

February 28, 2022

MEMORANDUM

To: Public Assets and Homelessness Committee
From: Jeff Simms, Traci Ratzliff, and Tom Mikesell, Analysts
Subject: Estimated Funding to Continue JustCARE

On March 2, 2022, the Public Assets and Homelessness Committee will discuss the JustCARE program, a collaboration of multiple service providers led by Purpose, Dignity, Action (PDA, formerly the Public Defender Association). At the request of the chair, Central Staff compiled the following estimates to inform the Committee's discussion:

1. Cost for the purchase of hotels totaling 100 – 150 hotel rooms;
2. Debt service for the estimated capital cost; and
3. Operational cost for JustCARE for 100 – 150 rooms.

Background

The City of Seattle currently provides funds to JustCARE through two separate agreements with King County's Department of Community and Human Services (DCHS). The first contract for \$4.6 million was completed in September 2021 (an associated contract for one-time startup costs brought the total cost of this project to approximately \$5.5 million) to operate 89 hotel shelter beds until June 30, 2022. The second contract for \$7.5 million was completed in December 2021 to match the County's investment of \$7.5 million to operate 150 hotel shelter beds. The second contract supports those 150 beds from January 1, 2022, through June 30, 2022. At this time all of these hotel shelter beds are expected to phase out operations prior to June 30, 2022, in order to ensure all clients can be moved into permanent housing or other locations before services cease.

Capital Costs

How much would it cost to acquire hotels for the longer-term continuation of hotel sheltering programs like JustCARE?

To date, City-funded hotel shelter programs have leased hotel rooms, rather than purchasing hotels, and the Office of Housing has not recently acquired hotels for use as housing. However, King County (KC) acquired several hotels utilizing funds from the Health through Housing sales tax that can be used for estimation purposes. Based on KC's recent acquisitions (see Table 1), acquiring hotels to provide 100 rooms for hotel sheltering would likely require between \$12 million and \$31 million (\$116,000 to \$313,000 per bed). Providing 150 rooms would require an estimated \$17 million to \$47 million. Using the average cost per bed for these properties, 100 hotel rooms would cost an estimated \$21 million, and 150 would cost an estimated \$32 million. These estimates only cover the purchase of the building, not any costs for improvements or modifications.

Table 1: King County's Health through Housing Sales Tax Acquisition Costs

Project Name	Address	Units	Acquisition Cost	Cost Per Bed
Seattle Uptown	505 First Ave N, Seattle	80	\$16,500,000	\$206,000
Renton	1150 Oakesdale Ave SW, Renton	110	\$28,600,000	\$260,000
North Seattle Aurora	14115 Aurora Ave N, Seattle	99	\$17,500,000	\$177,000
Redmond	2122 152 nd Ave NE, Redmond	144	\$28,250,000	\$196,000
Auburn	9 16 th Street NW, Auburn	102	\$11,800,000	\$116,000
Federal Way	400 S 320 th St, Federal Way	101	\$23,000,000	\$228,000
North Seattle Stone	13300 North Stone Ave, Seattle	131	\$41,000,000	\$313,000
Average Cost Per Bed				\$214,000

Debt Service

What are the estimated annual debt service costs to finance the rapid acquisition of hotels discussed above?

This estimate assumes issuing tax-exempt bonds with an assumed 4.0 interest rate, a 20-year term, a 3.0 percent cost of issuance, and with repayment of principal beginning in 2023. The cost of issuance is added to the principal needed to purchase the hotels. The cost of issuance and annual debt service vary depending on the final acquisition costs of hotels, as discussed above. This analysis uses the average cost per bed shown in Table 1 to estimate those amounts. The annual debt service would be approximately \$1.6 million for 100 hotel rooms. For 150 hotel rooms, the annual debt service is expected to be \$2.4 million. At this time, no source of funds has been identified to pay the debt service on such bonds.

Operational Funding

What are the estimated annual costs to operate 100-150 rooms for the JustCARE program?

Funding to operate JustCARE past June 30, 2022, has not been identified, even if buildings were acquired for use by the program. The operational cost per bed varies based on the total number of beds in operation. In particular, costs for specialized security and street outreach are more static than other service costs. As such, economies of scale occur for those service pieces. Based on the costs outlined in the contract to operate 150 hotel shelter beds using both County and City funds and known cost increases for 2022, JustCARE requires nearly \$49,000 per bed to provide the services and staffing for hotel sheltering (i.e., all costs excluding the lease and modification of hotel rooms). As a result, the estimated annual operational cost would be nearly:

- \$4.9 million for 100 beds; and
- \$7.3 million for 150 beds.

These estimates could vary depending on the number of beds funded and the types of services provided (e.g., on-site behavioral health services).

Next Steps

The JustCARE program has already begun reducing new entries to prepare for the cessation of funding on June 30, 2022. New funding will be required to maintain either contract with JustCARE after that date. Governor Inslee's proposed 2022 supplemental operating and capital budgets for the state includes [homelessness funding](#) that, if approved, could potentially support some of the activities contemplated above. Final appropriations will not occur until later in the state legislative session, which ends on March 10. The mid-year supplemental budget from the Mayor is anticipated for release sometime over the summer. Given the budget challenges the City is anticipating in 2023 due to the City's General Fund (GF) expenditures outpacing projected GF revenues, increasing ongoing GF expenditures to cover the debt service and ongoing operations costs will exacerbate the problems unless a dedicated source of funds is identified for this purpose or the City's economic recovery accelerates significantly.

cc: Aly Pennucci, Interim Director
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