

# INTERIM HOUSING FORECAST

## Introduction

The City of San José prioritizes interim housing as a key strategy to reducing unsheltered homelessness, providing temporary shelter and support aimed at helping participants transition into permanent housing. The Interim Housing Forecast delivers a concise financial overview for fiscal years 2026-2027 to 2030-2031, focusing on the expected revenues and costs related to interim housing initiatives that provide over 2,100 beds across an inventory of interim housing units consisting of 1,084 tiny homes (bridge community housing sites and emergency interim housing sites), 243 converted motels and hotel rooms, 128 supportive parking sites, 56 safe sleeping sites, and 251 leased motel program units. In addition, the Forecast includes the City’s motel voucher program, which has also been funded in prior years, since this program serves as an interim housing solution.

## Key Assumptions Underlying the Financial Forecast

The financial outlook for San José’s interim housing portfolio is based on several assumptions regarding anticipated funding sources and projected expenditures. Actual revenues and costs may differ, and adjustments will be made as circumstances evolve. This forecast includes only those funding sources that have already been secured or are highly likely to be received. As these resources are not sufficient to meet projected needs (see discussion below), the City will continue to actively seek additional funding from federal, State, and regional partners. Addressing unsheltered homelessness requires coordinated support across the broader community and all levels of government.

As shown in the following Table 1, for the continued development and operations of the City’s interim housing portfolio, ongoing General Fund contributions are required throughout the five-year forecast period and beyond.

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

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
Estimated Available Funding*	80.0	69.6	55.1	57.0	56.4
Interim Housing Costs	94.1	98.2	85.5	89.0	92.8
Surplus / (Shortfall)	(14.1)	(28.5)	(30.4)	(32.0)	(36.5)
<b>Required Ongoing General Fund Contributions</b>	<b>15.0</b>	<b>29.0</b>	<b>31.0</b>	<b>32.0</b>	<b>37.0</b>
Revised Surplus / (Shortfall)	0.9	0.5	0.6	0.0	0.5

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

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## Key Assumptions Underlying the Financial Forecast

Over the past several years, the City's interim housing portfolio has been sustained by significant infusions of external funding from the federal government and the State of California, and previous one-time contributions from the General Fund. These resources were necessary to support the build-out of several new sites, all of which are expected to be completed by the end of 2025-2026.

Beginning in 2026-2027, funding for interim housing shifts exclusively to ongoing operations, as no additional capital development is assumed in the Forecast. During this period, the City will focus on optimizing operations and identify cost efficiencies across the portfolio. The Forecast assumes that all federal sources will be fully expended by the end of 2026-2027, all state funding by the end of 2027-2028, all County funding by the end of 2028-2029, and all prior one-time City funded allocations by the end of 2026-2027.

As these temporary funding sources are exhausted, sustaining the City's interim housing operations at levels directed by the City Council will require ongoing support from Real Property Transfer Tax revenue (Measure E) and the General Fund. The Forecast assumes Measure E contributions of \$43.5 million in 2026-2027, increasing to \$56.4 million by 2030-2031. General Fund contributions are assumed at \$15.0 million in 2026-2027 and increasing to \$37.0 million by 2030-2031. 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 2026-2027 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 Clara, and City. The federal government had previously provided funds for interim housing support, but those resources are anticipated to be fully expended in 2026-2027. The following is a discussion of the revenue sources in Table 2: Interim Housing Funding Sources.

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

Sources	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
<b>External Funding</b>	<b>33.5</b>	<b>20.9</b>	<b>2.6</b>	<b>-</b>	<b>-</b>
Federal	3.5	-	-	-	-
County	3.2	6.1	2.6	-	-
State	26.8	14.8	-	-	-
Homeless Housing Assistance and Prevention Grant	19.9	10.6	-	-	-
Homekey Grant	4.9	-	-	-	-
Other	2.0	4.3	-	-	-
<b>City Funding</b>	<b>46.5</b>	<b>47.8</b>	<b>52.1</b>	<b>56.4</b>	<b>56.4</b>
Measure E (Ongoing)	43.5	47.8	52.1	56.4	56.4
Measure E (Prior Year Allocations)	1.7	-	-	-	-
Carry-Over Funding (One-Time)	1.3	-	-	-	-
<b>Total</b>	<b>76.5</b>	<b>68.7</b>	<b>54.6</b>	<b>56.4</b>	<b>56.4</b>

## External Funding Sources

- Federal Awards, U.S. Department of Housing and Urban Development:**  
 The City has been allocated federal earmark funding totaling \$3.5 million, including \$2.5 million for operations of First Street Interim Housing site, \$1.0 million for expansion of the Rue-Ferrari Interim Housing site, and \$750,000 for operations at the Mabury Bridge Housing Community Site. Although these funds have been allocated, the City is required to submit applications to access the funding. Staff anticipates award and disbursement of the funds in 2026-2027.
- County of Santa Clara:** Through County of Santa Clara regional partners, \$3.2 million is anticipated in 2026-2027, \$6.1 million in 2027-2028, and \$2.6 million in 2028-2029 to support operations at the Pacific Motel Inn, Arena Hotel, and Branham and Monterey interim housing site. The City has executed one-year agreements with two additional one-year renewal options with the Santa Clara County Housing Authority (SCCHA) to reimburse operating expenditures at the Pacific Motel Inn and Arena Hotel for occupants of these sites referred by the SCHHA with project-based vouchers. In addition, the County of Santa Clara’s Office of Supportive Housing will provide funding for the operations of the Branham-Monterey interim housing site.
- State of California, HHAP (Homeless Housing Assistance and Prevention) Program:**  
 The single largest source of external funding, the City has consistently secured HHAP grant funds over the last several years. The City expects to spend the \$19.9 million for interim housing from HHAP Round 5 and HHAP Round 6 in 2026-2027, and another \$10.6 million from HHAP Round 6 in 2027-2028. While the City has applied for HHAP Round 6, it currently waiting for state award. It is important to note that the State recently announced it is shifting the accountability and distribution of HHAP funds toward a regional allocation 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.

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- **State of California, Homekey Funding:** Another cornerstone of state support, Project Homekey, facilitates the conversion of hotels, 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. Of the Homekey funds, \$4.9 million is expected to remain in 2026-2027, and will be used to subsidize the operations of the Branham-Monterey interim housing site.
- **State of California, Permanent Local Housing Allocation (PLHA) Program (State Senate Bill 2):** For several years, the City has received resources from the PLHA State program, the majority of which are programmed to support interim housing operations. A total of \$6.3 million in PLHA Round 4 grants is expected to be available in 2026-2027 and 2027-2028.

### *City Funding*

- **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 \$2.3 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 and preservation of affordable housing, homeless prevention, and homelessness sheltering and support programs.

For 2025-2026, Measure E collections are currently estimated at \$55.0 million. Based on the receipts through January 2026 and historical trends, revenues could exceed this estimate by year-end; however, this revenue source remains volatile, as it is significantly influenced by high value commercial property transactions that are difficult to predict. Looking ahead, Real Property Transfer Tax revenues are expected to steadily increase. Annual collections are projected to rise from \$55.0 million in 2026-2027 to \$70.0 million by 2029-2030, stabilizing at that level through 2030-2031.

As part of the 2025-2026 Adopted Budget, City Council Policy 1-18, Section 22, was modified to reflect updated percentage allocations for the spending of Measure E revenues. After preserving 5% of revenues for program administration, up to 90% of the remaining revenues may be used on homeless sheltering and support programs. This forecast assumes that the entire 90% allocation is prioritized to support homeless support and sheltering services, with \$43.5 million allocated to the Interim Housing Portfolio in 2026-2027, increasing to \$47.8 million in 2027-2028, \$52.1 million in 2028-2029, and \$56.4 million in 2029-2030 and 2030-2031. Prior year approved Measure E funding previously allocated as a local match for Project Homekey funding of \$1.7 million is anticipated to remain available for 2026-2027 to support operating costs at the Arena Hotel and Pacific Motor Inn Homekey-funded sites.

- **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 2026-2027, no remaining funds are expected to be carried over from 2025-2026.

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## Expenditure Assumptions

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

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
<b>Bridge Housing Communities / Emergency Interim Housing (1,084 units)</b>					
Mabury (38 units)					
Operations	2.5	2.6	2.7	2.8	3.0
Felipe (39 units)					
Operations	2.7	2.8	2.9	3.0	3.2
Bernal-Monterey (78 units)					
Operations	3.5	3.7	3.8	4.0	4.2
Rue Ferrari (190 units)					
Operations	7.4	7.8	8.1	8.5	8.9
Construction	-	-	-	-	-
Evans Lane (48 units)					
Operations	5.2	5.5	5.7	5.9	6.2
Guadalupe (96 units)					
Operations	3.5	3.7	3.8	4.0	4.2
Branham-Monterey (168 units)					
Operations	6.2	6.5	6.8	7.1	7.4
Construction	-	-	-	-	-
Via del Oro (135 units)					
Operations	5.2	5.4	5.6	5.8	6.2
Construction	-	-	-	-	-
Cerone (162 units)					
Operations	6.2	6.6	6.9	7.2	7.5
Lease	0.4	0.4	0.4	0.4	0.4
Construction	-	-	-	-	-
Cherry (130 units)					
Operations	5.0	5.2	5.5	5.7	6.0
Construction	-	-	-	-	-
<b>Motel / Hotel Conversions (243 converted hotel rooms)</b>					
First Street Interim Housing (39 rooms)*					
Operations	-	-	-	-	-
Construction	-	-	-	-	-
Plaza Hotel (43 rooms)					
Operations	2.6	2.7	2.8	2.9	3.1
Arena Hotel (89 rooms)					
Operations	4.7	4.9	5.1	5.3	5.6
Pacific Motor Inn (72 rooms)					
Operations	4.1	4.3	4.4	4.6	4.9
<b>Supportive Safe Parking (128 RV spaces)</b>					
Santa Teresa Supportive Parking (42 RV spaces)					
Operations	1.6	1.6	1.7	1.8	1.9
Construction	-	-	-	-	-
Berryessa Supporting Parking (86 RV spaces)					
Lease	1.8	1.9	2.0	2.0	2.1
Construction	-	-	-	-	-
<b>Navigation Hub, Motel Program, and Motel Voucher Program (307 units)</b>					
Taylor Street Navigation Center/Hub (56 spaces)					
Operations	2.5	2.6	2.7	2.9	3.0
Construction	-	-	-	-	-
Motel Program (251 units)					
Operations	15.5	16.2	-	-	-
Construction	-	-	-	-	-
Motel Voucher Program					
Operations	5.6	5.9	6.2	6.4	6.7
<b>Major Repair and Maintenance</b>					
Staff and Contractual Services	2.7	2.8	2.9	3.0	3.1
Maintenance Reserve	2.3	2.3	2.3	2.3	2.3
<b>Total</b>	<b>94.1</b>	<b>98.2</b>	<b>85.5</b>	<b>89.0</b>	<b>92.8</b>

\*The City is partially supporting operating costs at First Street Interim Housing in 2026-2027 using funds previously encumbered for the Santa Clara County Housing Authority. No additional allocations are planned in the Forecast.

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Estimated costs to 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 operational expenses across sites expected to be operational by the end of 2025-2026. Operational costs cover the necessary outlays for running the sites post-completion, including staffing, supplies, utilities, leases, and security. No additional sites are expected to be under development during the forecast period, so there are no construction costs identified.

### *Operating Costs*

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. This forecast includes the following assumptions for operating costs beginning July 1, 2026.

- **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 2024-2025 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 partial year operations, projections are based on pro-rated agreement terms or actual monthly costs.
- **Moteling Program.** A program to provide temporary hotel/motel stays for individuals living along the waterways is projected to cost \$15.5 million in 2026-2027 and \$16.2 million in 2027-2028. This cost covers both hotel/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 will run through June 2028. The City intends to negotiate with a philanthropic developer to purchase the participating hotels. 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.

While a substantial investment, the Interim Housing Program is still relatively new, and the City continues to refine program operations and assumptions to best inform funding needs. The additional experience running the program and an increasingly rigorous approach to the bidding and scoping of contracts has allowed for meaningful cost savings. Table 4: 2026-2027 Operating Cost Comparisons, compares the estimated operating costs for each major interim housing category in 2026-2027 between this Forecast and the 2025 Forecast.

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**Table 4: 2026-2027 Site Operating Cost Comparisons (\$ in millions)**

	2025 Forecast	2026 Forecast	Increase / (Decrease)	% Change
Bridge Housing Communities / Emergency Interim Housing	56.3	47.9	(8.4)	-15.0%
Motel/Hotel Conversions	13.0	11.4	(1.6)	-12.4%
Supportive Safe Parking	6.9	6.2	(0.7)	-9.9%
Navigation Hub	2.1	2.5	0.4	19.4%
Motel Program*	6.7	15.5	8.8	130.9%
<b>Total</b>	<b>85.0</b>	<b>83.5</b>	<b>(1.5)</b>	<b>-1.8%</b>

\*The 2025 Forecast assumed that property ownership within the Motel Program would transition to a third-party in 2026-2027; however, the City now expects to retain these properties through 2027-2028.

For nearly all interim housing categories, the anticipated site operating costs in 2026-2027 are lower than previously projected. This decrease is mainly attributable to additional history and experience with each site, allowing for better alignment between actual and forecasted costs, minor adjustments to service levels at each site to optimize operations, and the Housing Department's effort to centralize certain services, a process that is still ongoing. Key actions taken are highlighted below:

- Centralizing security costs.** Security services were previously included in the operating agreements for each site. Staff issued a request for proposals to centralize security services under one agreement for all interim housing sites. Centralizing security services is estimated to result in savings of approximately \$899,000, or 14.5%, compared to the combined budget of \$6.2 million across all sites.
- Meals budget alignment.** The budget for meals has been aligned to prior year actuals at most sites, except for sites serving families (Evans Lane, Bristol, Fontaine, and Motel Voucher Program) where it is assumed that more meals will be provided per unit. The meals budget alignment results in savings of approximately \$550,000, or 11.0%, compared to the 2025-2026 meals budget of \$5.1 million.
- Property maintenance budget alignment.** The property maintenance budget for each site has been revised to align with prior year actuals for sites that were fully operational in 2024-2025. Newer sites that came online in 2025-2026 such as Via del Oro, Cherry, and Cerone are estimated to have an average maintenance cost of \$350,000 per site based on actual costs across all Tiny Home locations. Setting the budget based on the actual maintenance cost per site plus an asset management contingency for each unit results in maintenance cost savings of approximately \$381,000, or 5.1%, compared to the previous budget of \$7.4 million. Additionally, an RFP underway to centralize property maintenance may likely yield additional cost savings that would be recognized in the future.

### *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. The Forecast assumes maintenance staffing costs of \$1.6 million in 2026-2027 escalated by 3.5% to \$1.8 million in 2030-2031 and maintenance contract costs of \$669,000 in 2026-2027 projected to increase by 4.5% annually to \$798,000 in 2030-2031. The Forecast includes a maintenance reserve of \$2.25 million for unanticipated large-scale repair and maintenance needs.

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### *Construction Costs*

The build out of all sites is expected to be completed in 2025-2026, so there are no construction costs assumed in the Forecast.