

72. Approve the use of \$500,000 in Measure K funding to assist Housing Matters with the acquisition of the Santa Cruz Inn, located at 2950 Soquel Avenue in the unincorporated area, for use as a behavioral health bridge housing resource through at least December 2029, and take related actions ()



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: Human Services Department

Subject: Approve Measure K Investment to Expand Behavioral Health Bridge Housing Resources

Meeting Date: June 24, 2025

Formal Title: Approve the use of \$500,000 in Measure K funding to assist Housing Matters with the acquisition of the Santa Cruz Inn, located at 2950 Soquel Avenue in the unincorporated area, for use as a behavioral health bridge housing resource through at least December 2029, and take related actions

Recommended Actions

1. Approve the rebudget and use of \$500,000 of Fiscal Year (FY) 2024-25 Measure K funding in FY 2025-26, currently in the Human Services Department (HSD) budget and allocated to homelessness programs and services, to support the acquisition of the Santa Cruz Inn, located at 2950 Soquel Avenue in the unincorporated area, by Housing Matters for use as a behavioral health bridge housing resource at least through December 2029;
2. Authorize the HSD Director and designee(s) to develop and record a regulatory agreement and deed of trust, approved as to form by County Counsel, on the title of the Santa Cruz Inn property prior to disbursement of Measure K funding to Housing Matters;
3. Authorize HSD to amend its existing agreement with Housing Matters (Contract No. 25M0002) for "Mid-County Low Barrier Navigation Center Services," pending approval as to form from County Counsel;
4. Authorize the recordation of a forgivable loan and regulatory agreement for the property; and
5. Direct HSD to report on the status of this property acquisition and any associated sheltering operations at their next HSD Housing for Health Annual Update for the Board, scheduled for September 30, 2025.

Executive Summary

The Human Services Department requests approval for the investment of \$500,000 of Measure K funding from its FY 2024-25 budget to support Housing Matters acquisition of the Santa Cruz Inn, located at 2950 Soquel Avenue in the unincorporated area, for use as a behavioral health bridge housing resource through December 31, 2029. The acquisition involves a collaboration between the City of Santa Cruz, the County of Santa Cruz, and Housing Matters and includes up to \$2,000,000 in Encampment Resolution Funding (ERF) from the City of Santa Cruz, \$500,000 of County Measure K funding, and at least \$2,400,000 in private funds from Housing Matters. Pending Housing Matters acquisition of the property and preparation of the site, the property will serve as an emergency housing resource for unsheltered individuals with behavioral health conditions.

Discussion

In March of 2024, voters in Santa Cruz County approved the Measure K half-cent sales tax increase in County unincorporated areas. As referenced in a supplemental report to the Adopted Budget ([DOC-2024-779](#)), one of the stated purposes in FY 2024-25 was to allocate \$1 million of Measure K funding to the Human Services Department (HSD) for “homelessness programs and services, including the Behavioral Health Bridge Housing project and Youth Homekey project in unincorporated areas.”

HSD partnered with the Health Services Agency and Community Development and Infrastructure Department to move forward with the development of a new low-barrier navigation center for individuals with serious behavioral health conditions experiencing homelessness at 2202 Soquel Avenue on County-owned property in the unincorporated area. Funding of the development of this capital project comes primarily from two California Department of Health Care Services (DHCS) grants, Behavioral Health Bridge Housing (BHBH) and Whole Person Care Housing funds. HSD planned to invest \$500,000 of FY 2024-25 Measure K funding to support the creation and operation of this new low-barrier navigation center, and the department completed a Vendor Pool procurement for an operator of the future site resulting in a contract with Housing Matters. Completion of the project has been delayed with an anticipated opening during the first quarter of 2026, and the currently known development cost for the site can be covered with existing DHCS funds.

Due to delays in the completion of the BHBH site, DHCS requested that the County expedite securing temporary housing resources for individuals experiencing homelessness with serious behavioral health conditions. To comply with this request, the agreement (Contract 25M0002) with Housing Matters was modified slightly from its original intention to support the leasing of private hotel rooms for program participants while the new low-barrier navigation center was under construction. This agreement included a budget line item of approximately \$500,000 for hotel leasing and is currently scheduled to terminate December 31, 2025.

The City of Santa Cruz secured a California Encampment Resolution Fund (ERF) grant that included nearly \$2,000,000 to expand shelter capacity on the Housing Matters Coral Street campus, for individuals living in encampments in the Harvey West neighborhood. Due to current construction on the campus and ERF funding timelines, the City pivoted to use their funding for a hotel leasing or acquisition project.

To best serve the homeless population and fulfill contract requirements for hotel leasing, Housing Matters identified an opportunity to purchase the Santa Cruz Inn, a 20-unit motel, at 2950 Soquel Avenue in the unincorporated area. While neither Housing Matters, the County, or City can individually fund the acquisition, there was a shared interest in the site as a long-term solution and an opportunity to increase the emergency housing capacity within the County.

This proposal has been developed in a collaborative manner by Housing Matters, the County, and the City of Santa Cruz to address mutual goals of each entity. The City and County have each agreed to provide separate financing commitments to Housing Matters to assist in their acquisition of this property. Housing Matters is also committing at least \$2.4 million of its own funds toward the acquisition. The public agency financing will be secured by a deed of trust and a regulatory agreement recorded against title. Housing Matters will be the sole owner and operator of this facility, subject to annual monitoring by the City and County.

Should the acquisition be successful, all three parties have agreed to use the site for emergency hotel stays for individuals experiencing homelessness with serious behavioral health conditions through at least December 31, 2029. The site has 20 motel rooms and can accommodate at least 20 guests at a point-in-time, with expected availability on or before mid-October 2025. The acquisition will expand housing and sheltering system resources in unincorporated areas of the County. Funding to support ongoing emergency hotel stay operations and associated services at the site will come from the City's ERF grant, the County's BHBH grant, and Medi-Cal housing community support services and transitional rent benefits. The proposed December 31, 2029, end date reflects the end date for California's current BH-CONNECT Medicaid waiver that includes a transitional rent benefit for individuals with serious behavioral health conditions experiencing homelessness.

A forgivable loan and regulatory agreement will be executed by the County in partnership with the City to restrict Housing Matters use of the property for the specific public purpose outlined in this memo at least through December 31, 2029. HSD is seeking Board approval to negotiate and enter into this agreement, pending approval as to form from County Counsel. Funding would only be disbursed if the acquisition moves forward and the deed of trust and regulatory agreement for the property is executed.

Board approval is being sought to explicitly approve the slightly modified use of funds in the HSD FY 2024-25 budget to support the proposed acquisition of the Santa Cruz Inn, which HSD views as in alignment with the original intention of "homelessness programs and services, including the Behavioral Health Bridge Housing project" in the unincorporated area. If the acquisition proceeds, HSD will need to amend its current agreement (Contract 25M0002) with Housing Matters to reflect a change from a hotel leasing approach to a hotel ownership approach to services, as well as amend the term of the contract to safeguard against potential future construction delays. HSD is seeking approval from the Board to take these actions and provide updates and documents for ratification to the Board at the September 30, 2025, Housing for Health Division annual update.

Financial Impact

Approval of the recommended actions will authorize the rebudget of \$500,000 of FY 2024-25 budgeted Measure K funding for use in FY 2025-26. State funding sources from the City and County will be used to cover emergency hotel voucher operations at the proposed acquisition site throughout FY 2025-26. A mix of funding sources will be required to sustain operations beyond June 30, 2026, and may include the use of some local funds along with state and federal dollars.

Strategic Initiatives

Operational Plan - Attainable Housing

Submitted By:

Randy Morris, Director of Human Services

Recommended By:

Carlos J. Palacios, County Executive Officer

Artificial Intelligence Acknowledgment:

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.