



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Mayor Matt Mahan

SUBJECT: Fiscal Year 2025-2026
Budget Priority Study
Session

DATE: January 6, 2025

Approved

Date: 1/6/25

RECOMMENDATION

- a) Amend the 2024-2025/2025-2026 City Budget Calendar to schedule a two-part Study Session following the regular City Council meeting on February 11, 2025, as follows:
 - i. 2025-2026 Budget Development: Preliminary General Fund Forecast and Impacts to Budget Priorities; and
 - ii. 2025-2026 Budget Development: Reducing Unsheltered Homelessness City Council Focus Area.
- b) Direct the City Manager to prepare an agenda to engage the City Council in a discussion of the preliminary outlook of the General Fund in 2025-2026, potential strategies to address the anticipated shortfall, and potential impacts to City services and tradeoffs that will be discussed during the 2025-2026 Proposed Budget development process.
- c) Direct the City Manager to prepare an agenda to engage the City Council in a strategic planning discussion with the Administration on the housing and shelter components of the Reducing Unsheltered Homelessness City Council Focus Area.

DISCUSSION

The City Charter mandates the Mayor to deliver an annual March Budget Message outlining fiscal priorities for the upcoming year. In collaboration with the City Manager's Office, we have jointly developed the above recommendations outlined in this memorandum that kick-off our annual budget process.

As we have recently learned, our budgetary challenges will be significant next year due to lower-than-anticipated Sales Tax revenues, an overall softening local economy, and continued cost increases to provide basic City services. Facing an ongoing General Fund shortfall that the City Manager preliminarily estimates at \$60 million in 2025-2026, followed by another \$30 million ongoing shortfall in 2026-2027, it will be more important than ever for the City Council to understand the budgetary challenge before us and to give clear direction on our most important

priorities that should be preserved, to the extent feasible, while we work to bring the General Fund back into balance.

There is currently a City Council Study Session scheduled for February 10, 2025 on the preliminary General Fund forecast for 2025-2026 and a discussion on budget priorities. However, given the magnitude of our shortfall and the need for me to hear from my colleagues as we prepare for this year's March Budget Message, I am instead calling for a two-part study session to take place following the regular City Council meeting on February 11, 2025.

The first part of the study session on February 11 should focus on an understanding of the key drivers of the preliminary General Fund forecast for 2025-2026, including economic/revenue and cost components, a discussion of potential budget balancing strategies that could be employed to address the shortfall, and some practical implications of the tradeoffs that the City Council will likely need to consider. This session will ground us in the realities of our budget situation and provide an opportunity for my colleagues and me to discuss how the budget shortfall could be addressed.

The second part of the study session on February 11 should be a strategic planning discussion on housing and shelter components within the Reducing Unsheltered Homelessness Focus Area. While the upcoming budget process will be challenging, given the community's unwavering insistence on making progress, one service level that will need to be preserved is our previous investments in homelessness. This is also the City's newest service—it requires a sustained multi-year strategy involving many outside partners—and we are still learning about the best ways to leverage our limited resources to affect change.

Progress requires multifaceted strategies involving resource allocation, operational alignment, policy reform, intergovernmental advocacy, and sustained leadership from both the Administration and the City Council. Achieving this progress demands clear alignment among all stakeholders—including City Administration, City Council, community organizations, the private and philanthropic sectors, and other government partners—grounded in an evidence-based understanding of current program outcomes, the scale of the challenges, and the policy pathways necessary to bridge gaps.

In this second study session, the Administration should work with the City Council to evaluate current strategies and investments shaping housing and shelter outcomes across the housing continuum. Specifically, the Administration should:

1. Provide a comprehensive analysis of where the City's current housing and shelter strategies are expected to lead in the medium to long term future;
2. Assess projected outcomes based on the current housing and shelter supply trajectory against the scale of the problem; and
3. Develop a framework and timeline for exploring policy alternatives, including potential revenue options, to achieve improved long-term results.

RULES AND OPEN GOVERNMENT COMMITTEE

Jan 15, 2025

Subject: Fiscal Year 2025-2026 Budget Priority Study Session

Page 3

While we go into this session knowing that we do not have all the resources to solve homelessness tomorrow—though I am fully committed to continuing to identify external funding sources that include private contributions—this strategic planning and performance management approach will give us the critical context to make resource allocation decisions through a forward-looking budgetary lens.