

## APPENDIX C

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### Interim Housing Forecast

# INTERIM HOUSING FORECAST

## Introduction

The City of San José continues to prioritize interim housing as a key strategy for providing temporary shelter and support, aiming to transition residents to permanent housing. The Interim Housing Forecast delivers a concise financial overview for fiscal years 2025-2026 to 2029-2030, focusing on the expected costs and revenues of interim housing initiatives – consisting of bridge community housing sites, emergency interim housing sites, converted motels and hotels, and supportive parking sites.

A key update in this year’s forecast is the inclusion of a safe sleeping site and motel room program to address Stormwater Permit requirements related to the City’s waterways. The City Council has previously committed to the long-term operations and maintenance of 1,110 bridge/emergency interim housing site units (1,354 beds<sup>1</sup>), 280 converted hotel rooms, and 126 supportive parking spaces. In addition, this forecast includes the operations of 60 safe sleeping spaces, 306 new motel rooms, and 55 supportive parking spaces to support efforts previously directed by the City Council to relocate unhoused residents from the City’s waterways.

## Key Assumptions Underlying the Financial Forecast

The financial outlook for San José’s interim housing portfolio considers a number of assumptions of available funding sources and expected costs. Actual revenues and costs will vary, and adjustments will be needed as conditions change. It is important to note that this forecast only considers funding sources that were either previously committed or have a very strong likelihood of being received in the future. As these funding sources are not sufficient (see discussion below), the City will actively pursue additional funding streams from federal, State, and regional partners, as the challenge of addressing unsheltered homelessness requires broad community and cross-governmental support.

In the interim, as shown in the following Table 1, for the continued development and operations of the City’s existing and future committed additions to the interim housing portfolio, ongoing General Fund contributions will be required throughout the five-year forecast period and beyond.

**Table 1: Interim Housing Revenue Funding and Costs (\$ in millions)**

|   | 2025-2026   | 2026-2027   | 2027-2028   | 2028-2029   | 2029-2030   |
|---|-------------|-------------|-------------|-------------|-------------|
| Estimated Available Funding*                      | 105.6       | 25.8        | 25.9        | 21.5        | 14.5        |
| Interim Housing Costs                             | 128.5       | 87.5        | 91.3        | 88.0        | 101.3       |
| Surplus / (Shortfall)                             | (22.9)      | (61.7)      | (65.5)      | (66.5)      | (86.7)      |
| <b>Required Ongong General Fund Contributions</b> | <b>25.0</b> | <b>66.0</b> | <b>70.0</b> | <b>71.0</b> | <b>92.0</b> |
| Revised Surplus / (Shortfall)                     | 2.1         | 4.3         | 4.5         | 4.5         | 5.3         |

\*Includes the Revised Surplus/(Shortfall) from the prior fiscal year

<sup>1</sup> While some units contain multiple beds due to site configurations and program design, unit count is used here to inform portfolio management. Bed count can sometimes overstate actual availability due to partial vacancies within a unit or assignment limitations (e.g., family accommodations). However, bed count remains a valuable metric for assessing emergency shelter costs and maximizing immediate placements, both of which inform this forecast.

# INTERIM HOUSING FORECAST

## Key Assumptions Underlying the Financial Forecast

Over the last several years, the City’s interim housing portfolio has been sustained by significant influxes of external funding from the federal government and the State of California, and previous one-time contributions from the General Fund and Measure E resources. However, all federal sources are expected to be depleted by the end of 2024-2025, all expected State funding by the end of 2028-2029, and most of the previous one-time City funded allocations will be spent by the end of 2025-2026. As a result, in order to develop and operate the City’s interim housing portfolio as directed by the City Council, ongoing General Fund contributions to the interim housing portfolio will need to continue in 2025-2026 in the amount of \$25.0 million and increase to \$92.0 million by 2029-2030. A detailed discussion of the funding source and cost assumptions follows.

### *Funding Mitigation Strategies*

It is important to note that the ongoing General Fund contributions shown above do not assume any additional revenue sources beyond those previously committed. However, in accordance with prior City Council direction, staff will pursue additional funding sources to the extent feasible, including from regional partners that are impacted and have responsibility for reducing and addressing the impacts of unsheltered homelessness. If identified in time, any additional revenue sources will be brought forward as part of the 2025-2026 Proposed Budget.

### Revenue Assumptions

As previously directed by the City Council, the financial strategy for supporting interim housing relies on a mix of funding sources, including sources from the State of California, County of Santa County, and City. The federal government had previously provided funds for interim housing support, but those resources are anticipated to be fully expended in 2024-2025. The following is a discussion of the revenue sources in Table 2: Interim Housing Funding Sources.

**Table 2: Interim Housing Funding Sources (\$ in millions)**

| Sources  | 2025-2026    | 2026-2027   | 2027-2028   | 2028-2029   | 2029-2030   |
|--|--------------|-------------|-------------|-------------|-------------|
| <b>External Funding</b>                          | <b>31.3</b>  | <b>11.0</b> | <b>12.3</b> | <b>7.0</b>  | <b>-</b>    |
| Federal  | -            | -           | -           | -           | -           |
| County   | -            | 2.0         | 2.0         | -           | -           |
| State  | 31.3         | 9.0         | 10.3        | 7.0         | -           |
| Homeless Housing Assistance and Prevention Grant | 8.0          | 7.0         | 8.0         | 7.0         | -           |
| Homekey Grant                                    | 10.7         | -           | -           | -           | -           |
| Other  | 12.6         | 2.0         | 2.3         | -           | -           |
| <b>City Funding</b>                              | <b>74.3</b>  | <b>12.8</b> | <b>9.3</b>  | <b>10.0</b> | <b>10.0</b> |
| Measure E (Ongoing)                              | 7.8          | 8.6         | 9.3         | 10.0        | 10.0        |
| Measure E (Prior Year Allocations)               | 4.9          | 4.2         | -           | -           | -           |
| Carry-Over Funding (One-Time)                    | 61.6         | -           | -           | -           | -           |
| <b>Total</b>                                     | <b>105.6</b> | <b>23.8</b> | <b>21.6</b> | <b>17.0</b> | <b>10.0</b> |

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### *External Funding Sources*

- **State of California, HHAP (Homeless Housing Assistance and Prevention) Program:** The single largest source of external funding, the City has consistently secured HHAP funds over the last several years. Between 2025-2026 and 2026-2027, the City expects to spend the \$15 million award for interim housing from HHAP Round 5 and assumes an additional \$15 million award from HHAP Round 6 in 2027-2028 and 2028-2029. While the City has not been awarded HHAP Round 6, it intends to apply. It is important to note that the State recently announced it is shifting the accountability and distribution of HHAP funds toward a regional allocation and coordinated through the Continuum of Care organization, potentially linking City HHAP funds to regional efforts. The City is closely monitoring the status of HHAP Round 6 and will adjust the forecast as needed if funding does not materialize. At this time, future HHAP rounds have not been authorized by the State.
- **State of California, Homekey Funding:** Another cornerstone of State support, Project Homekey, facilitates the conversion of hotels and motels into interim housing for those at risk of homelessness, and for the construction of emergency interim housing sites. The acquisition of \$107.5 million from Homekey has been instrumental in creating the City's interim housing inventory. In 2025-2026, \$10.7 million of Homekey funds are earmarked for operating support of interim housing for the Pacific Motor Inn and the recently built emergency interim housing facility at Branham and Monterey.
- **State of California, Encampment Resolution Fund:** The City was awarded approximately \$4.6 million from the Encampment Resolution Funding Program, Round 3, of which \$3.5 million is currently slated for operations of Via Del Oro and other sites that will help the transition of unsheltered residents in encampments to interim housing.
- **State of California, Permanent Local Housing Allocation (PLHA) Program (State Senate Bill 2):** For several years, the City has received resources from the PLHA program, the majority of which are programmed to support interim housing operations. A total of \$4.3 million is expected to be available from 2026-2027 and 2027-2028.
- **County of Santa Clara:** The County of Santa Clara will provide a total of \$4.0 million from 2026-2027 through 2027-2028 to support operations at the Branham and Monterey interim housing site. Separately, the County funds 1,117 congregate shelter beds plus interim housing sites and board and care beds in San José.

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### *City Funding: General Fund and Measure E Revenues*

- **Measure E Revenues:** On March 3, 2020, San José voters approved Measure E, the Real Property Transfer Tax. This tax, which became effective on July 1, 2020, is imposed at a tiered level for property transfers (sales) over \$2.0 million. While this tax is a general purpose tax and can be used for any governmental purpose, by their approval of City Council Policy 1-18, Section 22, the City Council has directed that this tax revenue be allocated for the development of new affordable housing, homeless prevention, and homelessness support programs.

For 2024-2025, Measure E collections are currently estimated at \$50.0 million, aligning with the 2024-2025 Adopted Operating Budget. Based on the receipts through January 2025 and historical trends, revenues could also exceed this estimate by approximately \$3-\$5 million by year-end. However, this revenue source remains volatile, as it is significantly influenced by high value commercial property transactions. Looking ahead, Real Property Transfer Tax revenues are expected to increase. Annual collections are projected to rise from \$55.0 million in 2025-2026 to \$70.0 million by 2028-2029, stabilizing at that level through 2029-2030.

In accordance with City Council policy, 15% of Measure E revenues (after subtracting the 5% allocated for Program Administration) are allocated for homeless support programs. This forecast assumes that the entire 15% allocation is prioritized to support interim housing, with \$7.8 million available in 2025-2026 and increasing to \$10.0 million by 2028-2029 and 2029-2030. Prior year approved Measure E funding previously allocated as a local match for Project Homekey funding of \$4.9 million is anticipated to remain available for 2025-2026 and \$4.2 million for 2026-2027 to support operating costs at the Arena Hotel.

- **Carry-Over Funding (One-Time):** As directed by the City Council in prior budgets, one-time allocations from the General Fund, Real Property Transfer Tax Fund, and other sources have supported the development and operation of interim housing facilities. For 2025-2026, an estimated \$61.6 million in remaining funds is expected to be carried over from 2024-2025, primarily due to unspent budget allocations for interim housing construction, which is anticipated to be completed by end of 2025-2026.

# INTERIM HOUSING FORECAST

## Expenditure Assumptions

**Table 3: Interim Housing Costs (\$ in millions)**

|  | 2025-2026    | 2026-2027   | 2027-2028   | 2028-2029   | 2029-2030    |
|--|--------------|-------------|-------------|-------------|--------------|
| <b>Bridge Housing Communities / Emergency Interim Housing (1,110 units)</b>                          |              |             |             |             |              |
| Mabury (38 units)  |              |             |             |             |              |
| Operations   | 2.1          | 2.2         | 2.3         | 2.4         | 2.5          |
| Felipe (38 units)  |              |             |             |             |              |
| Operations   | 2.2          | 2.3         | 2.4         | 2.5         | 2.6          |
| Bernal-Monterey (78 units)   |              |             |             |             |              |
| Operations   | 3.1          | 3.2         | 3.4         | 3.5         | 3.7          |
| Rue Ferrari (182 units)  |              |             |             |             |              |
| Operations   | 8.1          | 10.3        | 10.7        | 11.2        | 11.7         |
| Construction   | 7.2          | -           | -           | -           | -            |
| Evans Lane (49 units)  |              |             |             |             |              |
| Operations   | 4.5          | 4.7         | 4.9         | 5.2         | 5.4          |
| Guadalupe (96 units)   |              |             |             |             |              |
| Operations   | 3.5          | 3.7         | 3.9         | 4.0         | 4.2          |
| Branham-Monterey (204 units)   |              |             |             |             |              |
| Operations   | 8.7          | 9.0         | 9.4         | 9.9         | 10.3         |
| Via del Oro (135 units)  |              |             |             |             |              |
| Operations   | 6.6          | 6.9         | 7.2         | 7.6         | 7.9          |
| Construction   | -            | -           | -           | -           | 9.5          |
| Cerone (162 units)   |              |             |             |             |              |
| Operations   | 5.8          | 8.1         | 8.4         | 8.8         | 9.2          |
| Lease  | 0.4          | 0.4         | 0.4         | 0.4         | 0.4          |
| Construction   | 18.1         | -           | -           | -           | -            |
| Cherry (128 units)   |              |             |             |             |              |
| Operations   | 3.9          | 5.4         | 5.7         | 5.9         | 6.2          |
| Construction   | 13.8         | -           | -           | -           | -            |
| <b>Motel / Hotel Conversions (280 converted hotel rooms)</b>   |              |             |             |             |              |
| First Street Interim Housing (76 rooms)  |              |             |             |             |              |
| Operations   | 3.0          | -           | -           | -           | -            |
| Plaza Hotel (43 rooms)   |              |             |             |             |              |
| Operations   | 2.7          | 2.8         | 2.9         | 3.0         | 3.2          |
| Arena Hotel (89 rooms)   |              |             |             |             |              |
| Operations   | 5.1          | 5.3         | 5.5         | 5.7         | 6.0          |
| Pacific Motor Inn (72 rooms)   |              |             |             |             |              |
| Operations   | 4.8          | 5.0         | 5.2         | 5.5         | 5.7          |
| <b>Supportive Safe Parking (126 RV spaces)</b>   |              |             |             |             |              |
| Santa Teresa Supportive Parking (42 RV spaces)   |              |             |             |             |              |
| Operations   | 1.9          | 2.0         | 2.1         | 2.2         | 2.3          |
| Berryessa Supporting Parking (84 RV spaces)  |              |             |             |             |              |
| Operations   | 2.9          | 3.1         | 3.2         | 3.3         | 3.5          |
| Lease  | 1.8          | 1.8         | 1.9         | 2.0         | 2.0          |
| <b>Waterways Focus - Safe Sleeping and Moteling Program (306 rooms, 60 spaces, and 55 RV spaces)</b> |              |             |             |             |              |
| Taylor Street Navigation Center/Hub (60 spaces)  |              |             |             |             |              |
| Operations   | 2.0          | 2.1         | 2.2         | 2.2         | 2.3          |
| Moteling Program (306 rooms and 55 RV spaces)  |              |             |             |             |              |
| Operations   | 14.0         | 6.7         | 7.0         | -           | -            |
| <b>Major Repair and Maintenance</b>  |              |             |             |             |              |
| Public Works Department  |              |             |             |             |              |
| Staff and Contractual Services   | 2.4          | 2.5         | 2.6         | 2.7         | 2.8          |
| <b>Total</b>   | <b>128.5</b> | <b>87.5</b> | <b>91.3</b> | <b>88.0</b> | <b>101.3</b> |

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Estimated costs to construct, operate and maintain the City's interim housing sites, including the addition of a motel program in-lieu of establishing more safe sleeping sites for unhoused residents relocated from the City's waterways, is provided in Table 3: Interim Housing Costs above. This breakdown encapsulates both operational and construction expenses across existing and planned site and accounting for the focus on speed of delivery. Construction costs encompass all development-related expenditures such as design and construction, whereas operational costs cover the necessary outlays for running the sites post-completion, including staffing, supplies, utilities, leases, and security.

### *Operating Costs*

Currently, the cost to provide services at each site varies due to service levels required at each site, unique site characteristics, and staffing and non-personal/equipment costs that vary by operator. Operations are provided by third-party vendors who were selected through a competitive bidding process. In most cases, historical spending serves as the basis for projecting future costs. Where actual expenditures were unavailable, projections were based on either current contract costs or an average operating cost per bed at similar sites. It is important to note that the Housing Department is in the process of standardizing the service delivery model for these sites and centralizing the provision of certain services, such as meals, security and property management across the portfolio. The goal is to drive down ongoing operating costs while maintaining or improving housing outcomes. As future cost savings are realized, the forecast model will be updated accordingly in future years. This forecast includes the following assumptions for operating costs beginning July 1, 2025.

- **Overall operating cost adjustments.** Costs are projected to increase 4.5% annually throughout the forecast period reflecting inflationary growth in labor and supply costs for site operators.
- **Existing Sites.** Actual 2023-2024 expenditures serve as the baseline, adjusted for the 4.5% annual increase. For sites where prior year expenditures were unreliable due to one-time ramp-up expenses of future costs or other one-time anomalies, projections are based on 2024-2025 contracted operator costs. Pacific Motor Inn and Berryessa Supportive Parking, both opening in 2024-2025, use current contract rates.
- **New Sites – Via Del Oro.** This forecast assumes an operational start date of April 1, 2025 and an expected contract cost of \$6.6 million starting in 2025-2026 which is approximately \$44,000 per bed. The operating agreement contract is expected for City Council approval on February 25, 2025. Costs will increase 4.5% annually in subsequent years.
- **New Sites – Berryessa Supportive Parking.** This forecast assumes Berryessa Supportive Parking opens in 2025-2026 and operates at a cost of \$4.7 million based on the contracted operator cost and lease for the site. Costs will increase 4.5% annually in subsequent years.
- **New Sites – Branham-Monterey.** The operating costs for Branham-Monterey of \$8.7 million starting in 2025-2026 are based on \$39,000 per bed operating cost, inflated annually by 4.5%. The site is supported by a \$10.8 million State Homekey grant, subsidizing operations until June 30, 2026, as well as an additional \$4.0 million from the County for partial support in 2026-2027 and 2027-2028. The forecast assumes operations will begin on March 1, 2025.

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### *Operating Costs*

- **New Sites – Cerone and Cherry.** The operating costs for Cerone and Cherry are based on \$38,000 per bed, reflecting a 15% reduction from Via Del Oro’s operating cost per bed due to anticipated cost-saving measures through standardized procurement. Both sites are assumed to open October 1, 2025 for the purposes of this forecast.
- **Expanded Sites – Rue-Ferrari.** The addition of 100 units from the expansion of the Rue-Ferrari site is expected to increase annual operating cost by \$4.8 million or \$35,000 per bed once the site opens for a total of \$8.1 million in 2025-2026. For the purposes of the forecast, the start date of the expansion is November 1, 2025.
- **New Sites – Taylor Street Navigation Center.** This facility, featuring 60 safe sleeping spaces or tents, is the City’s first safe sleeping site focused on individuals living along the waterways and is expected to open towards the end of 2024-2025, with an estimated annual operating cost of \$2.0 million increasing 4.5% annually.
- **New Sites – Moteling Program.** A program to provide temporary hotel/motel stays for individuals living along the waterways is projected to preliminarily cost \$14.0 million annually, though the City is still in negotiations. This cost covers both motel rooms and a minimized level of supportive services, including security and meals. These costs are also inclusive of siting RVs from people relocated from the waterways or other areas of the city. The forecast assumes the program begins in June 2025 and runs through June 2026. After this period, the City intends to negotiate with a philanthropic developer to purchase the participating hotels. Under this agreement, the hotels would be leased back to the City at no cost until they are redeveloped into permanent housing. During this lease period, the City would no longer bear the cost of hotel room fees but would continue funding supportive services for residents. The projected cost for this phase is \$6.7 million in 2026-2027, rising to \$7.0 million in 2027-2028. Once the developer initiates redevelopment, occupants would transition to other interim housing sites or permanent supportive housing, at which point the City would end supportive service funding in 2028-2029 and the hotels would be redeveloped into a permanent housing in future years.

The cost of sheltering unhoused residents from the waterways is more expensive than the ongoing costs contemplated in the 2024-2025 Adopted Operating Budget. However, the difficulties of locating suitable land for more safe sleeping sites and the long timeline of their development make safe sleeping sites practically infeasible in the near term; more timely solutions are needed to transition unhoused residents from the waterways. Further, the unique opportunity to leverage resources from a philanthropic developer to ultimately create more housing opportunities in the long term cements this approach as a prudent alternative.

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### *Major Repairs and Maintenance Costs*

While day-to-day or minor repair costs fall under the responsibility of the operators, significant repairs and maintenance tasks are managed and funded by the Public Works Department. As more sites become operational, there is an expectation of gradual increases in staffing and contractual services necessary to support large-scale repair and maintenance efforts, ensuring the longevity and functionality of these housing solutions. As the Public Works Department only recently took over the responsibility for major repairs and maintenance, these costs are expected to be adjusted in future forecasts.

### *Construction Costs*

Construction expenses cover both expansion and new development costs. The actual construction costs are subject to City Council approval when the construction contract is awarded and will vary from estimates as project designs are refined, bids are received, or unforeseen construction expenses. Key assumptions are included below.

- **Rue Ferrari (expansion).** The construction costs for expanding the Rue Ferrari site are estimated at \$28.1 million starting in 2024-2025. Of this amount, 75% is estimated to be spent in 2024-2025 and the remaining amount of \$7.2 million will be spent in 2025-2026. The total cost per bed for the expansion is approximately \$207,000.
- **Cerone.** For the development of Cerone, the construction cost is projected at \$24.1 million, which includes a contribution of \$12.7 million from the State. This cost assumes a per bed cost amount of \$120,500, aligning more closely with the Cherry interim housing site per bed construction cost. Approximately \$6.0 million or 25% percent of the total is expected to be encumbered or spent in 2024-2025, with the remaining \$18.1 million allocated for 2025-2026.
- **Cherry.** Developing the Cherry site is anticipated to cost \$18.35 million based on the City Council approved budget, but this is subject to change with contract negotiations. Approximately \$4.6 million or 25% percent of the total is expected to be encumbered or spent in 2024-2025, with the remaining \$13.8 million allocated for 2025-2026. This amount equates to a projected construction cost of approximately \$135,000 per bed.