COUNCIL AGENDA: **06/13/23**
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ITEM: **3.5**

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Councilmember Arjun Batra

SUBJECT: **SEE BELOW**

DATE: June 13, 2023

Approved Arjun Dev Batra Date June 13, 2023

SUBJECT: PROPOSED CHANGES TO THE SPENDING PRIORITIES AND PERCENTAGE ALLOCATIONS MEASURE E REAL PROPERTY TRANSFER TAXES

RECOMMENDATION

1) Adopt the funding allocation of Measure E revenues as recommended in Mayor Matt Mahan's June Budget Message for Fiscal Year 2023-2024.
2) Direct the Housing Department to
    a. Provide an update by fall 2023 on the development of a streamlined process to expedite the affordable and market rate housing pipeline as recommended in MBA #30 (no implications to budget 2023-2024);
    b. Schedule study session on the cost of construction and financing models for affordable housing tentatively planned for the fall 2023 as recommended in MBA #30 (no implications to budget FY 2023-2024).

BACKGROUND

According to the 2023 San José Point in Time Count, there are 6,340 individuals experiencing homelessness in San José, of which, **4,411 are unsheltered**. Emergency Interim Housing Communities provide shelter out of encampments and enable participants to have direct access to services such as case management, medical and mental health referrals, and job placement assistance.

With wrap around services to stabilize their lives, 70% of EIH residents have successfully transitioned to permanent housing without utilizing a new, $1M+ per door, affordable housing unit. Some residents experience a healthy family reunification, some successfully complete job placement and enter the rental market, some qualify for rental assistance vouchers, and others find alternative means for self-sufficient living. Even though the residents do not have a fixed period after which they must transition out of the EIH, many residents graduate out of EIH to permanent housing in 170 days. With an average stay of 170 days, each EIH unit has the potential to transition two or more unsheltered residents into permanent shelter within a year. By the end of FY 2023-2024, EIH facilities will have provided shelter to hundreds of individuals after multiple cycles of housing unsheltered individuals in each unit.

Shortly after my appointment as District 10 Councilmember, I personally visited the Monterey/Bernal EIH site with our housing Director and City staff. In addition to touring the facility and checking on the available resources in detail, I spoke firsthand with resident "D.A.". She shared the life-changing experience she spent in the EIH and how it was providing her with the opportunity to stabilize her personal circumstances, in a safe environment away from predators in encampements, to ultimately transition to self-sufficiency in permanent housing.

We have an obligation to provide housing to extremely low- and low-income residents. We also have a moral obligation to provide shelter to our unhoused neighbors. We have a responsibility to our taxpayers, **including those that remain unsheltered and suffering daily under an unprecedented humanitarian crisis, to adapt to the current data and adjust our spending priorities to address the crisis**. Quick build communities provide a crucial step to transition from the streets to permanent housing.

The one-time reallocation of Measure E revenue is an immediate investment in Emergency Interim Housing to help hundreds of our unsheltered residents within six months to one year. In the meantime, the affordable housing developments that are already in the pipeline will continue to proceed (see below for timeline). In addition, property sales will continue throughout San Jose, revenue from sales will replenish the Measure E funds reallocated in FY2023-2024, and the next NOFA released by the Housing Department in 2024 will continue to build the Affordable Housing Pipeline.

Funding Affordable Housing Developments

The timeline from when the NOFA is released to occupancy can take an average of 4-5 years and can cost over $1M per unit. This funding and development model is inherently slow to yield new housing units. For example, below is a timeline for 525 N Capitol*, an Affordable Housing Development that will produce 160 units with a total development cost of $115M. Initially, $15M of NOFA Funds were requested from the City of San José in 2022 for this development. Then an additional $13M in NOFA Funds were requested, bringing the total requested to $28M.

In total, the four Affordable Housing Developments currently in the pipeline awaiting Council approval (525 N Capitol, VTA 605 Blossom Hill, 2080 Almaden Apartments, & Kooser Apartments), have requested an additional $31M in NOFA funding and will yield the same number of units as was stated in the original request.

In the meantime, the reallocation in FY 2023-2024 of Measure E Funds will have eased the suffering of hundreds of unsheltered residents.

**Information taken from the May 23, 2023 Supplemental Memorandum (Supplemental - Issuance of Multifamily Housing Revenue Notes and the Loan of the Proceeds Thereof for 777 West San Carlos Project)*

NOFA Timeline for 525 N Capitol (from inception to occupancy)

- May 2021: Round 1 Notice of Funding Availability (NOFA) released by Housing Department
- December 2021: Round 2 NOFA - $150M of funding available
- May 2022: Eleven proposals were selected from 19 applications to move forward to City Council for funding commitments
- Fall 2023/Spring 2024 (tentative): CDLAC Application
- 2024/2025 (tentative): Break ground on construction
- Occupancy is not expected until 2025 - at the earliest

Previous Years: Reallocation of Measure E Funds

This is not the first time an adjustment is being made to the Spending Priorities of Measure E funds. The priorities were set by the Housing Department based on data available in 2019/2020 when Measure E was passed by the voters to "fund general City of San José services, including affordable housing for seniors, veterans, disabled, and low-income families, **and helping homeless residents move into shelters/permanent housing**".

For Fiscal Year 2020-2021, the Spending Priorities, developed by the Housing Department and adopted by City Council, allocated the initial estimates of $30 million in revenue, however, the total amount of Measure E revenues generated was $50.5 million, exceeding the initial 2020-2021 Adopted Budget estimate.

The 2021-2022 Adopted Budget also estimated $40.0 million in Measure E revenue. Based on revenues received through December 2021 and revised projections for the remainder of the fiscal year, actions included in the 2021-2022 Mid-Year Budget Review increased the budgeted estimate for 2021-2022 by $50.0 million, for a new total estimate of $90.0 million.

Measure E Timeline & Spending Priorities

- December 2019: Council directs staff to incorporate the identified spending priorities of the anticipated General Fund revenue if Measure E were to pass. The spending priorities were based on data from FY2018/2019 and established in a pre-COVID world. AMI in Santa Clara County was $124,055 in 2019 vs. $168,500 in 2022 (AMI for 2023 has not been released yet)

- March 2020: San José voters approve the Transfer Tax

- June 2020: Council approves amending City Council Policy 1-18 to include Measure E allocations, originally estimated to bring in $30M in revenue

- June 2020: City Council amended City Council Policy 1-18 to include a new Section 22 which specifies spending priorities and percentage allocations for Measure E and a process for making changes to the priorities. The policy states "**the City Council intends for the revenues to be allocated towards addressing the homelessness crisis and the**

City's most urgent issues including, but not limited to, homeless prevention and developing new affordable housing."

- October 2020: As we faced a COVID crisis, HCDC, the Oversight Committee for general fund revenues generated by Measure E, was concerned about the impact of the COVID-19 pandemic on the community and made recommendations to **reallocate funds to provide rental assistance to prevent homelessness during this critical time**

- April 2022: Housing Director Jacky Morales-Ferrand Memo provides staff recommendations in 4/12/22 Council Agenda Item 8.1 (Proposed Changes to the Spending Priorities and Percentage Allocations of Measure E Property Transfer Taxes), allowing the City to use **Measure E funds to support homeless programs including case management, outreach teams, encampment services, safe parking, employment and training programs, homeless shelters and interim housing construction and operations**

In the past, allocations of Measure E funds for Homelessness Prevention and Homeless Support Programs have not exceeded 25% of the total allocation. The shift in FY 2023-2024 is only for the coming year, and according to MBA #45 (Affordable Housing Pipeline Developments) after accounting for all 2021 NOFA projects supporting 595 units, a total of $26.2 million is available in 2023-2024 for a new NOFA.

This year's allocation will support our most vulnerable in our City and create a safer and cleaner environment for our unsheltered individuals, sheltered residents, and local businesses. Over the next fiscal year, the data will continue to be assessed and in March of 2024, spending priorities may need adjusting based on progress. **In the meantime, the City will have transitioned hundreds of unsheltered off the streets while concurrently waiting for the approved affordable housing units in the pipeline to complete construction and those awaiting Council approval to break ground.**