and maintenance, and SJ Bridge.

3. Direct City staff to issue a new Affordable Housing NOFA as soon as is practical in FY 23-24 utilizing the resources identified above for new affordable and moderate-income housing production and acquisition/rehabilitation activities to preserve existing housing units for low- and moderate-income families. Consistent with the City's existing Affordable Housing Investment Plan (AHIP) priorities, this NOFA should prioritize developments with Extremely Low Income & Supportive Housing units.
4. Direct City staff to develop a proposed plan for funding the significant ongoing operating and services costs associated with the City's current and planned Interim Shelter sites. In developing this plan, staff should:
 - a. Consider options for creating a dedicated funding stream to limit impacts to the General Fund.
 - b. Prioritize the preservation of the Council-approved Measure E allocation formulas.
 - c. Explore cost-sharing arrangements with the County, Housing Authority and other key partners.
 - d. Present their recommendations as part of the FY 24-25 budget process.
5. Direct City staff to work with the County of Santa Clara and other key Continuum of Care partners to conduct a needs assessment that clearly identifies the actions and resources that will be required to meet the following goals laid out in the 2020-2025 Community Plan to End Homelessness.
 - a. House 20,000 people through the supportive housing system.
 - b. Double temporary housing and shelter capacity.
 - c. Expand the Homelessness Prevention System and other early interventions to serve 2,500 people per year.

This assessment should also:

- d. Include recommendations for how the County, City and other Continuum of Care partners can collaboratively contribute the resources required to meet these goals.
- e. Clarify the roles and responsibilities of each entity for the plan's implementation and for the upcoming refresh to the Community Plan to End Homelessness.

OUTCOME:

The approach outlined in this budget proposal will allow the City to concurrently achieve all of the following objectives:

- Keep Affordable Housing Production Moving in San Jose: This budget proposal both fulfills our commitments to four existing affordable housing projects AND allocates roughly \$84.7 million for a new NOFA to advance additional critically-needed affordable housing developments.

- Continue Expanding Interim Shelter & Other Homeless Support Programs: This budget proposal continues to invest between \$20 million and \$30 million in key short-term interventions, including enough funding to complete the planned expansion of interim shelter sites and cover operations and services at all existing and planned sites for the next two years.
- Maintain Investments in Homelessness Prevention: This budget proposal also allocates another \$7 million for proven programs that provide short-term rental assistance and support to keep at-risk families stably housed.

DISCUSSION:

There may be no greater challenge facing us today than our region's severe housing and homelessness crisis, and our residents are rightfully demanding action.

While we all wish there was a silver bullet, we must be honest with ourselves and our residents that no simple answer exists. The only way we will truly address this crisis is by embracing a comprehensive approach that advances multiple key strategies concurrently - and this includes increasing both permanent affordable housing units and interim shelter sites.

Though City Council's approval of the March Budget Message directed the Administration to explore the use of uncommitted Measure E resources to address unsheltered homelessness, the Proposed Budget's recommendation of such a large one-time shift of resources away from affordable housing is extremely concerning. This would have stalled critical future affordable housing development in San Jose, and we appreciate that the Mayor's June Budget Message restores some funding for affordable housing.

However, after carefully reviewing all the budget information released over the past few months, we believe there is a more strategic way to allocate our FY 23-24 budget dollars - and that we can address all our most pressing housing and homelessness needs without modifying the existing Measure E spending plan.

So, through this budget proposal, we have outlined an alternative plan for how we can invest our limited City resources for the greatest impact.

Affordable Housing

First, we must acknowledge that our crisis is being driven by a severe lack of affordable housing, which we must address:

- We live in one of the most expensive regions in the country, if not the world. Renters in our city need to make at least \$55 per hour to be able to afford a market rate apartment, which is over three times the minimum wage for our area. At its heart, this is a supply issue. There are simply not enough units of housing available for everyone already living in our community. For example, San Jose has only 30 apartments for every 100 extremely low-income residents, and only 46 apartments for every 100 very low-income residents.
- High housing costs are impacting a wide range of residents throughout our community: We know that high housing costs create the greatest burdens on low income residents,

and just under half (47 percent) of all San Jose households are considered low-income. In addition, the 2020 “Ending Displacement in San Jose” report estimated that more than 126,000 families with children are at risk of displacement in our city.

- This lack of affordable housing is intrinsically tied to our high levels of homelessness: Study after study has shown that the largest structural driver of homelessness is a lack of affordable housing and that we cannot solve homelessness without addressing this broader affordability issue. Furthermore, our efforts to scale interim housing, safe parking and other short-term interventions will only prove successful if we create more paths to permanent affordable homes. Over 85% of people transitioning from interim housing to permanent housing do so with the assistance of a subsidized housing unit/program. We must continue to build permanent affordable housing to continue to use interim housing to end street homelessness.

It’s for these very reasons that the current Measure E spending plan has strategically prioritized the development of affordable housing; with our proposal, we maintain the existing allocation formulas. By preserving Measure E affordable housing funding and leveraging other City housing funds, we will fulfill commitments to four existing projects to help ensure they get built, AND we will put over \$84.7 million into a new NOFA to maintain our community’s recent momentum in building more affordable housing.

The ability to issue a new NOFA next year carries huge importance. For one, there are several new affordable housing developments that will be ready to apply for funding in the coming year. In addition, a new NOFA will help the City continue building out a robust pipeline of projects that will be in a prime position to compete for funding from a potential future regional bond measure or as more City funding becomes available. After hearing many concerns from the development community over the past few months, this new NOFA will also provide an important signal that the City is serious about maintaining our commitment to building more affordable housing.

Interim Housing/Shelter & Homeless Support Programs

While we continue investing in affordable housing, we also must concurrently increase the supply of safe, dignified shelter options to assist the thousands of unhoused individuals in our community.

Through our budget proposal, we not only maintain the roughly \$21 million in Measure E funding for Homeless Support and Shelter programs, we also direct the Staff to allocate up to \$15 million from the ending fund balance to further build up our interim shelter operations and maintenance reserve and fund other expenses that fall outside of the current Measure E spending plan.

Importantly, these allocations will provide more than enough funding to advance the City’s plans to construct, operate, and maintain over 1,000 emergency interim housing (EIH) beds in addition to 280 hotel rooms and 156 supportive parking spaces (MBA #19 Table 1).

However, we must also confront the fact that our plans to expand EIHS carry serious, long-term fiscal impacts. As the Budget Office outlined in MBA #19, while the City currently has enough funding to cover our near-term EIH costs, we will see annual operating and maintaining costs

balloon to \$60 million annually by FY 2029-30 and require large General Fund contributions to sustain, which could have a huge impact on other core City services.

As a result, this budget proposal also directs staff to come back in next year’s budget process with a plan for addressing these ongoing operating costs that leverages partnerships with other jurisdictions and limits impacts on future Measure E and General Fund revenues.

Moving Forward

As we look past the FY 2023-24 budget, we must remain thoughtful and strategic about how we balance our investments to address our housing and homelessness crisis. To do that, we must have a clear understanding of the relative needs, costs, and benefits for each of these important interventions, as well as a holistic view of how our broader network of partners are contributing to this work.

Through the 2020-2025 Community Plan to End Homelessness, the City, County and other key partners have already adopted a set of community-wide goals for scaling permanent housing programs, homelessness prevention, and temporary shelter. Analyzing our collective progress against these goals can serve as a helpful benchmark for understanding how we can best direct future investments.

That is why our final recommendation is for City staff to work with the County and other Continuum of Care partners to conduct a needs assessment that clearly identifies the actions needed to meet these community-wide goals and how each of our entities can collaboratively contribute the resources required to meet these goals.

Revised Measure E Spending Plan

To conform with the existing Council-approved Measure E allocation formula, we propose the following spending plan for unspent prior year funds and FY 2023-24 revenues. Staff is also directed to make any necessary adjustments to this plan that remain consistent with both the overall Measure E allocation formulas and the specific priorities listed in the Revised Plan.

	Revised Plan			
	Distribution of Unspent Funds \$\$ / %		Distribution of Funds for FY 23-24	
Creation of New Affordable Housing for Extremely Low-Income Households	\$24,553,478	28%	\$19,000,000	40%
- Funding for New Construction of Affordable Rental Housing (2021 NOFA)	\$14,200,000			
- New NOFA	\$10,353,478		\$19,000,000	
Creation of New Affordable Housing for Low-Income Households	\$35,426,315	41%	\$14,250,000	30%
- Funding for New Construction of Affordable Rental Housing (2021 NOFA)	\$21,300,000			

- Funding for Commercial Space in Affordable Housing	\$1,335,253			
- Funding for Inflation Reserve for Affordable Developments Under Construction	\$11,000,000			
- New NOFA (New Construction & Acquisition/Preservation)	\$1,791,062		\$14,250,000	
Creation of New Affordable Housing for Moderate-Income Households	\$10,333,416	12%	\$2,375,000	5%
- New NOFA	\$10,333,416		\$2,375,000	
Homelessness Prevention, Gender-based Violences Programs, Legal Services and Rental Assistance	\$2,712,628	3%	\$4,750,000	10%
- Eviction Prevention and Diversion	\$2,712,628			
- Homeless Prevention and Rental Assistance			\$4,750,000	
Homeless Support Programs, Shelter Construction and Operations	\$14,004,809	16%	\$7,125,000	15%
- OWLs	\$1,500,000			
- Public Works Interim Shelter Site Identification and Development (4.0 FTE)	\$668,930			
- Interim Housing Operation and Maintenance Reserve	\$8,135,879		\$625,000	
- Surestay Operations			\$500,000	
- Public Works Interim Shelter Staffing (5.0 FTE)			\$2,000,000	
- Public Works Interim Shelter Maintenance			\$3,000,000	
- CARE Coordination Program (CCP)			\$1,000,000	
- Homeless Outreach Contracts	\$3,700,000			
Administration	\$0	0%	\$2,500,000	5%
- Program Administration			\$2,500,000	
Total	\$87,030,646		\$50,000,000	

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.