



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmembers
Rocha & Khamis

SUBJECT: BRIDGE HOUSING

DATE: December 7, 2017

Approved

Dm Rocha
PH

Johnny Khamis
SPC

Date

12-7-17

RECOMMENDATION

That the City Council decline to adopt the staff recommendation, and instead provide the following direction to staff:

1. Direct staff to pursue use of the \$2.3 million in one-time funding currently set aside for the Bridge Housing project to instead fund a master lease program or rapid rehousing activities. Staff should evaluate whether there is an opportunity to partner with an existing County program that provides similar services (such as the County's Shared Housing program) in a way that enhances or expands the County's existing efforts to house homeless or at-risk populations in San Jose.
2. Direct staff to return to City Council with an evaluation of whether it would be possible to accelerate housing-related ordinance revisions, such as the shared parking program revisions or second unit revisions, by adding staff capacity in the Planning Department (through contract staffing or some other means) which could be funded by a portion of the \$2.3 million currently set aside for the Bridge Housing program.

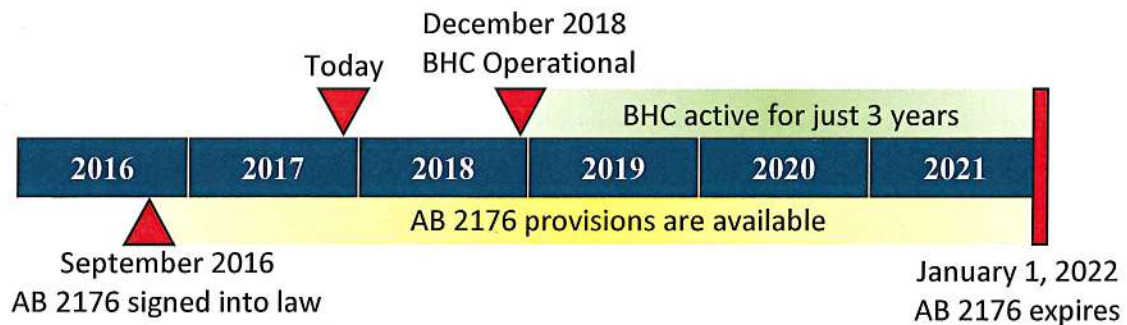
ANALYSIS

We have been supportive of analyzing the Bridge Housing Community (BHC) concept as on strategy to deal with the problem of homelessness, but upon reviewing staff's analysis, we are concerned that Bridge Housing is not the best use of staff resources or public funds. We appreciate Mayor Liccardo's intent when he originally introduced this idea back in 2014 to be "more innovative with our public dollars," but with the benefit of staff analysis we can see that in this case innovation doesn't seem to have an edge over familiar approaches, such as master leases or rapid rehousing. We believe that pivoting to those alternative strategies is our best option.

We have three major concerns with the Bridge Housing proposal: timeline, cost effectiveness, and opportunity cost. We will discuss each in turn.

Timeline

The expiration of AB 2176 on January 1, 2022 constrains the timeline for implementation of a BHC. Staff indicates on page 23 of their report that the “primary benefit of BHC is the underlying AB 2176 legislation, which provides streamlining efficiencies with land use and regulatory issues and liability protection for the City and its operators.” Unfortunately this “primary benefit” is set to last just four more years. If construction of a BHC takes 12 months as staff predicts, that only leaves three years to implement a BHC program before the law expires. Given how long it has already taken to advance this issue and knowing that complex proposals often move more slowly than we think, we could very well have less than three years to implement.



The legislature would need to approve an extension of the law for this approach to even begin to make sense, but we have no guarantee that that would happen. Even if the law were extended, this approach would still be temporary, and as such would need to meet a high standard for cost effectiveness.

Cost Effectiveness

We are also concerned about the program’s cost effectiveness. In his original memo (see attached) Mayor Liccardo described two example tiny home projects, one of which had succeeded at producing units for \$3,000 and the other for \$5,000. We assume that these costs are just for construction of the unit itself. Staff’s estimated BHC cost of \$73,125 per unit is substantially higher, probably because it includes all site development costs. We can’t expect the Mayor to have known back in 2014 what the full cost would be, but now that we do know we have to decide whether BHCs are worth the cost.

There are two other housing strategies described in the staff report that we believe provide useful cost comparisons: permanent supportive housing and apartment master leases. Staff estimates that the City’s cost for permanent supportive housing is \$122,375 per unit. That amount allows us to leverage an additional \$466,815 in outside funding (such as Measure A money from the County) to meet the full \$589,190 cost of the unit. While a \$73,125 tiny home is considerably less expensive than the full \$589,190 cost of a permanent unit, it isn’t as impressive if you compare it to the \$122,375 City portion, and less impressive still when you consider that \$122,375 in City funds buys a permanent unit that lasts for decades, while \$73,125 buys a temporary fix that only lasts a few years.

The staff report also evaluates a master lease strategy, which would involve the City leasing an existing unit and using it to house a homeless or at-risk individual. This

strategy offers a significant cost advantage over BHCs because there are no development costs. Staff estimates that while a 40-unit BHC would have a first year cost of \$4,268,000, a comparable master lease strategy would cost only \$1,664,000. The master lease also has the advantage of speed. Staff estimates that it would take a year to get a BHC up and running (and knowing the way these things go we suspect it could take considerably longer.) A master lease strategy could potentially be implemented more quickly. The comparative disadvantage of a master lease is that it would not produce any new units. The BHC proposal, however, would only produce 40 temporary units, which would have very little effect on total supply.

These comparisons reveal that the BHC strategy has many of the shortcomings of other approaches but few of the advantages. Like permanent housing, the per-unit cost to the City is relatively high, but unlike permanent housing it doesn't yield permanent units. Like master leases, it only offers a temporary solution, but unlike master leases it's expensive and time-consuming. In our opinion, it occupies an awkward middle-ground that may appear "innovative" but does not hold up to scrutiny.

Opportunity Cost

The staff report indicates that additional funding is needed to pursue a BHC. Currently \$2.3 million is set aside for the project. We would need an additional \$1,968,000 in the first year for a 40 unit BHC, and \$663,000 for a 20 unit BHC. The only funding source staff identifies are Housing Authority Litigation Award (HALA) funds, which are currently set aside for construction of permanent supportive housing.

As we discuss above, a \$73,125 tiny home is not an impressive option when compared to \$122,375 in City expenditure for a permanent unit. It would be difficult for us to justify cannibalizing scarce permanent housing resources to fund an inferior temporary solution. If the Council wishes to pursue a BHC, it should at the very least identify an alternative funding source that would not impair permanent housing production.

Our Recommendation

We recommend setting aside the BHC idea and using the \$2.3 million currently set aside for that purpose to pursue two other strategies. First, we recommend that staff use it to fund master lease or rapid rehousing activities. We understand that in a tight housing market finding leases could be challenging, but we also believe there might be an opportunity for partnership. We understand that the County funds some market-based programs. We might want to explore whether there's an opportunity to combine our funds to enhance or expand services.

Below is a chart that provides a brief summary of the number and cost of single family houses that are listed on publicly available real estate search engines. Staff indicates in their report that they believe master leases for single family houses are "infeasible," but we're all familiar with sober living environments or other residential care facilities that operate out of single family houses. We hope that they will keep an open mind about including single family houses along with apartments as they discuss this issue with the County or other partners. As the below table demonstrates, there are rental properties on the market that we could pursue.

Rentals Available in San Jose and Avg Cost*			
Area	Average Rent Price	Cost Over 1 Year	Available Homes**
East San Jose	\$3,438	\$41,256	15 Homes
West San Jose	\$3,748	\$44,976	60 Homes
Almaden Valley	\$3,653	\$43,836	26 Homes
North San Jose	\$3,763	\$45,156	4 Homes

*Results based on Zillow.com search results

**All homes considered were single family homes with 3 or more bedrooms and a rent ceiling of \$5,000

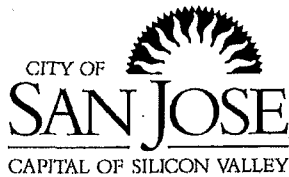
At this point, however, the details of the program are less important than making a decision to act quickly to help people in need. Even if we could help just 30 people by renting ten three-bedroom single family houses or thirty small apartments, we would be making a positive difference. Placing people in existing housing would have the advantage of integrating them into existing neighborhoods and dispersing them throughout the city instead of looking for sites that are separated from existing residential areas. It would also have the advantage of allowing them to live in a standard housing unit that includes kitchen and restroom facilities within the unit, instead of a more primitive structure.

Second, we recommend asking staff whether it would be possible to use a portion of the money to accelerate work on housing-related ordinances, though hiring contract staff or some other means. As we have all experienced, the Planning Department's limited capacity for ordinance revision is a bottleneck for many policy efforts. Expanding capacity for housing work could help accelerate the safe parking and second unit ordinances.

We'd like to close by acknowledging that pursuing new and innovative strategies is a worthy endeavor. It's also true that just because a strategy is new an innovative does not mean that it will work. We need to be open to new approaches, but at the same time continue to evaluate all options critically.

Attachment A: Original Memo

RULES COMMITTEE: 4-30-14
ITEM: G.3



Memorandum

TO: RULES COMMITTEE

FROM: Councilmember Sam Liccardo
Councilmember Rose Herrera

**SUBJECT: MICRO-HOUSING:
ANOTHER TOOL IN THE
BATTLE AGAINST HOMELESSNESS**

DATE: April 23, 2014

Approved *Sam Liccardo* ^{P.P.} *Rose Herrera* ^{mg} Date *04/23/14*

RECOMMENDATION:

Direct the City Manager to evaluate the feasibility of temporarily constructing “tiny houses” on underutilized public land or “micropods” in empty warehouses as an option for transitional housing for homeless individuals. Examine housing codes, explore funding options, assess issues relating to conditional permits or temporary zoning, and examine the feasibility and challenges of managing “micro-villages” or micro-pods. Add this item to the Community and Economic Development Committee workplan.

DISCUSSION:

We have become painfully aware that San Jose has one of the largest unsheltered homeless populations in the U.S.. In recent years, we have launched a coordinated effort to reduce the homeless population and the impacts of homelessness on our community. Through the coordination of Destination: Home and its “Housing 1000” effort, our nonprofit, City, County, and Housing Authority partners have placed more than 620 of our most vulnerable and chronic homeless into housing.

We recently took action on progressive measures aimed at offering additional tools to address transitional housing for our homeless population. The momentum that is being felt towards addressing homelessness and housing needs has pushed us forward, however; we still need more tools in our toolbox.

A tiny house is a relatively inexpensive short term housing option for the homeless. Tiny houses are being built at about 100 – 150 square feet in size and can cost as little as \$5,000 to build. Placed together on underutilized land, a collection of very small, economically cheap houses can become a tiny village that can be managed and maintained, offering another humane option for housing our vulnerable homeless population while long term housing options are sought.

This concept is not new. In Wisconsin, local authorities are utilizing high school and construction trade schools to help build micro-cottages for as little as \$3,000 per house. A “micro-cottage” community in Olympia, Washington, was featured in a February 20, 2014 *New York Times* article, and similar initiatives appear to be catching on nationally.

Other similar micro-housing options appear worth exploring. Locally, Dick Brown of Ni-KoTech proposes emulating the idea of micro pods that have been used in Asia for some time: self-contained units, including a bed, storage area, fan, and air filter system that can be placed 20 – 30 at a time in vacant warehouses as short-term, low-cost housing options for the homeless.

CONCLUSION:

In a city of very scarce public resources, and a challenge as daunting as homelessness, we must continue to press to be more resourceful, more creative, and more innovative with our public dollars. Micro-housing may serve as a critical option for doing so.