



# Memorandum

**TO:** CITY COUNCIL

**FROM:** Mayor Matt Mahan

**SUBJECT:** MARCH BUDGET  
MESSAGE FOR FISCAL  
YEAR 2026-2027

**DATE:** March 9, 2026

**APPROVED:**

A handwritten signature in black ink that reads "Matt Mahan".

## **RECOMMENDATION**

Direct the City Manager to submit a balanced budget for Fiscal Year 2026-2027, guided by the policy direction and framework of priorities outlined in this March Budget Message.

\*\*\*

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2026-2027 March Budget Message for consideration by the City Council and the residents of San José. With City Council approval, this initial framework provides the City Manager with direction to prepare proposals for the City Council's budget deliberations in May and to formulate the Fiscal Year 2026-2027 Proposed Budget.

## **OVERVIEW**

### **I. Continuing Our Commitment to Focus**

The City Council Focus Areas directly reflect the sentiment of our residents, who have clearly and consistently expressed their priorities over the last few years. The 2024-2025 Annual Report on City Services made clear that residents continue to demand progress on reducing homelessness, making housing more affordable, beautifying our community, improving public safety and general affordability. The residents spoke and we listened.

On public safety, we are the only major U.S city to have a 100% solve rate for homicides nearly four years running and crime rates have dropped 15% over the last year. At our next

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 2

homelessness count, we will likely have reached a point where more of our homeless neighbors live indoors than outdoors – a direct outcome of expanding safe, dignified interim housing and shelter. On housing, our fee reforms led to thousands of new homes breaking ground last year. On beautification, last year graffiti on public lands dropped nearly 18% and we removed 5,290 tons of illegal dumping from our neighborhoods. On economic growth, our City issued 6,800 new business certificates, which marks a decade of consecutive net new business growth.

We should be proud that our focused work is making a difference – and San Joséans are seeing results. Since August of 2022, trust in City Hall has increased by nearly 40%. To keep delivering for our residents and rebuilding trust in government, we must double down on the strategies that work. Consistent with the Focus Area and FY 2026-2027 Budget Process timeline presented to City Council Committees in December, I direct the City Manager to return with a Manager's Budget Addenda (MBA) that provides a recommended framework for the next phase of the City Council Focus Areas. The MBA should incorporate the direction contained in this March Budget Message and the lessons learned from this fiscal year's execution of previously directed work. The recommended framework should refine performance measures for the dashboards where appropriate; ensure alignment with budgetary investments and organizational capacity; and provide the Mayor and City Council with a clear, focused, and actionable approach to sustain measurable progress across the Focus Areas in the coming fiscal year.

### **II. Current Budget Outlook**

San José is not immune to the economic headwinds faced by our state. Our current fiscal outlook demands that we make difficult trade-offs to maintain critical core services for our residents. Recommitting to focus reinforces our commitment to fiscal sustainability and cost-effective service delivery.

Job growth remains stagnant with specific sectors like professional/business services and manufacturing losing 8,600 jobs and 3,500 jobs, respectively, in 2025. Our commercial construction sector also faces additional challenges, such as high commercial vacancies – 18.1% in the fourth quarter of 2025 – that are having downstream impacts, reducing development and our overall property valuations. The residential property market has also slowed and homes are staying on the market longer. This trend is contributing to a slower rate of property tax growth – estimated to be 4.0% in 2026-2027 compared to 5.0% just one year prior. Sales tax is growing in 2025-2026, but this level is only 1.2% higher than revenues received in 2022-2023, and the growth anticipated in 2026-2027 is 1.5%. While utility tax revenue is expected to grow by 3.5% in 2026-2027, this growth is not expected to be sustained in future years.

Due to this decelerating revenue growth while our costs continue to climb, the City Manager forecasts an ongoing General Fund shortfall of \$56 million in 2026-2027, with an additional \$27 million anticipated in 2027-2028.

**2027-2031 General Fund Forecast Incremental Surplus/(Shortfall)**

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	Five-Year (Shortfall)
Incremental Surplus/(Shortfall) <sup>1</sup>	(\$56.0 M)	(\$26.8 M)	(\$11.8 M)	\$13.8 M	\$11.6 M	<b>(\$69.2 M)</b>
% of Budget (Based on Expenditures)	3.5%	1.6%	0.7%	0.8%	0.6%	

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2025-2026; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

Source: 2026-2027 City Manager’s Budget Request and 2027-3031 Five-Year Forecast

While these shortfalls look small as a percentage of the total General Fund budget, we know from the February 5th City Council Study Session that only about two-thirds of spending is truly available for reduction in the following fiscal year, as much of our spending is non-discretionary, such as payments for the retirement’s system unfunded actuarial liability and State-mandated spending, or are reimbursed by various fees and charges. Moreover, San José is already one of the most thinly staffed big cities in the country; the number of spending reductions we can make without service level impacts are few.

This means that we need to be clear-eyed about the trade-offs before us. The City Manager will likely need to bring forward reduction proposals that touch a range of City services, including services within the Focus Areas or other important community services. However, this does not mean we should cut indiscriminately – we have the opportunity with this message to focus on the City’s most important priorities and give direction to preserve the City’s core services to the maximum extent possible. In alignment with her 2026-2027 Budget Request, the City Manager should employ the following strategies in the development of the 2026-2027 Proposed Budget that also fully resolves the projected ongoing General Fund shortfall.

- Ensure a comprehensive review of existing spending to identify cost efficiencies and service optimizations that have minimal, if any, noticeable service impacts;
- Increase cost recovery levels for fee-support services, while still being mindful of affordability impacts;
- Identify implementable new revenue streams and include the additional revenues from the ballot measure increasing the Transient Occupancy Tax by 2%, and include a contingency plan of spending reductions should the June ballot measure fail;
- When considering spending reductions,

## CITY COUNCIL

March 9, 2026

### **Subject: March Budget Message for Fiscal Year 2026-2027**

Page 4

- Preserve funding for the City Council Focus Areas and the day-to-day core services of the City to the extent feasible, especially those that are vital to marginalized communities;
- Evaluate services with relatively low levels of activity, overlap with services provided by other organizations, or are otherwise outside of the City's traditional core service delivery functions;
- Recommend a phased approach of certain reductions, allowing for a two-year transition where appropriate to help mitigate impacts; and
- Leverage one-time funding to support one-time uses – including deferred infrastructure projects, technology investments, and a limited suite of one-time service enhancements – one-time funding cannot be used to resolve our ongoing shortfall.

While fortunate to have some limited amount of reserve funding, these General Purpose Reserves currently constitute only 4.9% of budgeted General Fund expenditures, well short of City Council's goal of 10%. We have also seen a sharp decline in the Budget Stabilization Reserve (BSR), which stood at \$63 million in the 2024-2025 Adopted Operating Budget and now stands at only \$12.5 million, as the City has encountered several unexpected expenditure needs and revenue losses over the past two years. As new one-time funding becomes available, we must increase the BSR to ensure the City remains well-positioned to weather any further headwinds that come our way.

### **Reducing Unsheltered Homelessness**

In 2019, San José had one of the highest rates of per capita unsheltered homelessness in the country and nowhere to refer those willing to come indoors. In response to residents' number one concern, we set a clear goal: reduce unsheltered homelessness. Since then, we've matched that goal by optimizing flexible funding and improving collaboration across City departments and with nonprofit and philanthropic partners to deliver significant results.

Today, the City operates nearly 2,200 shelter placements across interim housing, safe parking, and safe sleeping – including 1,000 new placements opened since the start of 2025. Over the same time, unsheltered homelessness has dropped by nearly one-third. Last year, our interim housing system served 2,135 people, of which nearly 70% remain indoors with access to supportive services. Of those who have exited, roughly 30% secured permanent affordable housing, 30% transitioned to another sheltered destination, 8% entered institutional settings, and 7% secured unsubsidized permanent housing.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 5

San José is proving that unsheltered homelessness is solvable. We are creating a model for the rest of California that ends the human suffering on our streets faster and increases quality of life for everyone.

As we complete this phase of shelter expansion, we are shifting focus to system optimization: building on our progress by lowering operating costs without compromising outcomes; increasing successful transitions to permanent housing and self-sufficiency; and deepening our partnerships with the County of Santa Clara (County), State of California (State), and neighboring jurisdictions to, among other initiatives, bring more resources like mental health and addiction services directly to the clients who need it.

### *Reducing Operating Costs*

Last year, the City Manager initiated work in the Housing Department to standardize service delivery and leverage economies of scale across food, security, and property management services at our interim housing sites, with the goal of reducing net operating costs by at least 20% system-wide. By learning and iterating on our service delivery for interim housing, we are currently projecting 15% lower operating costs for emergency interim housing sites compared to last year's forecast, with additional work underway to competitively rebid contracts and find new ways to reduce costs.

As we standardize basic onsite services, site operators can instead focus on delivering quality case management and supportive services, including those that bridge health care and housing. The Focus Area Dashboard for Reducing Unsheltered Homelessness identifies CalAIM reimbursements as a funding source for these services. Thanks to support from the San Francisco Foundation, we're aligning outreach and interim housing operations with available reimbursements to reduce General Fund pressure.

In addition to the great work underway, we must continue to evolve our interim system to make operations more efficient and effective. The City of [Sacramento](#) recently adopted a practical approach, allowing the City to collect modest fees – no more than 30% of clients' income – for stays in interim housing. This approach helps ensure that everyone contributes their fair share toward the services they receive, while keeping housing accessible and focused on long-term stability.

Shared responsibility can take other forms. Some interim housing providers are also piloting innovative models that provide clients with opportunities to care for and serve their community. For example, in our Guadalupe Emergency Interim Housing community and San Diego's Safe Sleeping program, clients provide peer-to-peer support and help maintain a clean, welcoming environment. These opportunities provide purpose and work experience that can assist with future job searches.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 6

From the State to local public agencies, we all have a role to play in ending homelessness. The State's Homeless Housing and Assistance Program (HHAP) currently comprises a quarter of our interim housing portfolio's direct operating costs, but it has recently become a less reliable source of revenue. Meanwhile, San José's efforts provide relief to Valley Water, Caltrans, and other agencies with property within San José City limits.

Taking into account the aforementioned trends and opportunities, the City Manager is directed to return with an MBA summarizing and estimating the impact of the various cost-saving and revenue-generating opportunities for our interim housing system in FY 2026-2027, including standardizing and, in some cases, competitively rebidding service contracts, securing CalAIM reimbursements for qualifying services, establishing a fee-based program akin to Sacramento's, and creating a fee-for-service program that partner agencies can utilize. Further, the City Manager is directed to prioritize advocacy for at least \$1 billion in annual HHAP funding from the State. Finally, the City Manager is directed to work with partners locally and across the State to explore peer-to-peer programs that build confidence and help reduce operating costs.

### *Increasing Successful Transitions to Permanent Housing and Self-Sufficiency*

The City and the Santa Clara County Housing Authority (SCCHA) enjoy a fruitful partnership on many fronts, including our co-funded interim housing community at Pacific Motor Inn (PMI). These units assist clients who are awaiting permanent supportive housing (PSH) apartments and would otherwise be waiting on the streets until their home is move-in ready. Our data shows that clients at PMI experience shorter stays in interim housing and higher rates of exit to permanent housing. With a total of 72 units, 95 clients – nearly 75% of all exits – moved into a PSH unit in 2025. This model works well for the highest-needs individuals in our community. We are eager to expand this partnership model with SCCHA at the Arena Hotel in 2026.

As we seek to increase transitions to permanent housing, we need more pathways for clients who do not qualify for or need the more intensive PSH units. The Housing Department recently surveyed acuity levels, as measured by the Vulnerability Index-Service Prioritization Decision Assistance Tool (VI-SPDAT), across a majority of the City's interim housing sites. About one-third of interim housing sites primarily serve people with moderate or lower acuity levels. Therefore, the City Manager is directed to prioritize low-income, low-acuity individuals from our interim housing system for affordable housing units funded by the City as those units become available. This change is a logical next step to expand pathways to permanent housing for low-income households. The City Manager is further directed to identify common barriers for throughput, such as clients rejecting offers for PSH, and return to Council with policy recommendations to increase throughput and utilization of our interim shelter system.

We must also continue to expand the supply of permanent housing options available for low-income residents. This year, the City leased five motels to rapidly expand interim housing capacity to humanely resolve some of our largest and longest-standing encampments, most notably Columbus Park. When the City began the effort to rehouse and restore Columbus Park,

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 7

approximately 120 lived-in vehicles and 370 people – including 11 children and more than 50 seniors – were living in unsafe conditions in the park. Through intensive outreach and the newly leased motel sites, 254 individuals moved indoors. While this strategy proved effective in bringing hundreds of vulnerable residents – many with complex mental and physical health needs – indoors quickly, operating motel-based interim housing cannot be the final step in their journey. Accordingly, work is underway in the Housing Department to evaluate the most cost- and time-effective pathway to convert select sites to permanent low-income housing, such as Single Room Occupancy units or other permanent low-income housing. The City Manager is directed to accelerate this work and return with a clear acquisition and conversion strategy by Fall 2026.

We must also confront the growing reality that hundreds of our neighbors are living in Recreational Vehicles (RVs) that they view as their most viable form of affordable housing. The City's two safe parking sites – Santa Teresa and Berryessa – represent good-faith efforts to provide stability, sanitation, and case management, but they are not sufficient to meet the need on our streets. We consistently hear from RV dwellers that they want options to retain their vehicles even when other housing options are available, while others prefer to remain in their vehicles long-term. Accordingly, the City Manager is directed to preserve modest funding for the RV buyback program, explore scalable models for extended RV parking – such as working with existing mobilehome parks to expand rentable RV parking – and return to Council with policy recommendations.

### *Strengthening City-County Collaboration*

Preventing homelessness is not just a moral imperative; it is one of the most cost-effective strategies for reducing homelessness in our community. The City, County and Destination:Home launched the Homelessness Prevention System that is a strong example of how our jurisdictions can partner to keep families housed. The model expanded nationwide through the launch of the [Right at Home](#) initiative – backed by years of data highlighting the impact and success here in San José. Over the last funding cycle, the system served over 1,800 households – including 1,238 San José families, or 69% of all households supported – providing an average of \$8,000 in direct financial assistance and roughly \$15,000 in total support when including case management and services over six months. Over 95% of these families remain housed one year later and over 92% avoid entering the shelter system within two years.

The City of San José is proud to be the only city investing millions of dollars into this County-run system year after year. To sustain and grow that impact, the City Manager is directed to preserve 10% of Measure E revenues for homelessness prevention and to explore local, state, federal, and philanthropic funding sources to expand our collective prevention efforts. To further our impact, the Mayor's Office is establishing a new Strategic Partnerships function, supported by the Sobrato Foundation, the San Francisco Foundation, the Silicon Valley Community

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 8

Foundation, and Destination:Home. This role is dedicated to cultivating philanthropic and private investments in local programs that have outsized social benefits, including our joint prevention strategies. The City Manager's Office is directed to work in partnership with the Mayor's Office to augment the City's investments in prevention.

San José is leading the State in reducing unsheltered homelessness. As we continue to invest in prevention, reduce the number of people living on our streets, and mitigate impacts on neighborhoods, we need every city and county in California to do its fair share. Therefore, the City Manager is directed to continue advocating for a statewide "fair share" framework that requires each city and county to invest in prevention and build and operate interim solutions to help end the era of encampments statewide, thereby reducing pressure on our local system.

While we advocate for a statewide framework in Sacramento, we are taking action locally by piloting a fair share approach with our County partners. Thanks to Supervisor Betty Duong's leadership and her colleagues' support, the County is collaborating in new ways with the City to better integrate our systems, align public resources to achieve greater efficiencies, and improve outcomes for our most vulnerable residents.

This work is already underway. The City Manager's Office and Housing Department is working with the County's Office of Supportive Housing, Valley Homeless Healthcare Program, and Behavioral Health Services Department to integrate mobile medical and behavioral health teams at the Rue Ferrari and Bernal Emergency Interim Housing communities. In addition to on-site medical care, community health workers from the County are helping clients obtain Medi-Cal benefits, coordinating referrals to mental health and substance use treatment, and providing transportation to appointments. We appreciate the County's commitment to expanding medical and behavioral health care services to additional City-operated interim housing sites in the coming months.

The City and County are also working to strengthen referral pathways, so that clients in interim housing can more seamlessly access the full continuum of behavioral health beds. The County plans to add to its inventory of existing behavioral health beds by opening a new 77-bed inpatient locked psychiatric hospital at Valley Medical Center in Spring 2026, redeveloping a County-owned site into a new 57-bed Mental Health Rehabilitation Center (MHRC) serving up to 171 individuals annually, and potentially converting its former psychiatric facility into a 16-bed sub-acute MHRC. As the County expands the inventory of behavioral health treatment beds, the City and County will develop referral protocols and training for case managers at the City's interim housing communities. Together, these coordinated efforts will close longstanding gaps in residential and inpatient behavioral health care that have disproportionately impacted San José.

The City and County are also working to increase placements into shelter and permanent housing by streamlining referrals through one system. The City currently manages its own referral system for interim housing – providing outreach workers, completing intake, and managing waitlists. Better integration with the County's Coordinated Entry System (CES) – a one-stop system that

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 9

assesses residents' needs and matches them to available shelter and housing – presents an opportunity to provide approximately 180 additional placements into PSH per year. The City Manager is directed to continue collaborating with the County to integrate 90% of the City's emergency interim housing capacity to CES while maintaining priority for San José residents; the remaining 10% will continue to provide capacity for City-specific needs.

Our colleagues on the Board of Supervisors have also expressed interest in supporting our interim housing communities by sharing in the operating costs where we have aligned service goals. We welcome the opportunity to build on our shared investments in the Branham-Monterey Emergency Interim Housing community and Salvation Army's Hope Community. The City Manager is directed to evaluate our current portfolio and recommend at least two sites where the County can consider direct cost-sharing agreements.

We are excited to advance all of the elements in our new City-County partnership and are eager to measure the impacts. The Bloomberg Harvard City Leadership Initiative is providing a fellow to help us design a system for tracking and reporting on key outcomes. This capacity is critical to identify and report key performance metrics capturing cost savings, successful placements, and other outcomes, which will eventually inform the Reducing Unsheltered Homelessness Focus Area Scorecard. In the meantime, the City Manager is directed to estimate the cost savings associated with our expanded partnership with the County in the forthcoming MBA summarizing other work to reduce net operating costs in our interim housing and homeless services portfolio.

Finally, the Community Plan to End Homelessness for 2025-2030 should serve as the north star for reducing and preventing homelessness countywide. To that end, the City Manager is directed to engage all relevant stakeholders to align the Community Plan to End Homelessness for 2025-2030 with the City's mathematical model for achieving functional zero and the new City-County partnership framework. This alignment will ensure that our shared strategies, investments, and accountability structures are fully coordinated as we work toward the common goal of ending unsheltered homelessness in San José.

### *Outreach, Targeted Interventions, and Workforce Development*

Despite all of our collective efforts, we cannot prevent everyone from falling into homelessness, so we must improve outreach and engagement to increase placements into shelter, housing, and other services. The Housing Department is leading the effort to ensure the City is strategically deploying outreach workers to align with available interim and shelter options, while still responding to needs across San José. In Downtown, which faces acute challenges partly due to the concentration of services supporting our most vulnerable residents and proximity to the County's Main Jail, the San José Downtown Association (SJDA) provides outreach services to supplement City services. As the City completes shelter expansion, improves outreach data tracking, and partners more deeply with the County, SJDA may want to shift their focus back to their traditional core competency of economic development and small business support. Therefore, the City Manager is directed to work with the SJDA to strategically align outreach

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 10

efforts to maximize efficiency and reduce potential duplication of services, allowing them to focus more on small business attraction and retention.

While we have significantly reduced encampments, we are seeing more transient individuals in our neighborhoods and business districts, many of whom exhibit visible behavioral and mental health challenges. Connecting these individuals to appropriate levels of care is an urgent yet complex problem. The City and County are participating in the Bloomberg Harvard City Leadership Initiative which is facilitating coordination across public safety, behavioral health, and shelter and housing systems, beginning with a focus in Downtown where the issue is most visible and acute. The goal is to develop a model that can be expanded citywide. Therefore, the City Manager is directed to continue collaboration with the County as our teams design better outreach, intake, and referral processes and provide a report to the Public Safety, Finance, & Strategic Support (PSFSS) Committee with initial data and findings in Fall 2026.

Homeward Bound is a new but meaningful tool in our broader strategy to reduce unsheltered homelessness by reconnecting individuals with loved ones – often the most transformational support system one can have. Since launching last February, the pilot program has helped 45 people reunite across the country – from New York and Texas to Arizona, Indiana, Colorado, and elsewhere in California – at an average cost of approximately \$750 per person, or \$33,750 total. By comparison, it would have cost the City about \$1.47 million to provide these same individuals with interim housing for just one year, underscoring the program’s cost-effectiveness when reunification is safe and appropriate. While Homeward Bound is not a solution for everyone, it is a practical and compassionate option. Accordingly, the City Manager is directed to carry over remaining funds to continue the program and leverage existing flexible funding for interim housing operators to offer relocation support, including but not limited to helping individuals reunite with loved ones, paying for deposits, and covering basic move-in needs. These pathways improve efficiency, and more importantly, help more people return to stable support networks.

We must also continue to support unhoused residents on their path to self-sufficiency. The San José Bridge (SJ Bridge) program provides job training, supports the development of long-term career goals and job placement, and assists in finding permanent housing. The City Manager is directed to measure the efficacy of SJ Bridge and recommend options for optimizing the program to sustain or increase the number of job placements per year while balancing limited funding sources.

### *Preserving Our Progress*

Thanks to our sustained focus and investments in expanding safe, dignified shelter and housing – in large part as required to comply with our EPA-mandated Municipal Stormwater Permit – San José made measurable progress in reducing large, unmanaged encampments, helping improve public health, reduce pollution, improve water quality, and keep neighborhoods cleaner. Today, the City has established No Encampment Zones (NEZ) along nearly 25 miles of priority

CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 11

waterways, next to shelter and interim housing, and along key corridors where we invested millions in rehousing unhoused residents and clearing long-standing encampments.

While we've made significant progress, particularly along our waterways, our current footprint does not yet encompass the full mileage identified in the City's multi-year compliance strategy. At the same time, maintaining existing NEZ requires sustained coordination across encampment management and enforcement teams. While we recognize and support the need to expand NEZ – whether to meet additional compliance mileage or address public health and safety concerns – doing so without additional resources risks diluting monitoring capacity, reducing responsiveness, and increasing the likelihood of re-encampment.

Therefore, the City Manager is directed to prioritize preserving our progress along the City's existing NEZ, consistent with Stormwater Permit obligations and Focus Area goals. The City Manager should assess current staffing, the remaining mileage identified in the City's multi-year compliance strategy, the estimated resources needed, potential funding strategies, and possible service trade-offs so the Council can make informed decisions about sequencing, scale, and fiscal sustainability. Further, the City Manager is directed to formalize criteria for establishing and maintaining NEZ, including performance metrics for ongoing monitoring and re-encampment prevention.

With the city's last large encampment at Coyote Meadows scheduled for abatement over the next few months – and the substantial progress we've made to open 1,000 new placements for unhoused residents in the last year – we will shift from decommissioning major encampments to addressing approximately 130 dispersed encampments across the city. This new landscape provides a welcome opportunity to optimize BeautifySJ (BSJ) operations and begin reducing costs associated with encampment clean up efforts. Therefore, the City Manager is directed to right-size BSJ operations by reducing reliance on contracted services while maintaining the resources needed to provide trash and biowaste services, ensure compliance with the Code of Conduct, and preserve our existing NEZ.

Over the last year, my office and the City Manager's team partnered with State Senator Dave Cortese and Caltrans to establish a Delegated Maintenance Agreement (DMA) to reimburse San José for encampment management at 13 state-owned locations that generate a high volume of complaints and outsized costs. Sustaining this shared commitment requires continued partnership and State support. The State's Encampment Resolution Funds (ERF) can do just that, by providing the necessary funding to offer outreach services, housing placement, and restoration of heavily impacted encampment locations on Caltrans property. The City Manager is directed to advocate for State ERF funds to be prioritized for cities with existing DMAs.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 12

### *Oversized Vehicle Enforcement*

San José has reduced the number of oversized and lived-in vehicles on city streets from 960 to 523, a 45.5% reduction over the last year. This substantial progress is a result of various Council-directed initiatives, including the Oversized Lived-In Vehicle Enforcement (OLIVE) Pilot Program; enforcement of existing state laws concerning expired vehicle registrations; and expansion of the RV buy-back program, RV parking, and interim housing. These efforts provide pathways for individuals to move into safe, dignified alternatives to city streets, resolve longstanding parking and public safety concerns, and help prevent long-term oversized vehicle parking.

Additional work is underway to establish a parking enforcement team focused on extended parking concerns and pilot tow-away zones when conducting enhanced street sweeping. These additional tools will provide an opportunity for the City Manager to assess the cost-effectiveness and impact of various strategies aimed at regulating unauthorized oversized vehicle parking throughout San José. The City Manager is directed to complete the work underway, evaluate lessons learned from all of these initiatives, and return to the City Council as part of future Focus Area updates with recommendations for preventing the prolonged parking of oversized vehicles on city streets. Further, direct the City Manager to align existing resources to enhance parking enforcement immediately near existing NEZ.

### **Cleaning Up Our Neighborhoods**

For the first time since the launch of our annual Community Opinion Survey, beautifying our city ranks among residents' top three priorities for making San José a better place to live. We also saw the largest gains in resident satisfaction for cleaning up our public spaces, with satisfaction increasing by 13% and 10% for blight and graffiti removal, respectively. Resident feedback validates the measurable progress made and sends a clear message to remain focused on this work.

In [Fiscal Year 2024-2025](#) alone, we removed 24.4 million pounds of trash, including 14.3 million pounds specifically tied to illegal dumping and litter reduction, and eradicated 2.5 million square feet of graffiti. Increased coordination between BSJ and the San José Police Department (SJPD) resulted in multiple high-profile arrests and an 18% reduction in graffiti in public spaces, demonstrating that enforcement works. In addition, the Clean Gateway program, which maintains landscaping in 13 key entry points to Downtown and major corridors, is creating a welcoming environment for residents and visitors alike. While this represents meaningful momentum, clean and well-maintained neighborhoods do more than improve appearances – they strengthen civic pride and improve residents' sense of safety.

*Strengthening Code Compliance*

Over the past two years, our queue of code cases has more than doubled. While we continue working through these, we are shifting to more proactive enforcement to hold repeat offenders accountable. Following a comprehensive assessment of Code Enforcement, the City Manager has initiated work to enhance the tools available to hold negligent property owners accountable: the Chronic Offender Resolution and Enforcement (CORE) pilot program will require properties with frequent code violations to register and undergo additional inspections; a standardized Escalated Enforcement Policy sets clear compliance timelines and expectations for escalating enforcement; the implementation of CodeX provides a streamlined case management system that will strengthen prioritization and data-driven decision-making; and the Administration is evaluating policies governing fines to enhance compliance and improve coordination across departments. To ensure these strategies are delivering measurable results, the City Manager is directed to incorporate performance metrics into the Cleaning Up Our Neighborhoods Focus Area Dashboard that capture reductions in repeat violations and shorter case durations as we strive to eliminate chronic blight.

While this work is underway, the Downtown Enhanced Vacant Building Program is addressing some of our most visible blight on private properties. Since 2023, 169 vacant or chronically blighted properties have been noticed through the program, resulting in 49% of the properties coming into compliance. However, the temporary staffing supporting this effort is at risk due to the current vacant building registration program generating insufficient revenue to sustain the position. To preserve progress, the City Manager is directed to provide one-time funding to continue this program and produce an MBA updating the cost-recovery fee structure to sustain this work into future years.

Despite recent reforms, our response to illegal dumping citywide is too slow. On average, it takes 65 days to review and eventually cite illegal dumpers, allowing blight to persist. Our Code Enforcement and BSJ teams are identifying ways to resolve issues sooner and reduce pressure on the queue of code cases. The City Manager is directed to accelerate this work by exploring delegating authority to BSJ to issue pre-citation warning letters, with the goal of reducing notification timelines to approximately 10 days, which should be measured and reflected in both the BeautifySJ Annual Report and the Cleaning Up Our Neighborhoods Focus Area Dashboard.

*Smarter Blight Enforcement and Eradication*

Building on last year's direction to strengthen enforcement and deterrents, the City increased inter-departmental coordination and took a greater number of enforcement actions. This effort has reduced graffiti citywide, but a growing percentage of graffiti removal requests (29.35%) now involve private or interjurisdictional properties, suggesting that some amount of tagging is shifting to private property to avoid enforcement. At the same time, illegal dumping remains concentrated in repeat hotspot corridors, with crews returning to certain locations numerous times throughout the year.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 14

Graffiti on private property becomes a code violation that requires the victims of property crime to pay for removal. While BSJ responds to 94.5% of graffiti removal requests within 3-5 business days, private property owners often take much longer from notice to removal. This not only extends the visibility of blight, but puts an unfair burden on small business owners and residents alike. To address blight faster and provide a valuable service to local property owners, the City Manager is directed to produce an MBA with analysis and recommendations for a fee-for-service model that would allow, on a pilot basis, city staff to address graffiti on private property more quickly with minimal or no impact on the General Fund.

Our experience shows that investments in targeted monitoring and deterrence can reduce vandalism. In areas of the city where surveillance cameras have been installed, for example, illegal dumping has decreased by an average of 32%. However, most illegal dumping and graffiti incidents occur when no personnel are actively monitoring our cameras. Emerging technologies promise to improve monitoring and response times in hotspot areas. The City Manager is directed to evaluate deploying AI-enabled monitoring on existing City-owned camera infrastructure to strengthen enforcement and return to City Council with recommendations if a cost-effective implementation is likely to reduce blight.

### *Aligning Services and Improving Transparency*

San José provides Free Junk Pickup as a no-cost service for residents, yet illegal dumping remains persistent in several neighborhoods, especially near large apartment complexes. While both Free Junk Pickup and BeautifySJ's response teams aim to tackle this problem, incomplete pickups and fragmented service deployment can unintentionally contribute to repetitive visits to the same location and increased costs. We must ensure these programs operate in alignment, close operational gaps, and employ the most cost-effective methods to meet our City's needs.

The City Manager is directed to produce an MBA that:

- Evaluates how Free Junk Pickup and BSJ's illegal dumping response can be better integrated, with a goal of maximizing blight reduction per dollar spent.
- Quantifies performance gaps by tracking the frequency and root causes of incomplete Free Junk Pickup requests and, if feasible, assesses whether these incidents generate calls for service that require BSJ follow up.
- Assesses outreach effectiveness in hotspot neighborhoods and proposes strategies for aligning the Environmental Services Department and BeautifySJ public education and marketing efforts.

Operational clarity is equally important. Residents report confusion when Free Junk Pickup requests are immediately marked "closed" in SJ311 prior to actual collection. Thanks to the City Manager's Customer Service Vision – a multi-year investment and cross-departmental initiative

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 15

to improve how residents interact with City services – efforts are underway for greater transparency and responsiveness. To ensure successful execution and measurable outcomes, and in alignment with the continued investment necessary to implement the Customer Service Vision, the City Manager is directed to provide one-time funding to support SJ311 advisory, technical, and implementation capacity necessary to advance this work and deliver sustained improvements in service tracking and responsiveness.

### *Sustaining Community Impact*

Cleaning up and beautifying San José requires continued partnership with our community. The city provides ongoing funding to support beautification efforts. Last year, the BSJ Grant program activated hundreds of neighbors across every Council district, and our clean creek partners mobilized hundreds more to help protect our waterways. To continue this important work, the City Manager is directed to maintain funding for these grant programs.

### **Increasing Community Safety**

Last year, San José regained its status as the safest big city in the nation. Crime has declined recently, with crimes against persons and property down 12% and 8% year-over-year, respectively, and homicide clearance rates at 100% nearly four years running. These outcomes are not accidental – they reflect disciplined leadership, strategic deployment, and the professionalism of a lean but highly optimized public safety workforce.

Today, 977 street-ready officers protect a city of over one million residents. While many peer cities benefit from higher staffing ratios, San José has leveraged technology, data-driven deployment, and specialized units to maximize impact. To sustain this progress, we must stabilize our workforce, supplement capacity through technology, and break cycles of repeat crime and behavioral health crises that require an outsized share of emergency service resources.

### *Stabilizing Our Workforce*

The SJPD is one of the most effective police departments in the country, which is particularly impressive given our nationally low staffing levels. As of January 2026, SJPD had 977 street-ready officers available for deployment, up from 972 twelve months prior, indicating that we are beginning to reverse declining staffing driven by historically low Academy applications in recent years.

While good news, we cannot take continued progress for granted. In FY 2024-2025, the department hired 115 recruits and laterals while 125 officers separated from service. In response, SJPD set a goal of increasing Academy class sizes to 40 recruits to help stabilize staffing levels and offset attrition. The June 2025 Academy began with 42 recruits, and upcoming classes are nearing that benchmark – demonstrating that focused recruitment investments are producing

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 16

results. Therefore, the City Manager is directed to continue investments in marketing, recruitment, lateral hiring incentives, and backgrounding to accelerate hiring timelines.

Investing in our local talent pipeline will boost Academy enrollment and help the department reduce vacancies over time. The Cadet Program stipend included in last year's budget kept four San José-based alumni cadets engaged with the department prior to entering the Academy, demonstrating that young people in our community are willing to pursue sworn careers in SJPD if given support to bridge the gap between the Cadet program and the Academy. The City Manager is directed to continue funding the Cadet-to-Academy stipends to maintain engagement with prospective officers who have strong local ties.

### *Technology*

New technologies give us an opportunity to deliver more impact per hour of staff time by reducing administrative burdens, accelerating information sharing, and reducing response times, while maintaining strong privacy safeguards.

San José is a national leader in responsible data governance. We earned the [What Works Cities Gold Certification](#) for embedding data review frameworks into procurement and establishing an AI algorithm registry. Through Bloomberg Philanthropies' City Data Alliance program, we developed a three-year [Citywide Data Strategy](#) to guide responsible collection and use of data. This foundation allows us to expand technology thoughtfully and transparently.

SJPD's Real Time Intelligence Center (RTIC) is a proven force multiplier, providing critical monitoring and investigative functions to the department. Most recently, RTIC assisted in identifying and arresting a serial arsonist responsible for approximately 19 vehicles being set on fire. Since its creation, the department has used RTIC's capabilities to more effectively respond to and ensure justice in hundreds of criminal incidents. To sustain and scale this model, the City Manager is directed to continue funding RTIC and evaluate the integration of additional City-owned camera networks, including Airport, Library, and Department of Transportation systems.

Retail theft continues to impact both small businesses and major commercial corridors. Thanks to support from the Santa Clara County District Attorney's Office, San José businesses have integrated Fusus CORE devices into their camera system, which provides RTIC with live feeds during emergencies. The City Manager is directed to identify, and conduct outreach to, the remaining crime-impacted corridors that would benefit from RTIC integration, with the goal of expanding the integration of these devices to help SJPD solve crimes faster.

Technology can also automate some of the most time-consuming and least fulfilling aspects of the work. SJPD officers currently spend approximately 5,000 hours per month drafting and validating reports, which contributes to higher overtime costs, fatigue, and reduced presence in the community. According to SJPD, using AI to assist in translating body worn cameras into reports can reduce time spent by up to 65%. Therefore, the City Manager is directed to allocate

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 17

funding to pilot an improved AI-assisted transcription solution that can be expanded if the initial results are promising.

Finally, San José has made progress towards its Vision Zero goals, including a 45% reduction in traffic fatalities since 2022. However, even one life lost is too many, which is why Vice Mayor Foley and many of us at City Hall have vocally advocated for automated speed safety systems over the years. Following a legislative victory in Sacramento, San José was awarded a federal grant in May 2024 to launch a speed safety pilot. Unfortunately, after nearly two years of waiting, federal funding remains uncertain. The City Manager is directed to develop a local funding strategy that leverages anticipated citation revenue to advance our speed safety camera pilot.

### *Breaking the Justice-Involved Cycle*

A relatively small number of repeat offenders with untreated behavioral health conditions continue to drive a disproportionate share of harm in our neighborhoods. Over a three-month period, our newly-established Neighborhood Quality of Life Unit (NQOL) encountered this reality across hundreds of contacts. While a majority of contacts involved individuals suffering from substance abuse or mental health crises, less than 1% of individuals arrested or cited for committing crimes entered treatment, which is where they are most likely to receive the supportive services they need. As these individuals return to the streets within days or even hours of encountering the criminal justice system, many pose an ongoing risk to themselves and others.

Thanks to our new City-County partnership, we have a better understanding of the gaps in our behavioral health system and are taking steps to meet the true need. However, as NQOL contacts show, voluntary engagement alone is not sufficient for individuals cycling through our system. The DA's and judges' post-arrest decisions – including charging, sentencing, and court-ordered treatment – often provide the level of intervention necessary to ensure that an individual gets the help that they need.

Voters approved Prop 36 to restore judges' authority to mandate treatment for repeat offenders or impose a consequence for non-compliance. Yet as of October 2025, only one defendant in our County was enrolled in a court-mandated treatment program through this pathway. By contrast, San Diego County has enrolled 493 eligible defendants into treatment to address addiction or other underlying drivers of crime. This success is due to leaders in San Diego County aligning their judicial and behavioral health system and expanding treatment placements to include sobering centers and outpatient services. The City Manager is directed to organize a study mission to San Diego County with City, County, and judicial partners to examine its Prop 36 implementation framework and assess how its alignment of enforcement and treatment pathways could inform improvements locally. Further, the City Manager is directed to convene City and County leadership to present findings, establish a system for tracking sentencing outcomes and reoffenses, and report back to PSFSS with recommendations to increase treatment use and reduce repeat contacts with law enforcement.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 18

### *Emergency Medical Response*

San José has demonstrated that smarter coordination can reduce pressure on emergency room systems. Through alignment with the County's 911-to-988 training and diversion efforts, our monthly transfers have increased from fewer than 10 to approximately 150. This progress demonstrates that when City and County systems align, call diversion can increase.

However, San José's emergency response system continues to absorb a growing number of behavioral health and high-utilizer calls that do not always require a traditional emergency room transport. These responses are resource-intensive and often result in endless cycling between street, emergency departments, and first responders. As the County shifts clinical resources away from the joint Psychiatric Emergency Response Team to other needs, San José must continue to evolve our alternative response model.

Thanks to the City Manager's Office and the San José Fire Department, we have an opportunity to pilot a Community Paramedicine model as an alternative to transport-based response. Specialized paramedics would provide field-based stabilization, coordinated follow up, and connection to appropriate care. The City Manager is directed to design and allocate one-time funding, leveraging opioid settlement funds if feasible, to pilot a Community Paramedicine model focused on reducing avoidable emergency calls and repeat 911 utilization, and establish measurable performance outcomes in the Increasing Community Safety Focus Area Dashboard. Further, as we continue optimizing the pathways for residents in need of medical care, the City Manager is directed to assess the feasibility of implementing a 911 telemedicine model.

### *Youth Intervention*

As several Councilmembers emphasized during our February budget study session, youth intervention and prevention programs are foundational public safety investments. The Children and Youth Services Master Plan (CYS Master Plan) provides a roadmap to align City resources around upstream prevention, culturally competent services, and measurable outcomes that support children, youth, and families – particularly in neighborhoods that have experienced historical disinvestment. To sharpen accountability and results, the Increasing Community Safety Focus Area should explicitly include a youth violence prevention problem area aligned with the CYS Master Plan.

The City Manager is directed to set aside one-time funding of \$500,000 – with the option to earmark a portion to leverage additional private investment—and return with an MBA recommending how to expend these funds to advance CYS Master Plan priorities. The MBA should consider the role of the San José Youth Empowerment Alliance (SJYEA), the City's primary platform for youth violence prevention and intervention, and prioritize optimizing SJYEA's highest-performing and highest-reaching initiatives. In 2024-2025, SJYEA-supported programs demonstrated real impact in the 30 schools it served, contributing to a 15% reduction in school incidents through the Safe School Campus Initiative, achieving an 87% success rate of

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 19

removing gang-affiliated tattoos through the Clean Slate Tattoo Removal Program, and supporting 150 youth in job placements through SJ Works.

The MBA should also describe how the expenditure of the \$500,000 complements the continuation of existing City programs aligned with CYS Master Plan priorities – including youth intervention, afterschool programming, and family stabilization efforts. Investments should remain place-based and equity-centered in communities with the greatest need. Further, to sustain and scale what works, the City Manager is directed to identify steps that can be taken next fiscal year – through SJYEA or another appropriate forum – to engage partners in identifying programs that would have the greatest impact in advancing the CYS Master Plan, and to return with recommendations to the Neighborhood Services and Education Committee in Fall 2026. These recommendations will help inform the future Strategic Partnerships Lead in the Mayor’s Office to develop a strategy that leverages private and regional partnerships, ensuring City dollars are catalytic, coordinated, and deployed for measurable impact.

### **Growing Our Economy**

Silicon Valley has helped California become the fourth-largest economy in the world and generates more than 40% of the state’s personal income tax revenue. As the Capital of Silicon Valley, San José attracts talent and entrepreneurs from across the country and around the world, in pursuit of opportunity. We see this diversity reflected in our 60,000 small businesses, half of which are owned and operated by immigrants. It is also evident in the founders and tech leaders building the next generation of world-changing technologies who chose San José to access unmatched technical talent, tap every aspect of the hardware supply chain locally, and operate within the most active venture capital market in the world.

Local government plays a supporting role in encouraging economic development and expanding access to economic opportunity so that everyone in our community can thrive. When businesses open and invest here, they create jobs and income for residents. In turn, we grow our tax base through property, sales, and business tax revenues. This revenue funds essential city services that improve quality of life for residents and employers alike, which in turn attracts more investment. If this virtuous cycle stalls, budget deficits and painful tradeoffs emerge as we struggle to maintain essential city services and risk losing businesses and jobs. We must remain focused on growing economic opportunity and our tax base by supporting the industry clusters most likely to drive future job growth, doubling down on the experience economy, and strengthening our commercial corridors and small business ecosystems.

*Speed to Power*

As the world's largest and most innovative companies reinvent themselves with AI, one factor will have an outsized impact on where they invest: energy capacity. Hyperscalers are actively searching for “speed to power” – how quickly they can interconnect with the grid and access power at scale – for their data center, lab, and manufacturing needs.

In recent years, California has fallen behind. Long connection timelines, limited power capacity, and poor coordination have pushed investment to other states and even other countries, risking our long-term competitive edge. As the Capital of Silicon Valley, San José did not wait for the grid to catch up.

After months of negotiations and joint planning, the City and PG&E forged a new partnership that will allow San José to connect more large-load customers faster than any other city in the state over the next five to ten years. PG&E has committed more than \$1.6 billion to expand electrical capacity in the San José Metro Area. CAISO and LS Power will deliver 2,000 MW of power to San José through new high-voltage transmission lines – representing a combined \$3.5 billion investment in new electrical capacity. These infrastructure improvements are happening now, not years down the road, making San José the most “Power Ready City” in California.

In response to these upgrades, unprecedented development is already moving through our pipeline, and each project has the potential to significantly expand the City's tax base. For context, each 99 MW data center within city limits generates roughly \$6 million in utility taxes and \$1 million in property taxes – revenue that funds essential city services and schools.

Our work to provide “speed to power” adds to our City's unique assets that make San José a magnet for innovators. We have ample commercial and industrial land that is roughly 30% cheaper than neighboring cities. There is also no greater concentration of talent: one in five of our residents hold STEM degrees and one in five jobs are in tech and manufacturing. San José State University, the No. 4 public university in the country, is breaking enrollment records, producing more Silicon Valley hires than any university in the U.S.

To maintain and strengthen San José's competitive edge, the City must align strategy, operations, and measurable outcomes around the industries where we hold a clear competitive advantage. Over the past year, the City Manager's Office of Economic Development and Cultural Affairs (OEDCA) has sharpened its focus on defined outcomes, particularly in its work to retain and grow jobs in priority sectors under the Growing Our Economy Focus Area.

OEDCA has preliminarily identified nine priority economic growth sectors for targeted engagement over the next two years, but deeper analysis is required to determine which clusters represent San José's strongest competitive position within Silicon Valley. Rather than spreading limited resources across too many sectors, we should concentrate our efforts – clearly telling our story and aligning staff capacity, business outreach, incentives, and investment around the

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 21

industries where San José can deliver the greatest measurable impact in terms of high-paying jobs and organic tax base growth.

The City Manager is directed to develop a three- to five-year Business Development Strategy that identifies three priority industry clusters where San José demonstrates a distinct competitive advantage and return to City Council by December 2026.

### *Making San José a Better Place to Invest*

With ample industrial land and access to power, San José's has a strong competitive advantage in manufacturing – a sector that employs nearly one in five jobs in our community. As we sharpen our focus on industry clusters where San José can lead, such as semiconductors and hardware, manufacturing as an overall sector undoubtedly will be a key part of our strategy. To support continued growth in high-paying manufacturing jobs, the City Manager is directed to explore streamlining the approval of advanced manufacturing in Light Industrial (LI), Heavy Industrial (HI), and Industrial Park (IP) zoning districts by designing a ministerial approval process that accelerates investment while maintaining standards.

We established the Downtown Leasing Incentive Program in October 2024 to encourage leasing and revitalize daytime activity in Downtown. The current program is limited to leases under 2,500 square feet for traditional office, R&D, and financial services, potentially limiting its effectiveness in today's entrepreneurial environment. While the program serves as a relatively low-cost market signal to attract tenants, it is only authorized through December 2026. With changing market conditions and fiscal constraints, it is an appropriate time to assess whether the program, as structured, is achieving its intended purpose. Therefore, the City Manager is directed to evaluate the Downtown Leasing Incentive Program and return to Council with recommendations to improve its effectiveness.

### *Making San José a Destination*

Downtown San José is growing as a destination for dining, culture, and entertainment thanks to the creativity and entrepreneurial spirit of local businesses and arts, sports and entertainment organizations. In-person, social experiences bring people into our hotels, restaurants, bars, and businesses, and continue to offer growth potential as we shape Downtown into Silicon Valley's definitive entertainment destination.

That momentum is on full display in 2026, as San José becomes the first metro area in history to host the Super Bowl and FIFA World Cup matches in the same year. We raised over \$5 million from local employers to create memorable fan experiences around these anchor events, and we're already seeing that preparation pay off.

Nearly half a million unique visitors came to Downtown San José during Super Bowl week this February, driving significant increases in hospitality and small business revenue. Hotel

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 22

occupancy increased 21% during the week compared to the Super Bowl in 2016 while hotel revenue increased 59%. San Pedro Square Market business owners experienced their busiest weekend ever, surpassing their previous single-day sales record by more than 30%. Our City Hall Plaza Block Parties were headlined by internationally acclaimed music artists – Kehlani and DJ Dom Dolla – contributing to a 43% increase in unique visitors Downtown. Hotels, restaurants, and small businesses will continue to see economic benefits with March Madness and FIFA World Cup matches ahead that bring visitors from around the world.

Thanks to the reputation we're building for successfully hosting large events and fan experiences, San José was recently selected as one of six cities nationwide to host matches for the 2028 Olympic football tournaments as part of the LA28 Games. PayPal Stadium, home of the San José Earthquakes, will host group stage and knockout matches, placing our city on the international stage once again. Clearly, our efforts are helping redefine San José as the premier cultural and entertainment destination it can and should be.

For decades, the San José Sharks have carried the lion's share of that work. Last year's deal to keep the team in San José for at least the next 25 years includes upgrades to modernize SAP Center and attract world-class acts. These upgrades will improve the customer experience and extend the life of an essential city-owned asset that anchors our Downtown and provides an economic foundation for surrounding business corridors.

Cities that intentionally organize this activity into a coordinated Sports and Entertainment District see outsized returns. The Battery Atlanta, a three million-square-foot mixed-use district anchored by Truist Park, attracts approximately nine million visitors annually and integrates retail, unique entertainment, and chef-driven restaurants into a cohesive destination. Over time, multiple corporate headquarters and thousands of high-paying jobs have relocated into the area. We can pursue a similar model in the greater Downtown area by engaging key property owners to better understand market demand and investor interest.

Therefore, the City Manager is directed to initiate a procurement to identify potential development partners capable of realizing a Sports and Entertainment District, and explore the allocation of one-time funding to analyze the site readiness of key assets, and return to City Council with recommendations no later than December 2026.

While progress has been made connecting the SAP Center, Little Italy, and San Pedro Square along Sharks Way, additional funding is needed to complete these Downtown connectivity improvements. The City Manager is directed to explore the allocation of one-time funding to match up to \$250,000 of Downtown Property-Based Improvement District funding to complete the current phase of the Stitching Districts initiative, and to expand the connectivity to include additional geographies, and work with stakeholders to advance the next phase of connections that strengthen safety, activation, and private investment.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 23

### *Capital Improvements to the San José McEnery Convention Center*

The San José McEnery Convention Center is a cornerstone of our experience economy. NVIDIA's annual GPU Technology Conference (GTC) brought more than 25,000 visitors to the City, driving citywide hotel occupancy to 98% and Downtown hotel occupancy to a peak of 99.3%. These hotel stays directly contribute to our Transient Occupancy Tax (TOT) that generates revenue for arts programming, cultural facilities, and flexible funding for essential services. To compete for similar high-attendance, extended-stay events, we must modernize our facilities. The City Manager is directed to identify and prioritize near-term capital improvements that position the Convention Center to attract high-impact events and maximize TOT revenue.

### *Outdoor Special Events*

Outdoor special events play an important role in shaping San José's community identity by activating public spaces and reinforcing the character of our neighborhoods. A recent City audit identified systemic inefficiencies in how we permit and bill for outdoor events. Organizers navigate multiple departments, receive separate invoices, and sometimes are billed months after an event occurs. This fragmentation undermines our Customer Service Vision and discourages investment in future events.

Peer cities, such as Oakland and San Diego, already utilize shared permitting platforms, and Sacramento has initiated procurement of a similar system. Therefore, the City Manager is directed to build on the permitting software pilot and advance procurement of a centralized permitting and billing system to streamline this process.

### *Supporting Small Businesses*

Small businesses power San José's neighborhood commercial districts and create the vitality, culture, and opportunity that define our communities. Of the more than 60,000 businesses operating in San José, nearly half are immigrant-owned. Together, these businesses employ more than 150,000 residents and anchor the commercial corridors in our neighborhoods. Over the past two years, the City issued nearly 6,800 new business tax certificates, marking ten consecutive years of net business growth. To continue fostering a strong business community, we must reduce bureaucratic barriers, continue offering storefront activation grants, and strengthen business outreach and commercial corridor support.

The Storefront Activation Grant program helps entrepreneurs cover startup costs such as tenant improvements, equipment, and signage, and help fill vacant properties. Since 2016, the City has awarded 241 grants, primarily in Downtown and East Side corridors, and 236 of those businesses remain open today, reflecting a 98% success rate. Demand for these grants continues to exceed funding. In Fiscal Year 2025-2026, the program is funded at \$350,000, while the current waitlist

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 24

totals \$815,000. The City Manager is directed to continue funding the Storefront Activation Grant on an ongoing basis, explore a modest increase in funding to address unmet demand, streamline the application process, and explore philanthropic partners to match City contributions.

In addition to helping activate our storefronts, the City must also remove regulatory barriers slowing the opening and expansion of neighborhood businesses. San José is home to 3,276 unique food and beverage businesses that support more than 24,000 jobs. Restaurants generate the largest share of local sales tax revenue at 15%, and in 2025 restaurant sales tax receipts reached the highest level in the City's history.

To better understand industry challenges, the Mayor's Office convened a Restaurant Roundtable with operators, elected officials, and City and County departments. Restaurant operators reported delays in follow-up inspections that increase costs and delay openings. The City Manager is directed to recommend process improvements that reduce turnaround times and minimize the need for re-inspections and plan and permit resubmittals. The City Manager is also directed to explore a fee-based expedited inspection pilot to provide faster turnaround times for food and beverage businesses.

Beyond grants and streamlining processes, sustained on-the-ground outreach remains critical to supporting both our small business and corporate communities. The City Manager is directed to continue the three limit-dated business outreach roles within OEDCA to continue supporting commercial corridors like Story Road, East Village, and Alum Rock. The City's investments through these grants have been impactful for East San José entrepreneurs; however, as a sole investor, the City lacks the resources to provide investment at the scale this community deserves. East San José needs a comprehensive framework that aligns public, private, and philanthropic investments.

Earlier this year, the School of Arts and Culture broke ground at La Placita – a physical hub for cultural programming, family resources, and entrepreneurship – following a successful \$30 million capital campaign, including \$4.2 million from the City, \$6 million from the Knight Foundation, and millions from other partners. To build on that success, Councilmember Ortiz recommended the development of an Eastside Revitalization Plan to drive capital investment in East San José that, if successful, will create funding at scale to strengthen communities in this historically underinvested area of our City. To launch this effort, the City Manager is directed to explore one-time funding for consultant services to create a focused strategy for Eastside investment.

### *Leveraging our Airport for Economic Growth*

San José Mineta International Airport (SJC) is consistently among the highest-rated City services. Despite strong customer satisfaction, however, passenger volume has declined since

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 25

2023. In 2025, SJC served 10.6 million passengers, down from 11.9 million the prior year, and 33% below the 2019 peak.

Air service is a core economic competitiveness issue. Route availability influences corporate decisions, business travel efficiency, and tourism. As regional competition for flights and airline investment intensifies, San José must intentionally approach restoring and expanding services. Accordingly, the City Manager is directed to partner with one or more local business associations to engage major regional employers to assess route demand and attract additional domestic and international service to SJC where feasible.

### *Community Celebrations*

San José will celebrate several significant anniversaries over the next two years that provide an opportunity to showcase the city's history, culture, and global partnerships. In addition to this year's national Semiquincentennial, in 2027 San José will commemorate both the 250th anniversary of its founding as Pueblo San José de Guadalupe and the 70th anniversary of the San José-Okayama Sister City Relationship.

Our 2025 Fourth of July fireworks shows were impacted by the Yolo County warehouse explosion and capacity constraints at Almaden Lake Park. Despite these challenges, the City successfully hosted its first-ever drone show at Lake Cunningham Park in lieu of traditional pyrotechnics. The Semiquincentennial provides an opportunity to host more robust and coordinated celebrations. The City Manager is directed to explore allocating one-time funding for a large civic celebration in San José for July 4th, 2026 and support coordination as needed.

San José is also home to one of three remaining Japantowns in the United States. Our Sister City relationship with Okayama is the second oldest in our nation's history. Historically, these anniversary celebrations have included sending a delegation from San José to Okayama, followed by hosting a delegation from Okayama the following year. One of our most cherished gifts from Okayama was the Momotaro, or "Peach Boy" statue – a symbol of the longstanding friendship and cultural exchange between our sister cities. Unfortunately, the bronze statue was stolen from its stand in Guadalupe River Park and has not been recovered. Our Vice Mayor began coordinating with the Mayor of Okayama, and plans are underway to replace the Momotaro statue. A foundry has been identified, and the cost of shipping the statue to San José has been secured. The City Manager is directed to explore allocating funds to replace the Momotaro statue.

The City has benefited from dedicated leadership focused on fundraising for and coordinating major community events in advance of the 2026 big games. Successful coordination of these large-scale events requires dedicated staff capacity to work cross-departmentally and with community partners. The City Manager is directed to explore one-time funding for a Major Events Lead within the Office of Economic Development and Cultural Affairs, who will coordinate and plan for the Semiquincentennial and the hosting of the Japanese delegation in

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 26

2028. The City Manager is directed to return in Fall 2026 with an initial approach for coordinating these two major events, and to provide semi-annual updates to the Community and Economic Development Committee thereafter. Planning and coordination efforts for the Semiquincentennial should include the establishment of an advisory committee composed of the Mayor's Office and key stakeholders, and staffed by the City Administration. The advisory committee will meet regularly to guide planning, stakeholder engagement, and fundraising.

### **Building More Housing**

Housing affordability remains one of San José residents' top issues, ranking as the second highest in this year's annual survey. Data underscores these concerns with 35% of homeowners and 49% of renters in San José spending more than 30% of their income on housing. If we want a city where working families can stay, where young people can build a future, and where seniors can age in place, we must build more housing.

We know that increasing housing supply stabilizes home prices and increases economic opportunity. Over the past year, we have taken meaningful steps: passing a ministerial ordinance that cut approval timelines in half; reducing one-time fees to unlock over 2,000 new homes stuck in the development pipeline; and condoizing the City's first ADU, which created a new rung on the homeownership ladder. Overall, in 2025 we permitted 2,629 units, including 1,269 affordable units and 395 affordable units with City subsidy. But we are still not building enough to meet demand and must keep pushing to remove barriers to homebuilding.

### *Accountability and Transparency*

Fragmented ownership of approval processes is a major barrier to investment, which is why leadership and focus are critical. Many departments play a role in approving every home built in San José, including Planning, Building, and Code Enforcement, Housing, Parks, Recreation, and Neighborhood Services, Transportation, Public Works, and Fire. We must ensure that the process is seamless for customers. To reduce project timelines, the City Manager is directed to streamline development services processes with a focus on delivering "one team" coordination across departments.

Every leader needs the right data to manage complex systems. To hold ourselves accountable, we need to track our progress transparently. San José should develop public-facing permitting tools, similar to Virginia's Permit Transparency system, that tracks time with each department and outside agencies, alongside target completion dates. This level of visibility will help us manage performance, and identify delays early. To support this work, the Responsive Cities Network – supported by Data-Smart City Solutions at the Bloomberg Center for Cities at Harvard University and the John S. and James L. Knight Foundation – is funding a full-time Service Innovation Fellow for two years to serve as both a data strategist and community collaborator, focusing on four select service areas: permitting, streets, parks, and sanitation. The City Manager

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 27

is directed to collaborate with the Data Fellow to develop permit transparency tools, such as permitting Gantt Charts and target completion dates.

Tracking data is necessary, but not sufficient. We must also set performance targets and meet them. San José's ministerial approval ordinance fasttracks any housing project that complies with the zoning in our planned growth areas. [This past year we approved a 540 unit development in half the time](#) as a result of this policy. Now we should move from "faster" to "guaranteed." signaling to the market that San José is investment ready. The City Manager is directed to create a guarantee for approval of all Ministerial Projects within a 90 days of complete submission, counting only the time the project is within City control. If the time is exceeded, the entitlementment for the housing project should be deemed approved.

### *Fee Transparency*

To attract more investment in housing, developers need to fully understand the costs. One of the first questions anyone asks before we buy something is "what is the cost?" Estimating the fees for any housing project can be complicated and time consuming. Both developers and City staff would benefit from a system that does not require hours of staff time to determine fees. A simple system of calculating fees on a per square foot basis is easier to administer and creates transparency for the marketplace. The City Manager is directed to align all City imposed housing development impact fees and taxes on a per square foot basis in a way that is effectively revenue neutral.

### *Reducing Costs*

When developers are required to pay all fees up front with loans, it creates carrying costs that drive up the price of housing. In recognition of this, the state legislature enacted AB 937 on January 1st of this year, directing that fees be due at final inspection or the date of the certificate of occupancy. However, this did not include all fees and taxes. Consistent with the memorandum by Councilmembers Ortiz, Cohen, Mulcahy, and Casey passed by the [Rules and Open Government Committee on February 11, 2026](#), the City Manager is directed to return to Council with the updated Development Fee Framework regarding the implementation to defer payment for all housing impact fees and taxes to certificate of occupancy.

California has some of the most complex building codes in the entire country. Many of these are for good reason, to ensure the health and safety of residents, especially in the case of natural disaster. However, the costs of construction are also some of the highest in the nation. It is not helpful then for homebuilders to have additional complexity added with local building codes in of the state's 483 municipalities. San José can be fully consistent in building safe and energy efficient housing with the latest state codes without adding our own. To eliminate unnecessary cost and complexity to homebuilding, the City Manager is directed to return to City Council for their consideration of the removal of all local building codes.

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 28

Affordable housing is difficult to build under any circumstances, with complex funding requirements and layers of compliance. One strategy San José has used to lower the cost of delivering affordable housing is the exemption from construction taxes. Currently, some projects qualify for the exemption while others must pay local taxes due to the type of government funding they received. Therefore the City Manager is directed to return to the City Council to clarify that the exemption for housing constructed with “government assistance” in the Municipal Code shall include deed-restricted affordable housing constructed with federal, state, or local funding including tax credits, vouchers, loans, or grants. This is intended to apply to projects currently in the pipeline as well as new construction.

It is prohibitively expensive for new construction to proceed in California. According to the California Department of General Services Construction Cost Index, from 2021-2024 the cost of construction has gone up 34.4%, nearly double the consumer price index of 18.9% over that same period. This data is borne out in the City of San José biannual Cost of Residential Development Study, which outlines local homebuilding costs in our market and how we can make projects more feasible.

For example, when we learned that there were no new market rate multifamily housing starts in 2024, this study helped show that reduction in one time fees could make that housing type feasible; which led to the passage of a fee reduction program that produced 2,000 new homes. However, there are other requirements imposed on homebuilding that can significantly impact feasibility. That is why I am working with my colleagues Councilmembers Kamei, Campos, Tordillos, and Cohen to [direct a study](#) that will help us better understand other cost factors such as off-site improvements and reach codes.

### *Homeownership*

Homeownership in California has lagged the national average for years and increasingly out of reach for many hardworking families. Only three percent of new home construction in California are the most affordable rung on the homeownership ladder, condominiums. To address that we have been advocating in Sacramento to remove barriers to condo development including costly litigation and allowing homebuyers to invest in new projects. But we cannot wait for the state to take action. To make homeownership more attainable for San José residents, we must increase a type of homebuilding where we are already a leader: Accessory Dwelling Units (ADUs). San José has permitted more ADUs than any other large City in Northern California in the past five years. Since becoming the first City in California to allow the condoization of ADUs, we have an opportunity to help more people buy their first home and start building equity. The City Manager is directed to explore the creation of an ADU Homeownership pilot program prioritizing first time homebuyers, using affordable housing dollars earmarked for homeownership programs. This pilot program should leverage public-private partnership opportunities where possible with banks and foundations interested in furthering equitable homeownership strategies.

### *Reinvestment With Protection Against Displacement*

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 29

Much of San José's housing stock was built from the 1940s through the 1980s, constructed under older building codes. This resulted in soft story multifamily housing that is not seismically safe. While much of this housing remains naturally affordable, we need a strategy that creates opportunities to replace these older buildings with newer, safer housing stock, without displacing existing residents. The San José Ellis Act Ordinance (Ellis Act) plays an important role in protecting residents from displacement in these older units, many of them rent stabilized. However, Ellis Act constraints can discourage investment in these older buildings. The City Manager is directed to bring recommendations to update the Ellis Act in a way that incentivizes investment in older housing stock, while protecting against displacement.

### *Streamlining Historic Review*

San José's historic resources are vital to preserving our city's heritage and character, and while we remain committed to their protection, we must also ensure that preservation regulations do not create undue financial burdens for homeowners, renters, and small business owners—particularly in cases where blight or prior renovations have diminished or eliminated visible historic features, yet redevelopment remains cost-prohibitive due to historic designation. When such regulations hinder maintenance, investment, or adaptive reuse of underutilized properties, they become counterproductive; therefore, the City Manager is directed to develop a financially viable framework to allow for the demolition of, or removal from the historic inventory of, substandard structures or those whose historic features are no longer evident. Additionally, recognizing that many historic properties contain decades-old unpermitted construction that current owners may have unknowingly inherited, the City Manager is further directed to explore the creation of an amnesty program for unpermitted work on structures listed in the historic resources inventory, provided the buildings meet applicable health and safety standards. The goal is to establish a reasonable pathway to compliance without imposing disproportionate costs.

### *Financing Infrastructure for Housing Development and Economic Growth*

The focus areas of Growing Our Economy and Building More Housing are deeply intertwined in that they need strong city infrastructure to build upon. For example, challenges in financing housing development are often due to high offsite improvement and public infrastructure costs, hampering the City's efforts to create thriving places to live, work, and play. Councilmember Anthony Tordillos highlighted that cities across California have increasingly leveraged Enhanced Infrastructure Financing Districts (EIFDs) to address these and other infrastructure financing challenges – but San José stands out as the only city with over 500,000 residents that has yet to move forward with an EIFD. Thus, the City has an opportunity to explore a policy mechanism that can help us deliver on our goals of creating jobs and housing close to transit. The City Manager is directed to bring to the Council a study session on EIFD's by September 2026 focused on how this mechanism can facilitate investment in jobs, housing and economic revitalization in downtown. The study session should include an overview of EIFD's as authorized in SB 628, how an EIFD could support our focus area goals within Building More Housing and Growing Our Economy, potential revenue and trade-offs associated with issuing

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 30

bonds with tax increment financing, and trade-offs of different district configuration, such as multi district configurations. The City Manager is also directed to resource the follow up work for continuing to explore implementing an EIFD.

### *Planning Capacity*

The long range planning and policy work that enables the City to proactively facilitate investment in housing is too little and too volatile. The Planning, Building, and Code Enforcement Department's Citywide Planning program budget for staffing is approximately \$6 million. Approximately half of this funding is from the General Fund and half is from revenues collected from the Citywide Planning Fee, a fee intended to support General Plan and Zoning Code updates, as well as proactive, long-range planning efforts to benefit the entire city. However, the significant increase of State-directed planning mandates and a softening of development activity has significantly depleted available capacity from fee revenues to support the innovative planning work originally envisioned. If we want faster approvals and better housing outcomes, the department needs increased and stable capacity. Accordingly, the City Manager is directed to evaluate funding strategies taking into consideration our current development environment and the sensitivity of development projects to existing fee levels, as well as prioritize investing future budget surpluses to bolster citywide planning functions so that we will be better prepared when markets shift.

### **Other Important Work**

#### *Immigration Services*

Last year, the City Council voted to allocate \$1 million in one-time funding to support immigrant communities – a historic 20x increase in the City's investment. In the first two quarters of the fiscal year, these investments have supported 70 Know-Your-Rights presentations that reached nearly 1,100 residents and small business owners; enabled the Rapid Response Network to respond to more than 3,800 calls; and expanded legal support resulting in 50 immigration petitions. We are supporting immigrant families, including U.S. citizen children and loved ones, during a time of widespread fear and uncertainty.

It is important for this City Council to reaffirm its commitment to being a welcoming and inclusive city, particularly as children, seniors, families, and so many of our neighbors continue to worry about their safety and security. Therefore, the City Manager is directed to work with the County to assess funding gaps, provide one-time funding, if available, and work with the Mayor's Office Director of Strategic Partnerships to raise philanthropic dollars to augment existing efforts.

#### *Animal Care Center*

## CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 31

In recent years, the City Council made a series of investments to enhance our Animal Care Center by expanding staff capacity and implementing capital improvements. These investments resulted in shorter average lengths of stays and an increase in operations, but significant challenges remain for the animals in our community and those brought to our Center. Previously, the Animal Care Center provided spay and neuter operations for low income pet owners and community animals. This practice was resumed in December of 2025 and more robust service can play a significant role in managing the population of community animals. The City Manager is directed to explore expanding the spay and neuter operations beyond the existing four-day schedule for unowned animals, with the goal of humanely reducing the population of community cats in San José.

### *Enhancing Contractual and Grant Oversight*

Several key City service areas, such as Homelessness, Youth Services, and Beautification, are delivered through contracts with vendors and service providers. In a difficult budget year focused on optimization, we must ensure that every dollar allocated is producing measurable impact for residents. San José has long maintained strong financial oversight. Our external auditor continuously issues “clean” audits of our financial statements. Our City Auditor also conducts regular performance audits and publishes an Annual City Services Report that incorporates resident feedback and satisfaction data. But we still can improve outcome accountability, particularly for services rendered outside of City Hall. The City Manager is directed to identify the largest areas of grant funding and contracted service delivery, evaluate current monitoring and performance management practices (both inside and outside of City Hall), and strengthen oversight mechanisms, if needed. In a constrained fiscal environment, good stewardship means not only balancing the books, but ensuring measurable value for our community.

### *Securing Additional Library Funding*

San José Public Library is regularly ranked as one of our most trusted services we provide to our residents. As a department primarily supported by the General Fund, their budget tends to fluctuate in line with City’s overall surplus or shortfalls. Given the high community reliance on libraries, we should consider an additional dedicated funding stream. The City Manager is directed to explore polling potential ballot measure language that would renew and expand our existing parcel tax supporting the San José Public Library.

### *Commission Restructuring*

San José currently has fifteen commissions to support a variety of workloads. Each Commission requires significant coordination across the subject matter expert department, the City Clerk, and City Council. Historically the structure and number of our commissions are regularly reviewed to ensure each body is able to deliver a significant impact. The City Clerk and City Manager are directed to explore amending the current number, structure, and operation of our various committees in an effort to streamline and reduce the demand on staff capacity.

CITY COUNCIL

March 9, 2026

**Subject: March Budget Message for Fiscal Year 2026-2027**

Page 32

**Prior One-Time Funded Items:** If not identified previously, the City Manager is directed to evaluate programs funded on a one-time basis in 2025-2026, in context of the direction included in this message and the Budget Balancing Strategy Guidelines referenced below, for potential continuation in 2026-2027.

**Essential Services Reserve:** For the 2026-2027 budget cycle the City Manager is directed to set aside \$2,000,000 in the Essential Services Reserve. This reserve allows Councilmembers to request one-time funds for critical projects through Budget Documents.

**City of San José Budget Principles and Service Delivery Framework:** Approval of this message also approves the revised City of San José Budget Principles and reaffirms the Service Delivery Framework that reflect the City Council's existing disciplined and comprehensive approach to budgeting, as described in Appendix A.

**Budget Balancing Strategy Guidelines:** In addition to the direction described in this memorandum, the City Manager is directed to deploy the Budget Balancing Strategy Guidelines, as described in Appendix B, to guide her approach to crafting a balanced budget in the year ahead.

**Budget Stabilization Reserve Framework:** To ensure the effective and fiscally appropriate use of one-time resources, the City Manager should be guided by the Budget Stabilization Reserve Framework, as described in Appendix C.

**Cost Estimate Request and City Council Budget Document Guidelines:** This March Budget Message includes definitions and guidelines for the Cost Estimate Request and Budget Document process to continue to ensure the delivery of meaningful budgetary information for City Council decision-making. These guidelines can be found in Appendix D.

I have coordinated this March Budget Message with the City Manager and City Attorney.

**I respectfully request my colleagues' support of this message.**

Any questions may be directed to Stephen Caines, the Mayor's Budget Director, at [Stephen.Caines@sanjoseca.gov](mailto:Stephen.Caines@sanjoseca.gov).

## APPENDIX A

### **CITY OF SAN JOSE BUDGET PRINCIPLES DRAFT REVISIONS**

---

**The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.**

#### **1) STRUCTURALLY BALANCED BUDGET**

The annual budget for the General Fund shall be structurally balanced throughout the budget process – with ongoing revenues that equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets – and the General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any significant revision(s) to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a structural imbalance occurs, a plan shall be developed and approved to offset the impact and to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

#### **2) USE OF ONE-TIME RESOURCES**

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Budget Stabilization Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One-time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the City Council with the acknowledgement of a corresponding structural imbalance that will need to be corrected in the subsequent year.

#### **3) BUDGET REQUESTS**

Consideration of new programs or services, or requests for additional staffing shall only take place during the development of the Proposed Budget so as to evaluate potential service expansions within the context of the City's budgetary position and other City Council priorities. Any exception shall include a spending offset at the time of the request – including future year impacts – so that the request has a net-zero effect on the budget. Any request to develop or implement new policies using existing resources shall provide sufficient information for the City Council and staff to understand the required level of effort for implementation and any tradeoffs that may be necessary prior to City Council approval.

# **CITY OF SAN JOSE BUDGET PRINCIPLES**

## **DRAFT REVISIONS**

---

### **4) RESERVES**

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund and/or in accordance with City Council policy. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses

### **5) DEBT ISSUANCE**

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

### **6) EMPLOYEE COMPENSATION**

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's budgetary condition, revenue growth, and changes in consumer pricing (cost of living expenses experienced by employees).

### **7) CAPITAL IMPROVEMENT PROJECTS**

Capital Improvement Projects shall be evaluated based on the entire cost of the project, including operations and maintenance, deferred maintenance impacts, and eventual replacement needs, as well as climate related risks and resilience needs. Investments should generally be prioritized to address deferred infrastructure and reduce the existing maintenance backlog above creation of new infrastructure. Postpone the construction or opening of a new site or facility if adequate and sustainable operations and maintenance funding cannot be identified.

### **8) FEES AND CHARGES**

Fees shall be maintained or increased to ensure 100% cost recovery to the extent feasible and in consideration of the equity impacts of underserved communities. Explore opportunities to establish new fees for services where appropriate.

### **9) GRANTS**

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing

# **CITY OF SAN JOSE BUDGET PRINCIPLES**

## **DRAFT REVISIONS**

---

programs with the exception of pilot projects to determine their suitability for long-term funding.

### **10) PERFORMANCE-BASED BUDGETING**

All requests for funding shall consider performance data to evaluate efficiency, effectiveness, and outcomes to the community. Performance measures shall be used to inform budget decisions, monitor results, and promote accountability.

### **11) TRANSPARENCY AND PUBLIC ENGAGEMENT**

Promote transparency through clear, accessible budget information and meaningful public engagement, including service level tradeoffs and long-term impacts of budget decisions.

### **12) GENERAL PLAN**

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

# Service Delivery Framework



## APPENDIX B

### **2026-2027 Budget Balancing Strategy Guidelines**

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. Assume increased revenues from the passage of the Transient Occupancy Tax ballot measure, but also recommend a contingency plan for City Council's approval should the ballot measure fail to ensure that the ongoing shortfall is fully resolved with ongoing solutions.
4. Evaluate program-level budgets to identify opportunities to reduce/eliminate or restructure services that yield cost reductions and allow for the preservation of City Council-approved Focus Areas service levels, critical CSA services and programs, and the City Manager's Foundational Strategic Support Focus Areas, to the extent practicable.
5. Prioritize resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2025-2026 in the General Fund, and/or respond to specific City Council direction.
6. Review existing vacancies for opportunities to reorganize and realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
7. Focus on service optimization and business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, reorganizing/realigning functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. Explore mechanisms to improve equity and inclusion within service delivery models.
9. Identify City policy changes that would enable/facilitate service delivery improvements, as well as one-time and ongoing General Fund savings, including changes to the policy governing the use of Measure E revenues.
10. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Consider delaying the opening of new City facilities as a near term cost reduction strategy.
12. Explore expanding existing revenue sources and/or adding new revenue sources.
13. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
14. Focus any available one-time resources on investments that 1) continue a very small number of high-priority programs funded on a one-time basis in 2025-2026 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.

15. Engage employees in department and/or city-wide budget proposal idea development.
16. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.

## APPENDIX C

### ***Budget Stabilization Reserve Framework***

Due to continued economic weakness and uncertainty, and the need for one-time resources, the Administration should follow these guiding principles for the use of the Budget Stabilization Reserve during the 2026-2027 Proposed Budget development process:

1. Do not rely on the Budget Stabilization Reserve to address ongoing General Fund shortfalls given that the Reserve is a one-time source of funding;
2. Address one-time urgent, unfunded capital rehabilitation and technology projects at critical City facilities;
3. Ensure sufficient funding remains to address potential shortfalls should the General Fund's budgetary position worsen further in 2025-2026 or 2026-2027, either due to unexpected revenue loss or unforeseen expenditures;
4. Consider limited, targeted investments for critical one-time services/projects or to yield long-term savings or efficiencies; and
5. Phase-in ongoing reductions over a two-year period, as necessary and on a limited basis, to allow for the transition or wind down of the impacted services.

The table below provides potential uses of the Budget Stabilization Reserve that may need to be considered during the 2026-2027 budget development process or during a future budget process.

<b>Potential Uses of the Budget Stabilization Reserve</b>	
	<b>Amount (\$ Million)</b>
<p><b>City Hall Foundation Water Intrusion Project</b>  City Hall has been dealing with water intrusion issues for a number of years. Work will need to begin in the next two years to resolve the issue and ensure the building's long term viability.</p>	\$45
<p><b>At-Risk ERAF Funding</b>  20% of the City's Education Revenue Augmentation Funding (ERAF) revenue is at risk on both an ongoing basis in 2025-2026 (\$9 - \$10 million annually) and a claw back to 2020-2021 (\$35 - \$39 million) due to an anticipated audit from the State Controller's Office that would challenge the ERAF calculation used by the County of Santa Clara. The County has preemptively filed litigation to dispute the actions taken by the State Controller. There is no timeline for a resolution.</p>	\$35
<p><b>Cardroom Business Tax Potential Loss</b>  The California Bureau of Gambling Control recently approved regulations that limit cardroom operations. Industry representatives have warned that these regulations could reduce operating revenues by 85%, which would result in an approximately \$25 million loss to the City's General Fund. Due to the uncertainty of timing and precise impact, the Forecast does not yet incorporate Cardroom Business Tax losses; any substantial loss would likely need to be absorbed by the Budget Stabilization Reserve in 2026-2027 and incorporated into future forecasts.</p>	\$25
<p><b>2025-2026 Ending Fund Balance Target Potential Shortfall</b>  The City regularly assumes an ongoing ending fund balance of \$30 million, comprised of a combination of excess revenue and expenditure savings, which then becomes a funding source for spending the following fiscal year. Due to lower than anticipated revenues in 2025-2026, the City is likely to fall short of its fund balance target on a one-time basis in 2025-2026, and will require an offset from the Budget Stabilization Reserve.</p>	\$20
<p><b>Other Significant Deferred Infrastructure Maintenance/Technology Investments</b>  The City faces a number of large-scale capital rehabilitation and technology investment needs that should be addressed in the current and future budget processes.</p>	TBD
<p><b>Other Critical One-Time Service Delivery Needs</b>  A small portion of the Budget Stabilization Reserve could address a very limited amount of one-time needs, especially where one-time investments could lead to future ongoing savings or cost efficiencies.</p>	TBD
<p><b>Limited Phase-In of Ongoing Reductions Over a Two-Year Period</b>  Certain reductions may take more than one year to fully realize the savings; use of the Budget Stabilization Reserve could provide limited bridge funding until those savings are realized in the second year.</p>	TBD
<p><b>Address Unanticipated Revenue Loss or Expenditure Impacts in 2026-2027</b>  As noted in the Pessimistic Scenario, the City's budgetary condition could substantially worsen from the Base Case; funding should remain available in the Budget Stabilization Reserve to help mitigate potential impacts.</p>	TBD

## **APPENDIX D**

### *Cost Estimate Request and City Council Budget Document Guidelines*

Consistent with prior years, the City Manager's Budget Request also includes guidelines for the process whereby City Councilmembers submit cost estimate requests to the Administration in preparation for their Budget Documents that are ultimately submitted to the Mayor's Office for potential inclusion in the Mayor's June Budget Message. This process is extremely beneficial in focusing the work of the Administration on feasible and implementable programs and services. The Administration recommends that the following definitions and guidelines – which provide definitions and limits to the Cost Estimate Request and Budget Document process to ensure the delivery of meaningful budgetary information for City Council decision-making – again be incorporated into City Council's approval of the Mayor's March Budget Message.

**Cost Estimate Request:** A request by a Councilmember to the Administration seeking the cost of a new project or program to be performed by the City. The request from the Councilmember should include a clear description of the work to be performed and the anticipated outcomes that identifies how the change would affect services for San José residents, businesses, community groups, etc. Each Councilmember should submit no more than five Cost Estimate Requests.

The request must have a modest scope so that a reliable cost estimate response can be quickly and accurately completed. The anticipated scope should be a small-scale project that the City has delivered in the past, or an extension of a service that already exists that would only require a modest staffing addition on a one-time basis. Recent examples include the installation of targeted neighborhood traffic calming improvements, a radar speed display sign along a neighborhood street, or additional street tree plantings within a City Council District.

Requests that involve complex service delivery and/or large ongoing staffing resources for new programs (e.g., at-home STEM educational programs for children in Title I schools supplemented with free Wi-Fi hotspots), or large capital construction projects that require extensive design (e.g., new streetlight infrastructure, highway overpasses, etc.) are not appropriate for this process.

The request should identify the anticipated funding source to pay for the program (though City staff may suggest alternative funding sources in its response) and indicate if the project/program is a one-time or ongoing effort. To keep the budget structurally balanced, one-time expenditure requests should be offset by one-time funding sources, while ongoing expenditure requests should be offset by ongoing funding sources.

**Cost Estimate Response:** A response by the Administration to the Councilmember's request that clearly identifies the one-time and ongoing costs, as appropriate, any additional full-time equivalent positions that would be needed, and eligible funding sources. Explanatory notes are provided only if necessary to clarify what is included in the cost estimate response.

**Budget Documents:** Memoranda issued by a Councilmember to the Mayor recommending adjustments to the City Manager's Proposed Budget. Typically, Budget Documents are based on the information received in a Cost Estimate Request and Response, but they may also recommend targeted funding for community groups whose programs or actions serve the public

interest, but would not be performed by City staff. All Budget Documents that recommend a City-provided service or project must be based on a Cost Estimate Response.

As the Proposed Budget is fully balanced, Budget Documents must also identify the offsetting actions to pay for the recommended adjustment, such as the Essential Services Reserve. For example, if a Budget Document seeks to fund a \$50,000 project, then a typical offset would be a \$50,000 reduction to the Essential Services Reserve. It is important to note that the Essential Services Reserve is not an ongoing funding source. To pay for any ongoing costs, and to align within City of San José Budget Principles, the Budget Document would also need to identify an ongoing service in the Proposed Budget to defund.

**Submittal Dates:**

- **Wednesday, May 6:** Deadline for Councilmembers to submit Cost Estimate Requests to the City Manager's Budget Office
- **Friday, May 15:** Cost Estimate Responses returned to Councilmembers
- **Thursday, May 21:** Budget Documents due to Mayor's Office