



Memorandum

TO: CITY COUNCIL
SUBJECT: MARCH BUDGET
MESSAGE FOR
FISCAL 2025-2026

FROM: Mayor Matt Mahan
DATE: March 17, 2025

APPROVED:

RECOMMENDATIONS

1. Approve the Mayor's March Budget Message for FY 2025-2026.
2. Approve the Memorandum from Vice Mayor Pam Foley dated March 17.

DISCUSSION

Memorandum from Councilmembers Cohen and Candelas

I agree with and appreciate Recommendation 1 to schedule a meeting between the full City Council and Board of Supervisors. A joint meeting is long overdue, particularly as we begin to develop a new Community Plan to End Homelessness with our partners, and in light of the partnership opportunities highlighted in the Mayor's March Budget Message (MBM). I also agree with Recommendation 4 to continue exploring alternative funding options to support affordable housing development, which could augment research into the Housing Revenue Bonds and Enhanced Infrastructure Financing District mechanisms outlined in the MBM. Last year's unsuccessful attempt to add a Regional Housing Measure to the ballot – despite unanimous support from the Mayor and City Council – only reinforces the need to explore other funding streams that can supplement the \$50 million in City funding expected to be released this year for new affordable housing.

Where I strongly disagree, however, is with the idea that bold initiatives like “Responsibility to Shelter” and “Pay for Performance” should be set aside from the budget process. These are the very types of forward-thinking policy proposals that mayors often introduce in the March Message and work through with the Council and Administration between March and June. The Budget Study Sessions in May will provide ample opportunity for Council review, staff input, and legal analysis—just as with any other significant policy initiative. Of course, our Councilmembers may also take briefings from City staff, confer with County counterparts, and consult with the City Attorney between now and then.

Moreover, we don't need another committee that adds more layers of process and bureaucracy while consuming staff time to prepare presentations and attend committee meetings. The Rules Committee is an arbitrary body to oversee the Responsibility to Shelter proposal, and a joint

committee with the County that lacks decision-making power won't move us forward. Furthermore, recommendations 3a, 3b, and 3c are certainly important in their own right. Still, they're separate research efforts for City and County staff that should be folded into the broader work of shaping the next Community Plan to End Homelessness—not entangled with Responsibility to Shelter. If anything, the partnership opportunities outlined in recommendations 3a, 3b, and 3c could be discussed in the joint meeting between the full Council and Board of Supervisors.

As for Pay for Performance, we should reject the notion that we need another six months of analysis before deciding on whether to move forward. Council colleagues can reference [Charter Section 407](#) for an explanation of “the current process for determining salaries” (recommendation 5b). For additional context, including a “history of how Council salary setting occurs” (recommendation 5c), Council colleagues can also review the Salary Setting Commission's meeting minutes and an archive of their salary determinations by visiting [this webpage](#). Alternatively, any Councilmember can request a briefing on the salary setting process from the City Clerk.

San José is already a leader in using performance metrics to drive decision-making—few cities are as ambitious in this area as we are. While we can always refine our approach, researching how other public agencies use metrics (recommendation 5a) isn't a pressing priority. Since Pay for Performance likely wouldn't take effect until 2026 or 2027 if adopted by the voters, we have plenty of time to refine goal setting and implementation details while still moving forward now.

Contrary to the memo's assertions, the Responsibility to Shelter and Pay for Performance proposals have a clear budget nexus. Implementing Responsibility to Shelter would require staff work within the City Attorney's Office, San Jose Police Department, and potentially other departments. And, Pay for Performance isn't just about compensation—it's about setting clear goals, assigning associated resources to achieve those goals, measuring success, and ensuring transparency and accountability. The budget is the right place to establish these frameworks. The budget is a critical tool in public policy, as it translates priorities into action, allocates resources to essential services, and reflects a government's commitment to economic stability, equity, and long-term strategic goals.

The MBM already directs the City Attorney to present a policy framework for Responsibility to Shelter to the Council in June 2025, ensuring that the actual policy will be considered separately from budget adoption. I also support bringing Pay for Performance forward as a standalone item in June, allowing for full Council deliberation without unnecessary delay.

Memorandum from Councilmembers Campos, Salas, Mulcahy, Doan, and Casey

I appreciate the Councilmembers' efforts to dedicate more resources to homelessness prevention by proposing an increase in Measure E's contribution from 10% to 15% in FY 2026-2027. However, given that we face a significant projected deficit next year, we should not prematurely commit ourselves to increasing prevention dollars without first understanding the potential impacts to the General Fund. Constraining or dictating next year's accounting doesn't help us make informed service-level tradeoffs. While we all can agree on the importance of prevention, committing ourselves to a 15% Measure E allocation toward prevention is arbitrary until we know what the actual shortfall is in FY 2026-2027, especially considering Measure E is already a highly volatile source of revenue that generates anywhere from less than \$50 million to more

than \$100 million per year. More broadly, we should brace for the economy to become even more volatile under this new administration over the next year.

Moreover, as mentioned in the MBM, because prevention is a one-time assistance program for a given household and doesn't require an ongoing commitment, we are more likely to secure one-time State, County or philanthropic dollars for it. In lieu of prematurely committing additional Measure E resources toward prevention, I encourage my Council colleagues to help the City and our partners pursue and secure external contributions for prevention.

Regarding Recommendation 1d, the City Council cannot cap General Fund expenditures for previously directed services without also giving direction as to which services should be reduced. The existing interim housing portfolio and the new projects coming online in 2025 have been repeatedly committed to by previous Councils since FY 2022-2023, and are currently forecasted to exceed available Measure E revenues, making continued General Fund support necessary. If the Council were to direct capping General Fund contributions related to this work – one of the community's most important priorities – then the Council would also need to give direction as to which sites should be closed down. As I don't think this is my colleagues' intent, we should continue to focus efforts on cost reduction and the leveraging of external resources as directed in the MBM. We also don't need to direct the City Manager to hold additional public hearings on General Fund or Measure E investments, as these are decisions we work out each year through the budget process through existing public hearings and meetings.

Our colleagues also proposed at least five detailed Manager Budget Addenda (MBA) that will either require extensive staff time and resources to formulate between now and May, or are redundant to analyses produced in the past. Our progress in key focus areas directly results from our commitment to staying aligned with our priorities. Introducing additional research projects can divert resources and attention, making it essential to maintain our strategic focus.

- **Recommendation 2a, Stormwater Permit:** The FY 2024-2025 budget included a multi-year [Stormwater Permit Implementation Funding Plan](#). In lieu of an MBA, the City Manager and City Attorney should report back to Council through the Budget Study Sessions in May on implementation progress, how the plan has evolved, expected future iterations, and the potential implications of the recent Supreme Court decision in *City and County of San Francisco v. Environmental Protection Agency*.
- **Recommendation 2b, Housing Element:** The City just went through a comprehensive, multi-year process to develop a Housing Element that was certified by the State in January 2024. [The Annual Progress Report on the Implementation of San José's Plan Housing Element](#) is on the same March 18, 2025 agenda as the MBM. The report includes a detailed analysis of progress on specific programs outlined in our Housing Element, and expected completion dates for outstanding programs. In lieu of an MBA, the Planning Department and Housing Department should report out through the Budget Study Sessions on an implementation plan to complete outstanding programs that are legally mandated or previously directed by the Council, and discuss any foreseeable tradeoffs with other policy work outlined in the MBM.
- **Recommendation 2c, General Fund Impact:** I appreciate my colleagues' intent to explore lower-cost alternatives to EIH's; though I struggled to interpret the direction outlined under this recommendation. The MBM directs the City Manager to explore opportunities to reduce construction and operation costs for EIHs by 20%. However, we can only trim services so far without impacting the most critical case management services that have helped 70% of EIH participants remain housed. Considering the City

doesn't currently operate any "lower-cost" alternatives to EIH's, or fund permanent affordable housing using General Fund dollars, running the analyses requested under this recommendation would provide limited value given the significant assumptions required. Furthermore, recommendation C.iii. is almost certainly a non-starter, as cost savings will almost always need to be used to operate interim housing to minimize General Fund impacts and service delivery tradeoffs. Instead, the City Manager should take the spirit of everything under 2c as part of our ongoing evaluation of the interim housing portfolio and the Housing Department's approach to delivering services at a lower cost.

- **Recommendation 2d, Revenue Generation Offsets from City Property:** We should pursue every opportunity to generate revenue. However, it's important to recognize that any revenue generated through this proposal may not be realized until at least the next fiscal year.
- **Recommendation 2e, SJLUV:** I appreciate Councilmember Doan's continued commitment to pursuing other forms of shelter. Based on the analysis staff produced last year and learnings from San Francisco and San Diego, pre-engineered modular shelters (PEMS) may cost roughly as much per person per year to operate as EIHs given that operating costs are primarily driven by security, food, case management, property management and other labor-intensive services. It also wasn't clear what additional analysis is requested beyond what staff produced last year through [MBA #17](#). Furthermore, pursuing PEMS will require site identification, upfront construction costs, and ongoing operation costs, which we simply can't commit to this year. Instead of producing another MBA, staff should consider pursuing PEMS in future years after we build out our pipeline of EIH, or in the context of a Haven for Hope model on a new site as described in the MBM.

On Recommendation 4, the MBM already provides direction (Appendix A of the MBM) to use the Budget Balancing Strategy Guidelines and the Budget Principles to evaluate initiatives, programs, and projects proposed when preparing a balanced budget consistent with the MBM. This direction is redundant and, therefore, unnecessary.

On Recommendation 5, it's unclear if our colleagues have a hypothesis or theory about what specifically needs to be updated in the Budget Balancing Strategy Guidelines and the Budget Principles. These principles are tried and true and have guided the City through difficult times. However, I'm generally supportive of an update to these guidelines if the City Manager believes one is warranted.

Memorandum from Councilmember Campos

For the same reasons explained above, I cannot support recommendations 1 and 2 in the memorandum from Councilmember Campos. We should trust our City Manager and the County Executive to develop an agenda for a joint meeting that reflects our collective priorities and opportunities to strengthen our partnership. The Rules Committee will have ample opportunity to weigh in on the agenda for the joint meeting when the agenda goes before Rules for approval.

On Recommendation 3, the MBM already directs the City Manager to put forward an MBA that "identifies current work efforts or previous City Council direction and referrals that will be dropped or deferred to enable the timely completion of the direction detailed throughout the remainder of this document" (page 4). In lieu of an additional MBA specific to the General Plan Four Year Review, the Planning Department should report out through the Budget Study

Sessions on a plan to initiate the General Plan Four Year Review and discuss any foreseeable tradeoffs with other policy work outlined in the MBM.