

County of Santa Clara

Office of Supportive Housing


150 West Tasman Drive
San Jose, CA 95134
(408) 278-6400 Main
(669) 220-1444 Fax



May 16, 2023

TO: Honorable Members of the Board of Supervisors
Jeffrey V. Smith, M.D., J.D., County Executive

FROM: Ky Le, Deputy County Executive

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SUBJECT: Potential Changes to City of San José Measure E Spending Plan

Summary

The City of San José Administration (City Administration) is proposing to substantially alter expenditure plans for \$137 million in funding from Measure E, a real estate transfer tax on transactions of more than \$2 million. Voters approved Measure E in March 2020. Of the \$137 million total, \$87 million are from funds that were not spent in FYs 2021, 2022, and 2023 and \$50 million are from projected revenues for FY 2024.

In the proposed change, all FY 2024 Measure E funds that would have been allocated to permanent housing would be redirected to fund shelters and other short-term strategies. The proposed change would also impact projects in the development pipeline including projects undertaken jointly by the County and the City.

While most organizations have focused on the redirection of FY 2024 Measure E affordable housing funds, the impact of the City Administration's proposal is best understood by also considering unspent Measure E affordable housing funds from previous fiscal years. If the City Council were to maintain its current expenditure policy, affordable housing projects would have access to nearly \$106 million in funding including unspent funds from previous fiscal years and projected revenues in FY 2024. The City Administration's proposal would reduce this commitment to affordable housing by redirecting \$53 million to other uses including nearly \$29 million for shelters and over \$15 million for a reserve.

The City Administration's proposal would require approval by a two-thirds majority of the San José City Council (City Council) which will conduct hearings on May 16, 2023, and on June 12, 2023. On May 11, 2023, the City of San José Housing and Community Development Commission (HCDC) unanimously opposed the City Administration's proposal. Several organizations, including Destination: Home, the Corporation for Supportive Housing, the National Alliance to End Homelessness, the Santa Clara County Affordable Housing Network, the Non-Profit Housing Association of Northern California,

Board of Supervisors: Sylvia Arenas, Cindy Chavez, Otto Lee, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith

SV@Home, and the Valley Transportation Authority (VTA) have submitted letters urging the City Council to reject the City Administration's proposal.

Background

Since passage of the 2016 Measure A Affordable Housing Bond (Housing Bond), the County and its partners have substantially increased the supply of supportive and affordable housing. For example, developers have used Housing Bond funds to add 1,465 new apartments and another 1,354 are under construction.

Measure E has been critical to our countywide collective approach to reducing and preventing homelessness. The City Council previously took action to ensure that over 70% of funds would be dedicated to increasing the supply of permanent housing, especially supportive housing, and housing affordable to extremely low-income persons. The combination of the Housing Bond, the City's prioritization of Measure E funds for affordable housing development, the partnership of other cities, the County's commitment to providing services for permanent supportive housing residents, the Santa Clara County Housing Authority's development experience and housing vouchers, and Destination: Home's success in raising private capital has contributed to our success.

These partnerships have also established a robust pipeline of permanent, affordable housing developments. The Office of Supportive Housing (OSH) is aware of at least 60 projects with unit counts commonly ranging from 60 to 110 units per project. Of the 60 potential projects countywide, at least 50 are in San José and could potentially provide more than 3,000 affordable multi-family rental housing units with support from Measure E funds.

Potential Impacts

While the City Administration's proposal would support certain aspects of the 2020 Community Plan to End Homelessness, the redirection of \$53 million away from permanent housing would negatively impact affordable housing development in San José, and potentially throughout Santa Clara County beyond the next year. The City Administration's proposal, which flows from Mayor Mahan's March Budget Message, is already disrupting long-standing partnerships and projects.

First, County staff are concerned about impacts to the most "shovel ready" San José projects, including projects with entitlements, commitments of Housing Bond funds, or that have preliminary funding commitments from the City. Staff from both agencies need more time to work with partners to fully assess and mitigate impacts. While City staff's [May 16, 2023, report](#) indicates that four developments would be funded by Measure E in fall 2023 and winter 2024, OSH is aware of at least six additional San José projects which may have assumed Measure E funding in FY 2024.¹ These projects are likely to produce between 350 and 700 multi-family rental units, depending on entitlements, and would likely move forward immediately if City funds were committed within the next year. With reduced Measure E

¹ The six projects would be located in Supervisorial Districts 1, 2, 3, and 4 and San Jose Council Districts 3, 4, 5, 6, and 10.

funding for affordable housing, the six projects and others may experience compounding delays and increased costs.

In addition, the City Administration’s proposal to reduce affordable housing funds may require the City to shift funding from one project to another. For example, on May 8, 2023, the City rescinded its funding commitment to the Algarve Apartments project, which was awarded \$11.5 million in Housing Bond funds and had received a commitment of \$12.6 million from the City. For the last year, County and City staff have worked with the co-developers of the Algarve Apartments project to remove critical project barriers and Allied Housing executed a buyout agreement with Reed Realty Advisors LLC on February 28, 2023. The project was expected to proceed with seeking additional financing and environmental remediation after Board approval of the agreement. OSH anticipates providing the Board with an update in fall 2023.²

Second, while the City Administration has indicated that its proposal is only a “one-time” redirection of funds, a lack of clarity, stability and communication about the City’s intent could disrupt projects that are further down the pipeline. Developers may choose to put current pipeline projects on hold and/or suspend their work in seeking new projects in San José and Santa Clara County until future opportunities for local funding are more definite. This could cause delays that are significantly longer than one year.

Maintaining a robust, stable, and organized development pipeline is also critical to leveraging State and Federal funds, especially competitive and cyclical Low-Income Housing Tax Credits. Redirection of existing funds and uncertainty about future funds may pause some development activity or force many projects to compete for available funds in the subsequent year, thus creating a bottleneck in the affordable housing development pipeline countywide. Delays could impact more than 1,000 units at projects on County-controlled sites (e.g., the proposed African American Cultural Center project on The Alameda) and on transit-oriented development sites being developed in partnership with VTA.

cc: Chief Board Aides
Greta Hansen, Chief Operating Officer
James R. Williams, County Counsel
Consuelo Hernandez, Director, Office of Supportive Housing
Tiffany Lennear, Clerk of the Board of Supervisors

² The Algarve Apartments would be located in Supervisorial District 2 and San Jose Council District 3.