

City Council Study Session:

2026-2027 Preliminary General Fund Forecast and Budget Priorities

February 5, 2026

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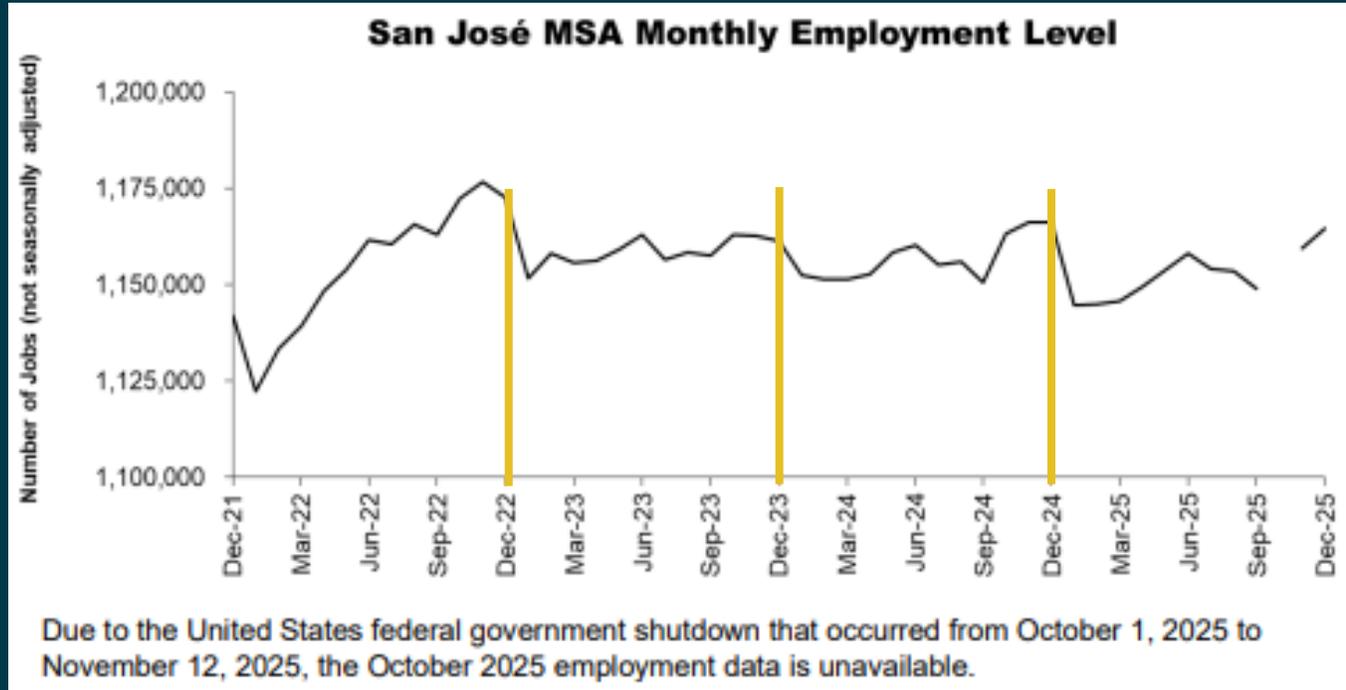
Budget Priorities Study Session

Today's Agenda

- 1 Introduction and Opening Comments
- 2 2026-2027 Preliminary General Fund Forecast
- 3 Community Priorities
- 4 Focus Areas, Core Services/Programs, and Organizational Risks
- 5 Preliminary Budget Balancing Strategy Considerations
- 6 City Council Discussion on Budget Priorities
- 7 Next Steps and Closing
- 8 Public Comment

2026-2027 Preliminary General Fund Forecast

Economic Conditions

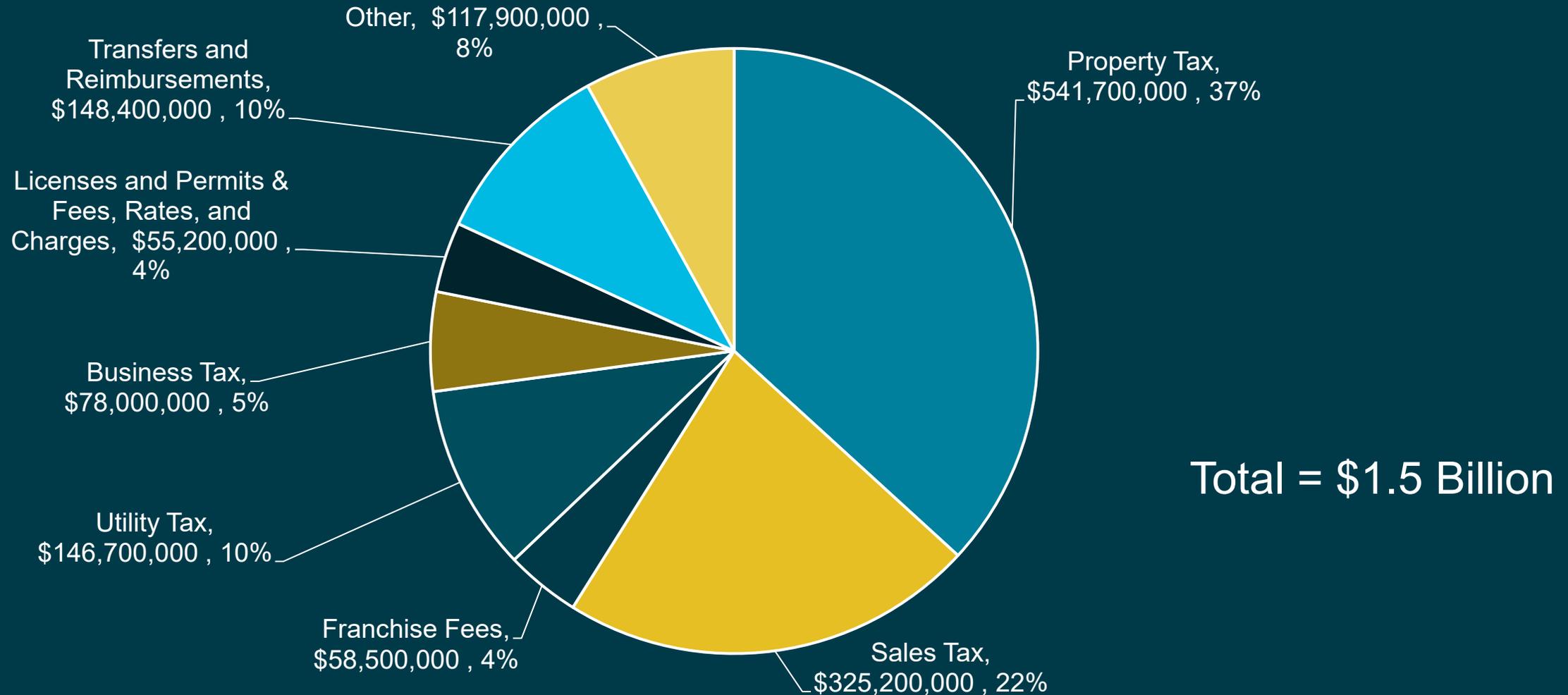


Local economy is not conducive to revenue growth

- Job growth is stagnant
- Office vacancies remain high; commercial sector is relatively weak and weighing down property valuation
- Residential real estate prices and sales have slightly decreased; days on market have slightly increased
- Private development activity is up from last year, but not considered strong

2026-2027 Preliminary General Fund Forecast

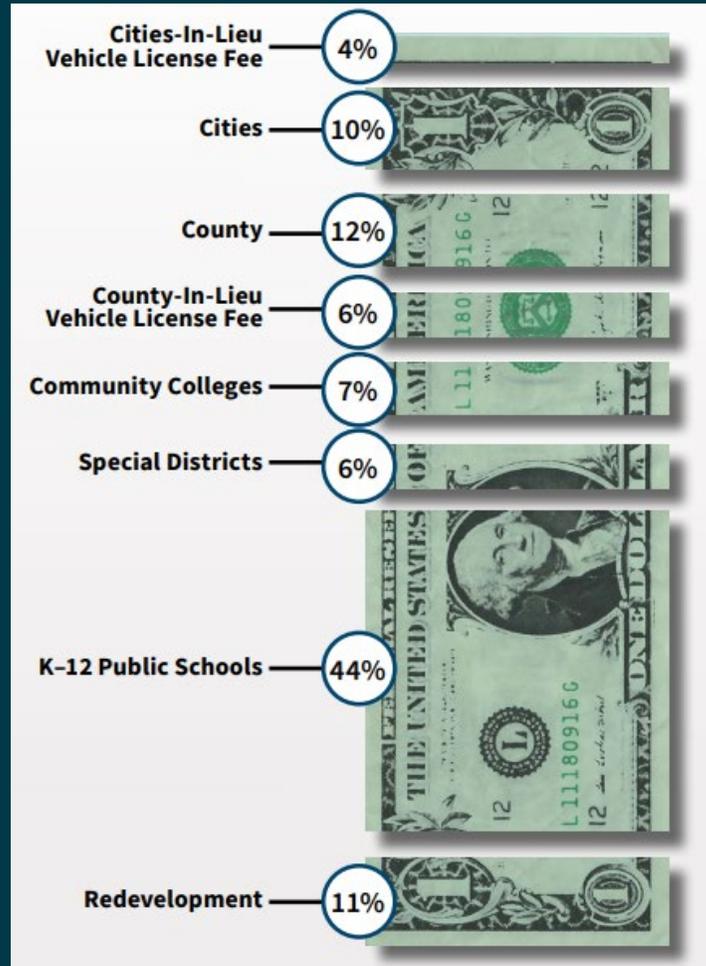
Preliminary Revenue Estimates



2026-2027 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

Average Santa Clara County Property Tax Allocation



Property Tax Revenue Components

Secured Prop

Unsecured Property Tax

SB813 Property Tax

Aircraft Property Tax

Homeowner's Property Tax Relief (HOPTR)

2026-2027 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

Secured Property Tax Collections

Category	25-26 Est. (Millions)	26-27 Est. (Millions)
General Secured	\$415	\$433
Educational Revenue Augmentation Fund (ERAF)	\$53	\$53
Successor Agency to the Redevelopment Agency (SARA)	\$24	\$24

The State of California Controller's Office does not agree with the methodology used by Santa Clara County to calculate the ERAF distribution

- Preemptive litigation initiated by the County is in process
- Potentially at risk to the City is approximately \$9 - \$10 million ongoing and a one-time claw back of approximately \$35 - \$39 million

2026-2027 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

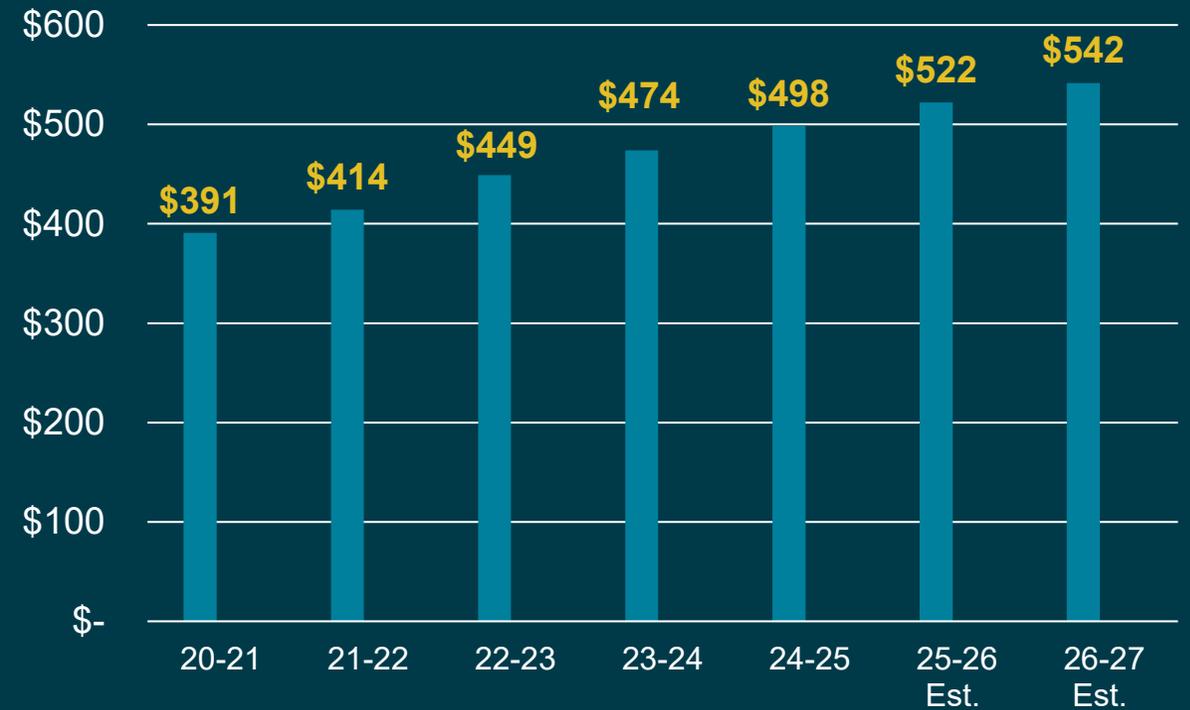
Property Tax growth is growing at a slower rate compared to recent years

While residential valuation remains fairly solid, property transactions are relatively low

Commercial sector is relatively weak

Overall low levels new of construction

Property Tax Collections (Millions)



	21-22	22-23	23-24	24-25	25-26 Est.	26-27 Est.
% Growth	5.9%	8.4%	5.5%	5.2%	4.7%	3.8%

2026-2027 Preliminary General Fund Forecast

Sales Tax Preliminary Estimates - Breakdown

Agency	Distribution Percentage
State of California	5.500%
City of San José (Bradley Burns)	1.000%
City of San José (Local Tax)	0.250%
Public Safety Fund (Proposition 172)*	0.500%
Santa Clara County (Including VTA and Measure A)**	2.625%
Peninsula Corridor Joint Powers Board (Caltrain)	0.125%
Total	10.00%

Expires 2031 

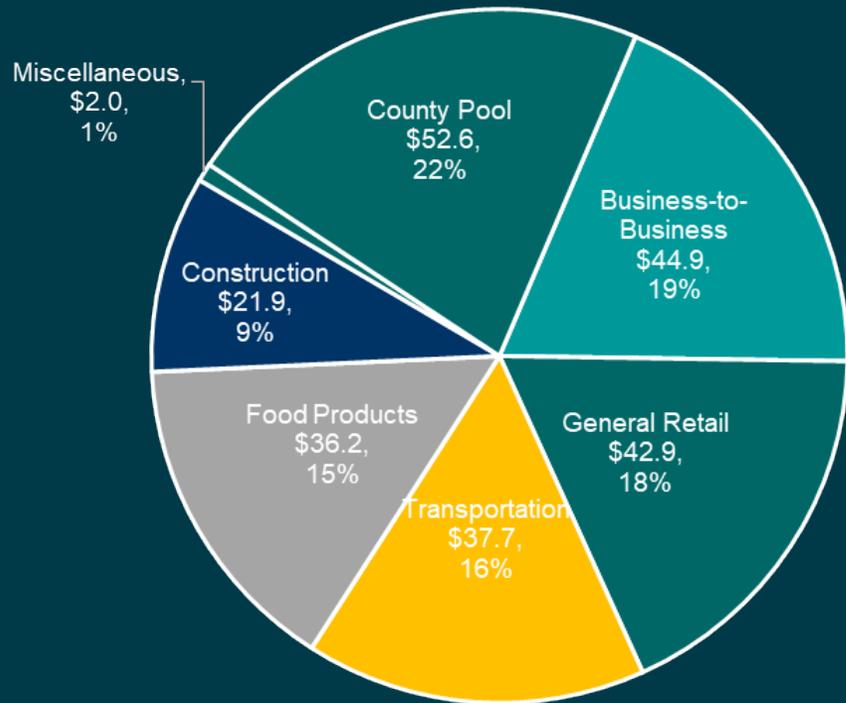
* City is allocated a small share in accordance with a Statewide allocation

**Includes a newly approved Santa Clara County five-year tax measure that will be implemented on April 1, 2026

2026-2027 Preliminary General Fund Forecast

General Sales Tax – Economic Sectors

2024-2025 Actuals
General Sales Tax by Economic Sector
(\$ in millions)



% Change by Sector from the Prior Year (Economic Basis)

Economic Sector	2022-2023 % Change	2023-2024 % Change	2024-2025 % Change
Business-to-Business	28.3%	2.3%	(9.5%)
General Retail	0.7%	(2.2%)	(3.1%)
Transportation	3.8%	(2.0%)	(11.9%)
Food Products	9.8%	3.2%	2.1%
Construction	(1.6%)	(1.2%)	(0.2%)
County Pool*	3.9%	(11.5%)	9.9%

*Captures the majority of online transactions. Revenue is distributed to all cities within Santa Clara County based each jurisdiction's total General Sales Tax receipts divided by the Total General Sales Tax receipts for the entire County. The City typically receives between 45%-50% of the total County Pool.

2026-2027 Preliminary General Fund Forecast

Sales Tax Preliminary Estimates

Sales Tax Collections (Millions)



	21-22	22-23	23-24	24-25	25-26 Est.	26-27 Est.
% Growth	13.8%	6.3%	(2.9%)	(0.6%)	3.2%	3%*

*Reflects year-over-year economic growth in 2026-2027.

After a strong post-pandemic recovery, Sales Tax revenues have been weak

First quarter of General Sales Tax collections were 15% higher than prior year; however, this increase was predominantly due to one-time corrections. Economic growth was minimal

Very small economic growth of 1%-2% is anticipated for remainder of 2025-2026

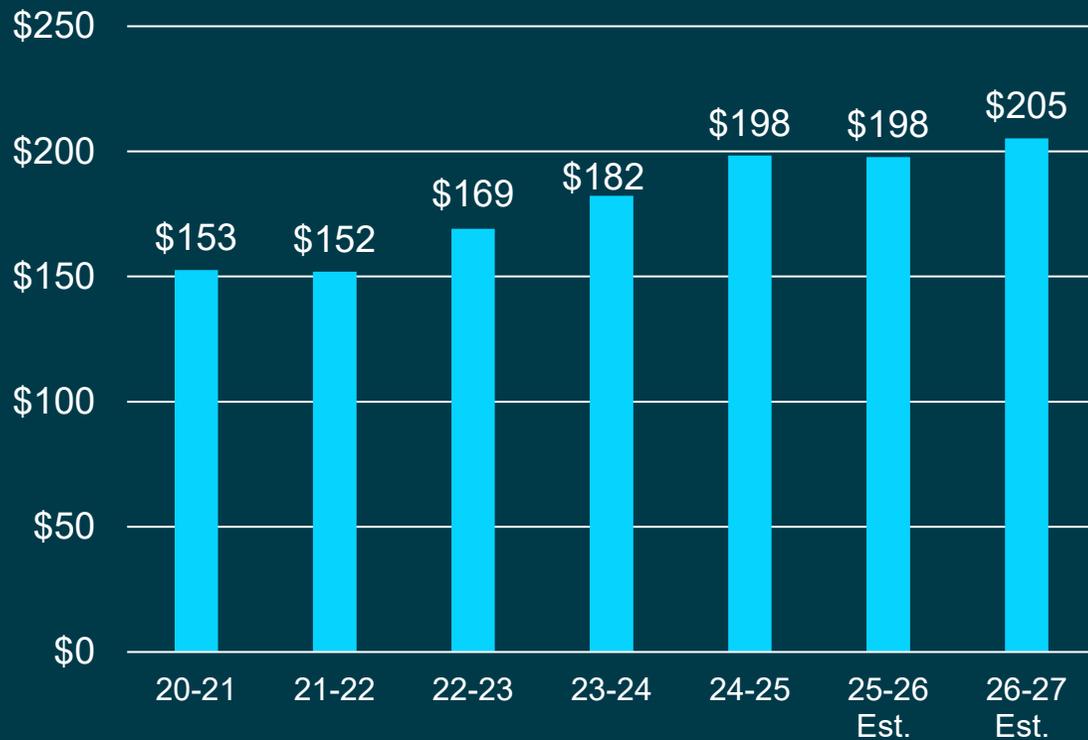
Minimal economic growth of 3% is anticipated in 2026-2027

Beginning in 2026-2027, estimates reflect an adjustment to Sales Tax revenues offset by the Revenue Loss Reserve for a net-zero impact

2026-2027 Preliminary General Fund Forecast

Utility Taxes and Franchise Fees Preliminary Estimates

Utility Tax & Franchise Fees Collections (Millions)



Utility Tax

	21-22	22-23	23-24	24-25	25-26 Est.	26-27 Est.
% Growth	(3.2%)	20.0%	4.4%	7.8%	(0.1%)	5.0%

Surcharge on electricity, gas, water, and telephone bills

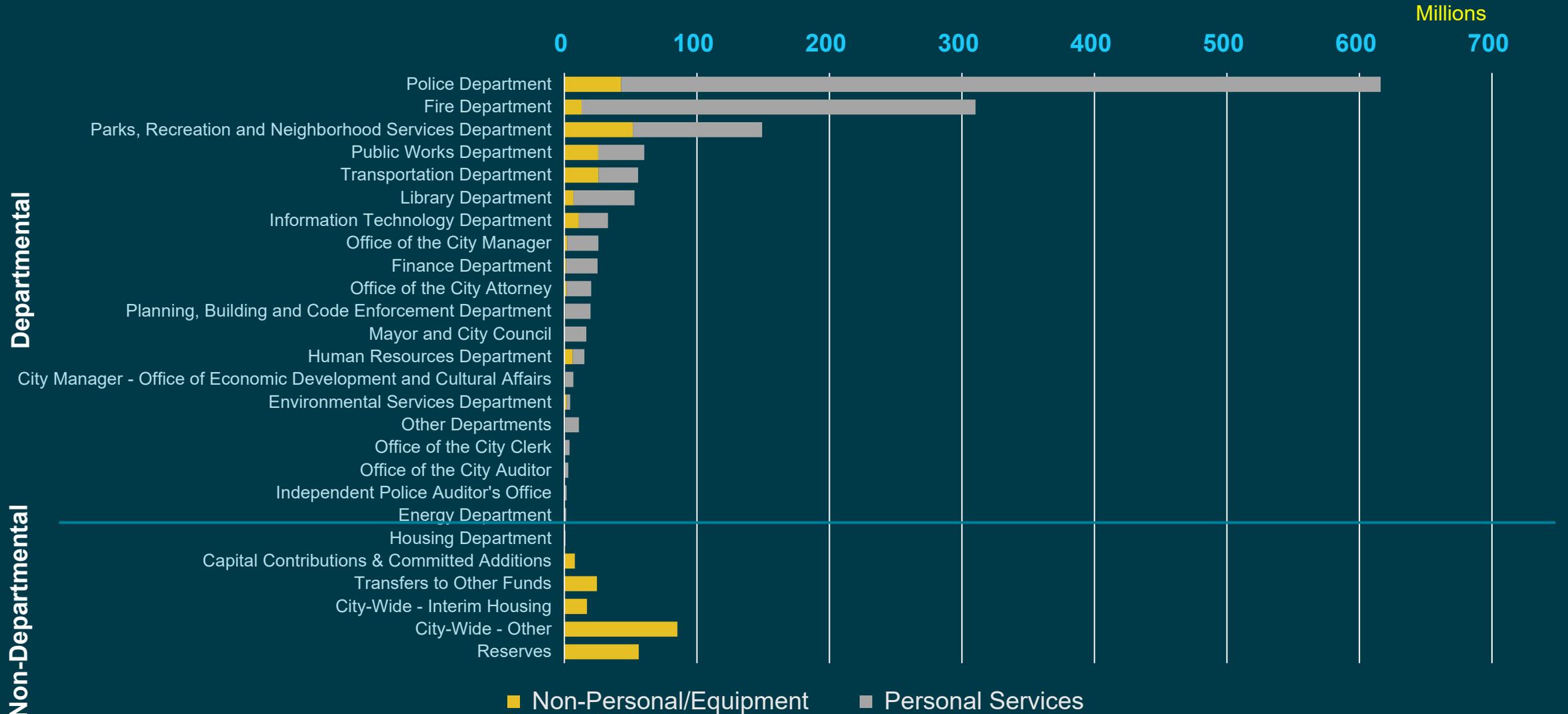
Franchise Fees

	21-22	22-23	23-24	24-25	25-26 Est.	26-27 Est.
% Growth	6.0%	(7.3%)	17.1%	11.4%	(0.8%)	0.9%

Payment by companies providing electricity, gas, water, commercial solid waste, cable, nitrogen/jet fuel, and cable services

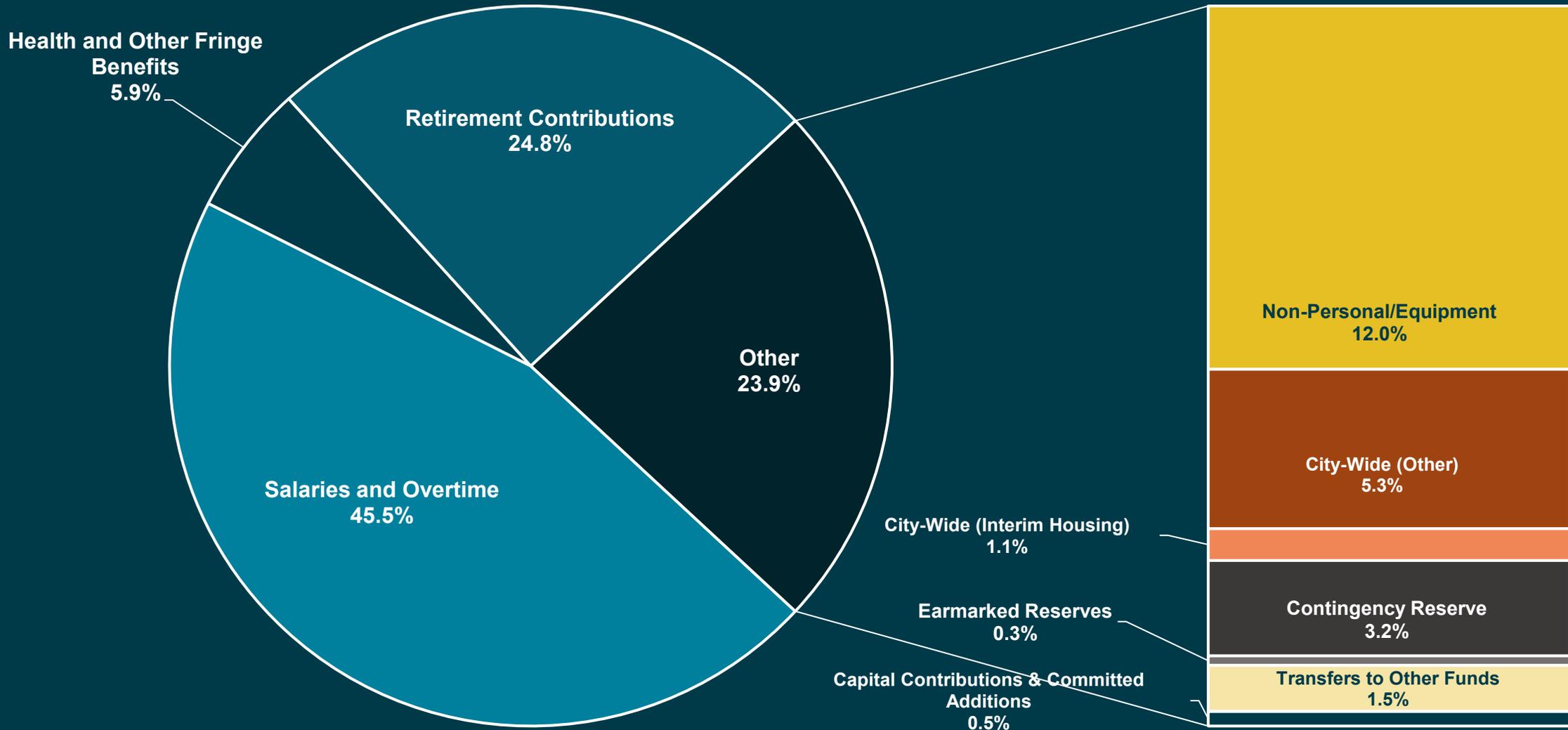
2026-2027 Preliminary General Fund Forecast

General Fund Base Budget Expenditures by Department (Preliminary)



2026-2027 Preliminary General Fund Forecast

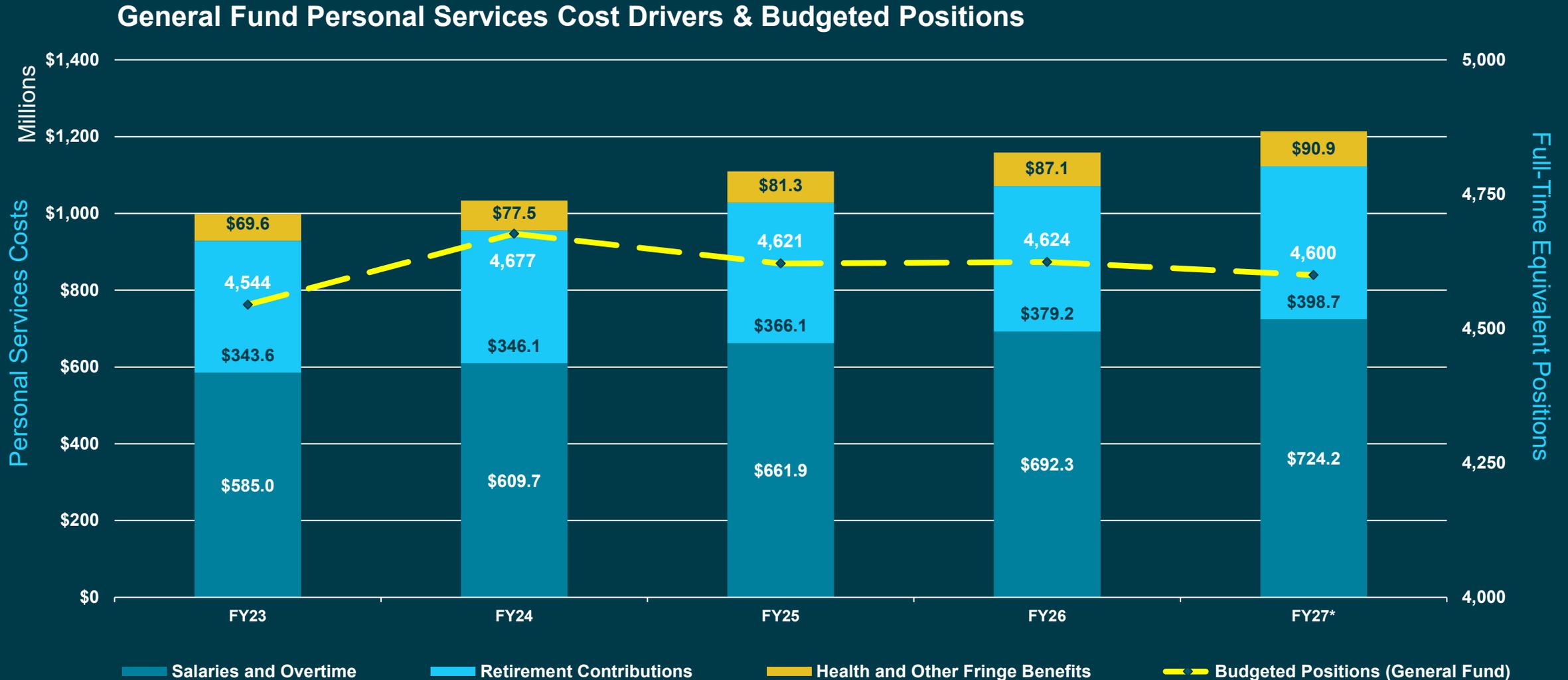
General Fund Expenditure Components (Preliminary)



Total Preliminary Forecast Expenditures: \$1.6 billion

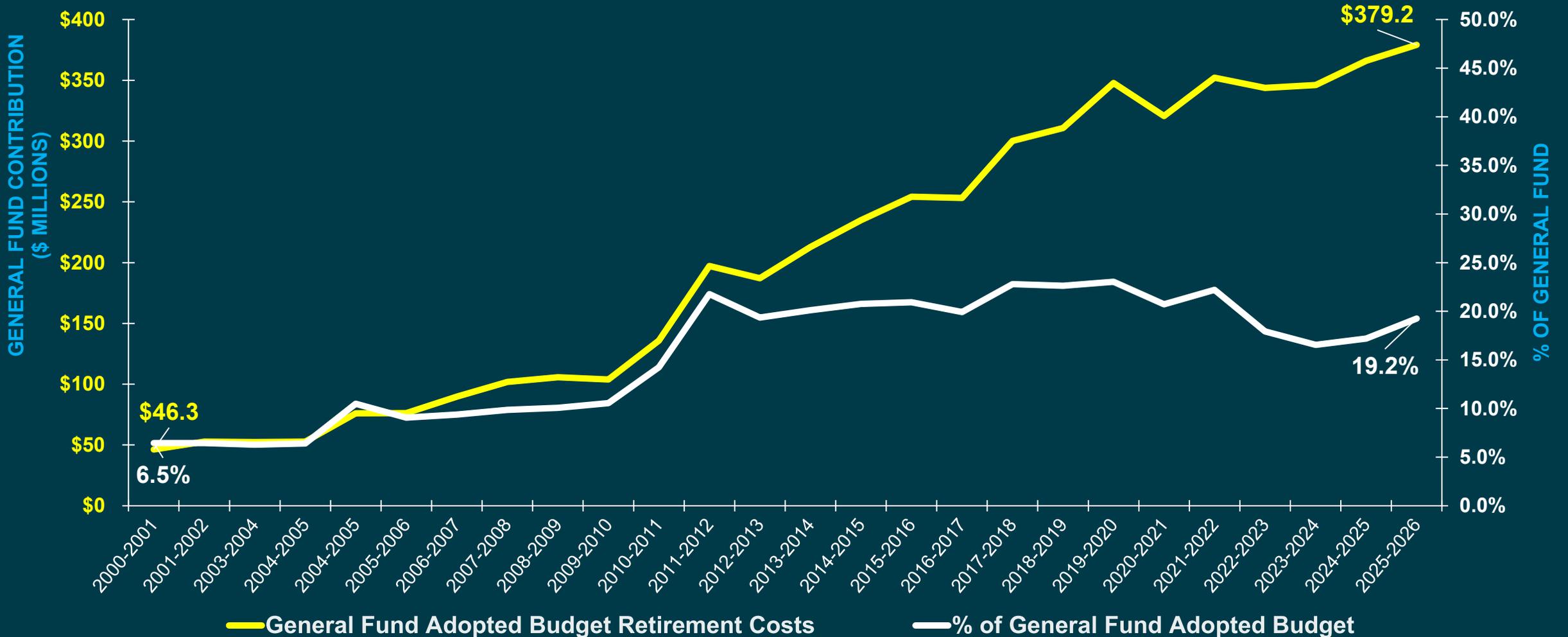
2026-2027 Preliminary General Fund Forecast

General Fund Expenditure Components (Preliminary)



2026-2027 Preliminary General Fund Forecast

General Fund Retirement Costs – Historical Perspective

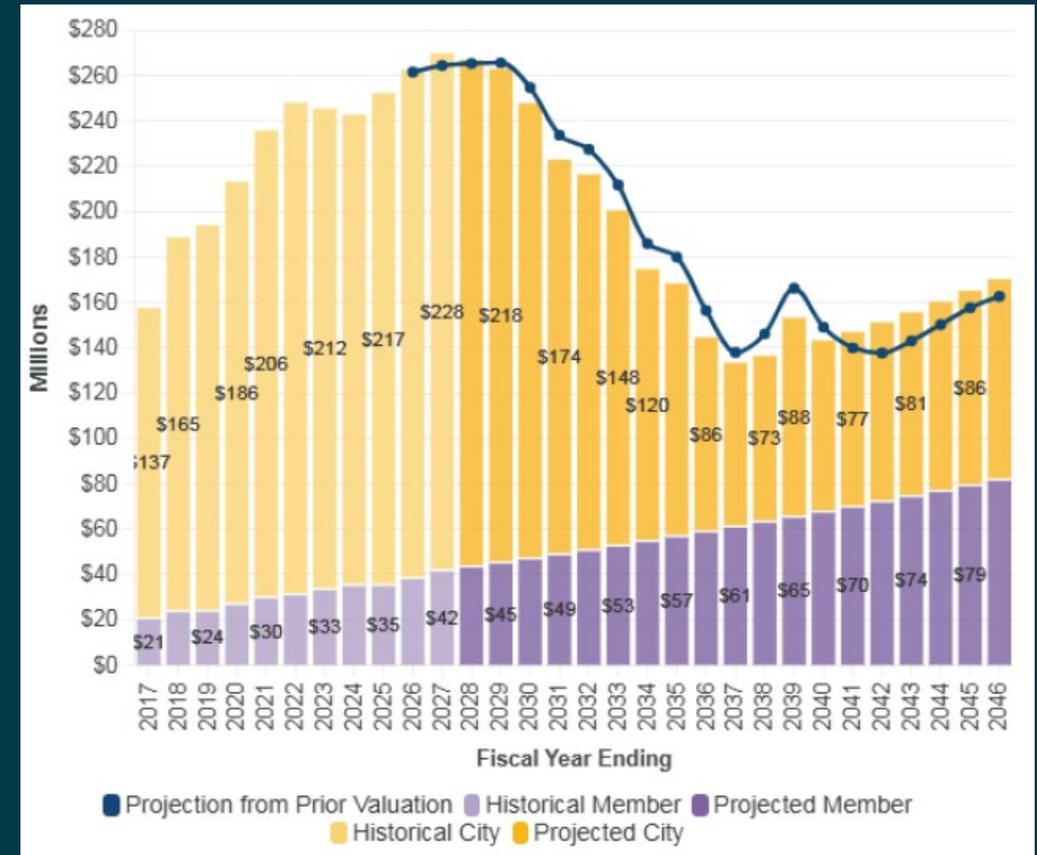


2026-2027 Preliminary General Fund Forecast

Retirement Contributions Actuarial Forecast

- The most recent actuarial projections show declining contributions from the City as the unfunded actuarial liability (UAL) continues to be paid down
- Projections include a number of assumptions, including that future years average a return of 6.625%
- Retirement contributions higher in 2026-2027 than previously anticipated due to elimination of pre-funding and higher wage growth assumptions based on recent labor agreements

Police and Fire Pension Contribution Based on June 30, 2025 Valuation



2026-2027 Preliminary General Fund Forecast

Other Costs Continue to Increase

Non-Personal/Equipment

- Electricity costs expected to increase 3% next year due to delivery charge increases
- Water costs expected to increase 8% next year due to cost of water supply and capital investments
- Further increases of \$2.1 M for information technology application subscriptions, facility services, equipment refresh, and various contractual service adjustments

Committed Additions

- Costs to operate and maintain completed capital projects (e.g. Fire Station 36, Columbus Park), Category tentatively scheduled to increase from \$1 M in 2026-2027 to \$9 M in 2030-2031

City-Wide Expenses

- Ongoing General Fund contribution to support the Interim Housing Portfolio tentatively forecasted at \$17 M in 2026-2027, increasing to \$30 M, \$48 M, \$58 M, and \$56 M in the following years - will vary based on external funding and continued cost management
- Cost of living increases for support of community-based organizations

2026-2027 Preliminary General Fund Forecast

Ongoing General Fund Shortfall

The General Fund preliminary forecast shows a shortfall of approximately ranging from **\$55 to \$65 million** in 2026-2027 followed by an additional shortfall of approximately half that in 2027-2028 [*subject to change*]

- Growth within major revenue categories has weakened (Property Tax, Utility Taxes/Franchise Fees) or continues to grow only modestly (Sales Tax) while cost pressures continue to escalate – this structural imbalance will need to be addressed in the 2026-2027 Proposed Operating Budget
- The forecast does not include costs associated with unmet/deferred infrastructure and maintenance needs, one-time services/programs currently funded in the General Fund, or any new targeted investments for service level enhancements

Local Perceptions of Top Issues: Over Time

Residents' priorities have largely stayed the same over the last three years



Top Issues for San José vs. Californians Overall

Top Issues Facing People in California.

San José
Addressing Homelessness
Housing Affordability
Beautify City, Landscaping
Improve Public Safety, Reduce Crime
General Cost of Living

California
Cost of living, economy, inflation
Housing costs, availability
Government in general, problems with elected officials, political parties
Threats to democracy or political extremism
Homelessness

(Source: Community Opinion Survey Report 2025)

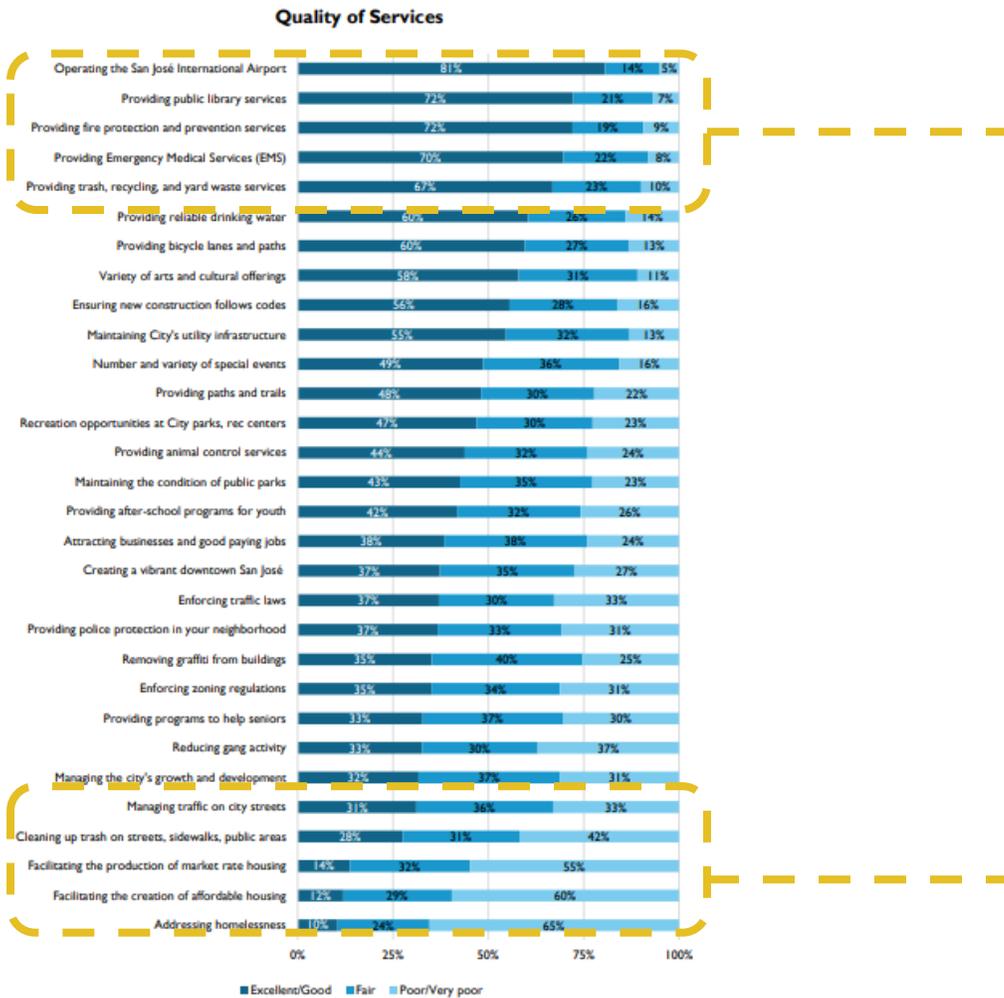
(Source: PPIC Statewide Survey, Dec 2025)

Resident Perceptions of City Services

Top Issue. Highest and Lowest Ranked City Services



Satisfaction ratings for every City service trended positive between 2024 and 2025, with the largest increases for cleaning up illegal dumping, providing emergency medical services, creating a vibrant downtown, providing arts and cultural offerings, removing graffiti, and providing animal control services.



Top 5 Rank	Service
1	Operating the San José International Airport
2	Providing public library services
3	Providing fire protection and prevention services
4	Providing emergency medical services (EMS)
5	Providing trash, recycling, and yard waste services

Bottom 5 Rank	Service
26	Managing traffic on city streets
27	Cleaning up trash on streets, sidewalks, public areas
28	Facilitating the production of market rate housing
29	Facilitating the creation of affordable housing
30	Addressing homelessness

Alignment with City Focus Areas

Residents Top Issues and Lowest Ranked Services are Aligned with Current Focus Areas



Problem Areas

- | | | | | |
|--|--|--|---|---|
| <ol style="list-style-type: none"> 1. Emergency Response 2. Crisis Response 3. Crime Reduction 4. Traffic Safety | <ol style="list-style-type: none"> 1. Shelter System Capacity and Operations 2. Unsustainable Funding 3. Environmental Compliance and Public Spaces 4. Data and Forecasting Infrastructure | <ol style="list-style-type: none"> 1. Blight on Private Property 2. Graffiti 3. Illegal Dumping | <ol style="list-style-type: none"> 1. Land Use, Policy, and Regulation 2. Development Services Process 3. Linking Land and Capital | <ol style="list-style-type: none"> 1. Business Development and Workforce Preparedness 2. Infrastructure Readiness 3. Downtown and Neighborhood Business Districts Investment 4. Sports and Entertainment District Development |
|--|--|--|---|---|

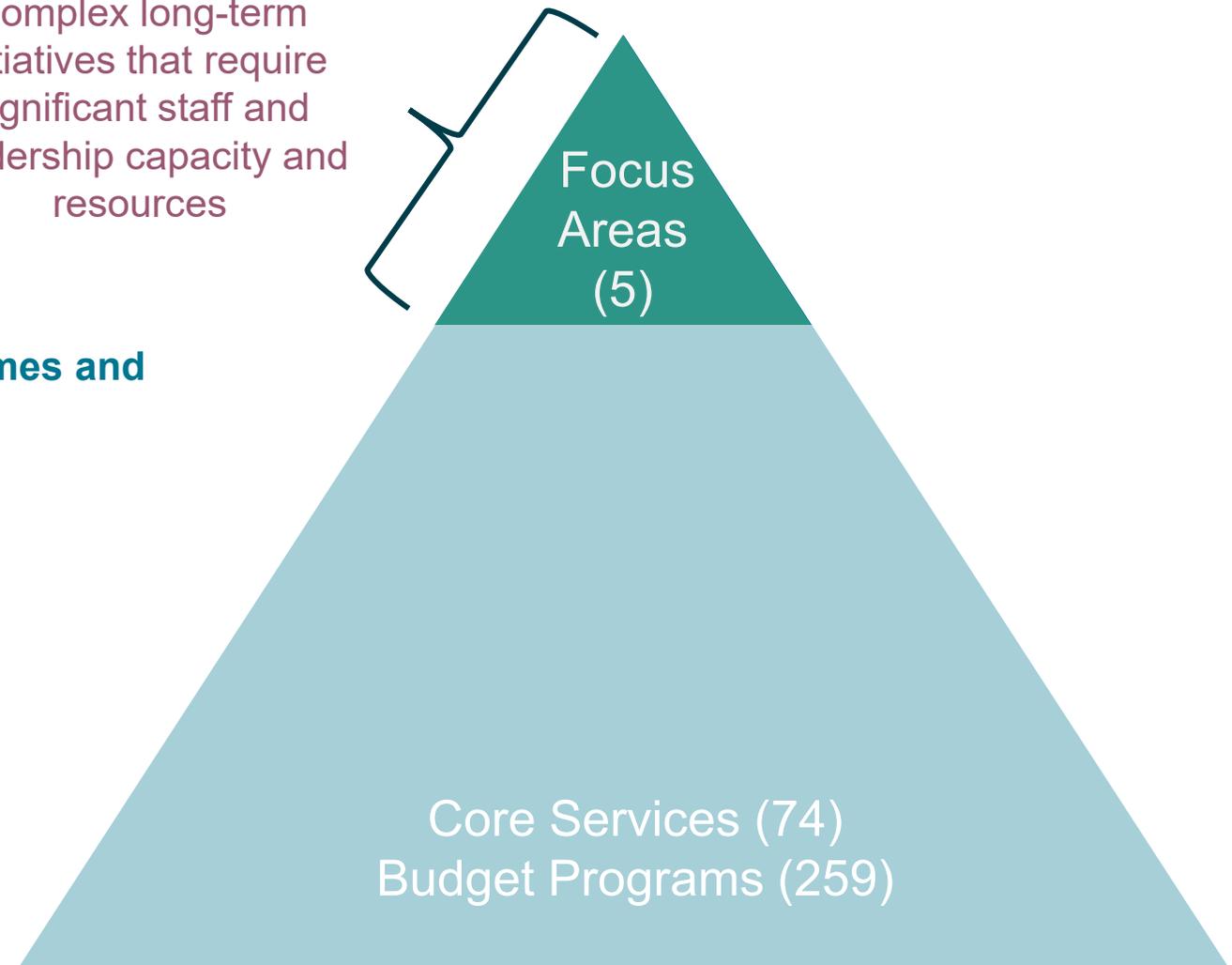
Focus Areas, Core Services/Programs, and Organizational Risks

Priorities in Context

Complex long-term initiatives that require significant staff and leadership capacity and resources

Focus Areas define priorities to drive outcomes and meaningful change, including:

- Increasing Community Safety
- Reducing Unsheltered Homelessness
- Cleaning Up Our Neighborhoods
- Building More Housing
- Growing Our Economy



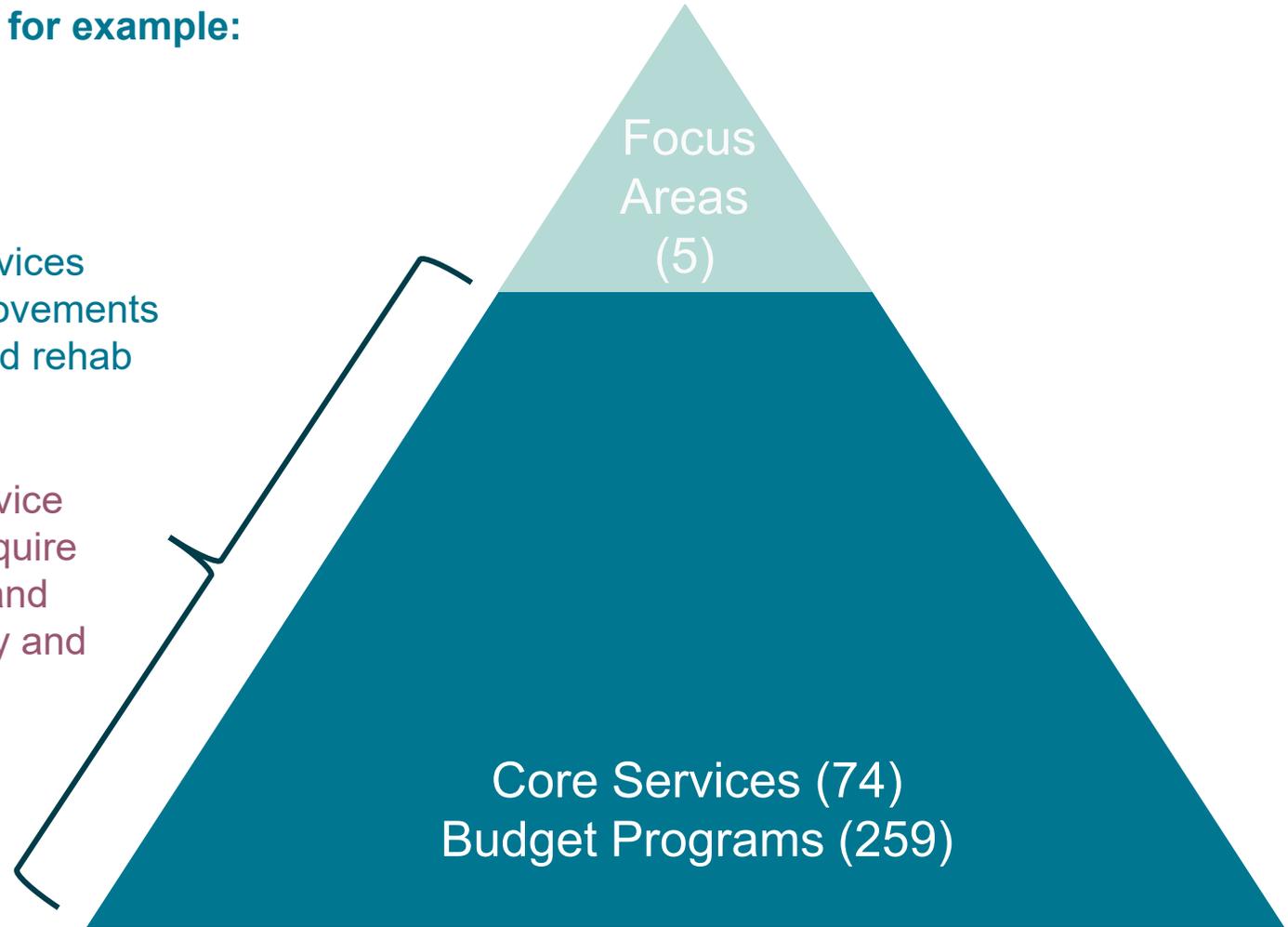
Focus Areas, Core Services/Programs, and Organizational Risks

Priorities in Context

Core services require attention each year, for example:

- Animal Care Services
- Debt issuance and management
- Energy procurement
- Library collections and operations
- Recreational programming and library services
- Regional Wastewater Facility capital improvements
- Underground utility network operations and rehab

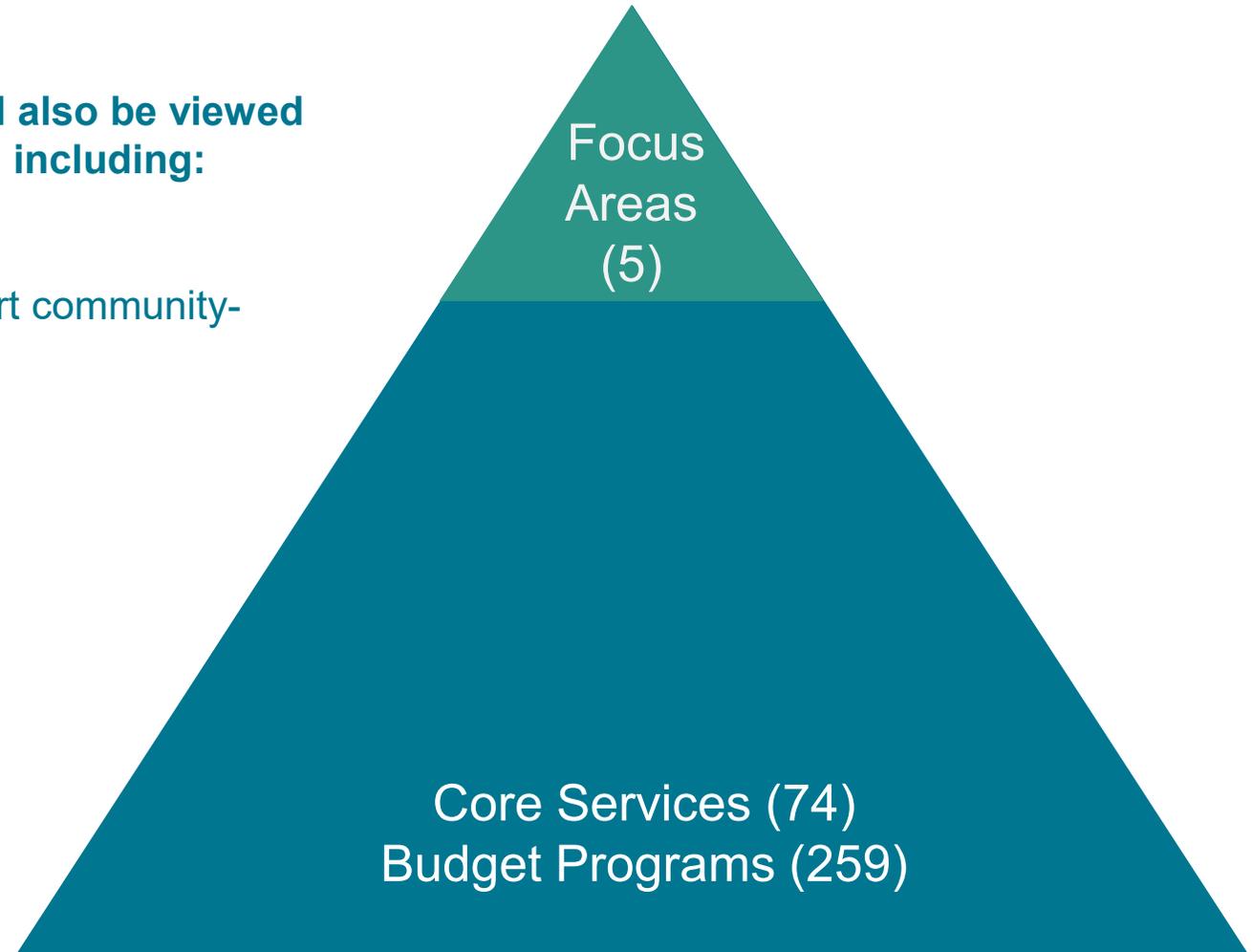
At-scale core service operations that require significant staff and leadership capacity and resources



Focus Areas, Core Services/Programs, and Organizational Risks Priorities in Context

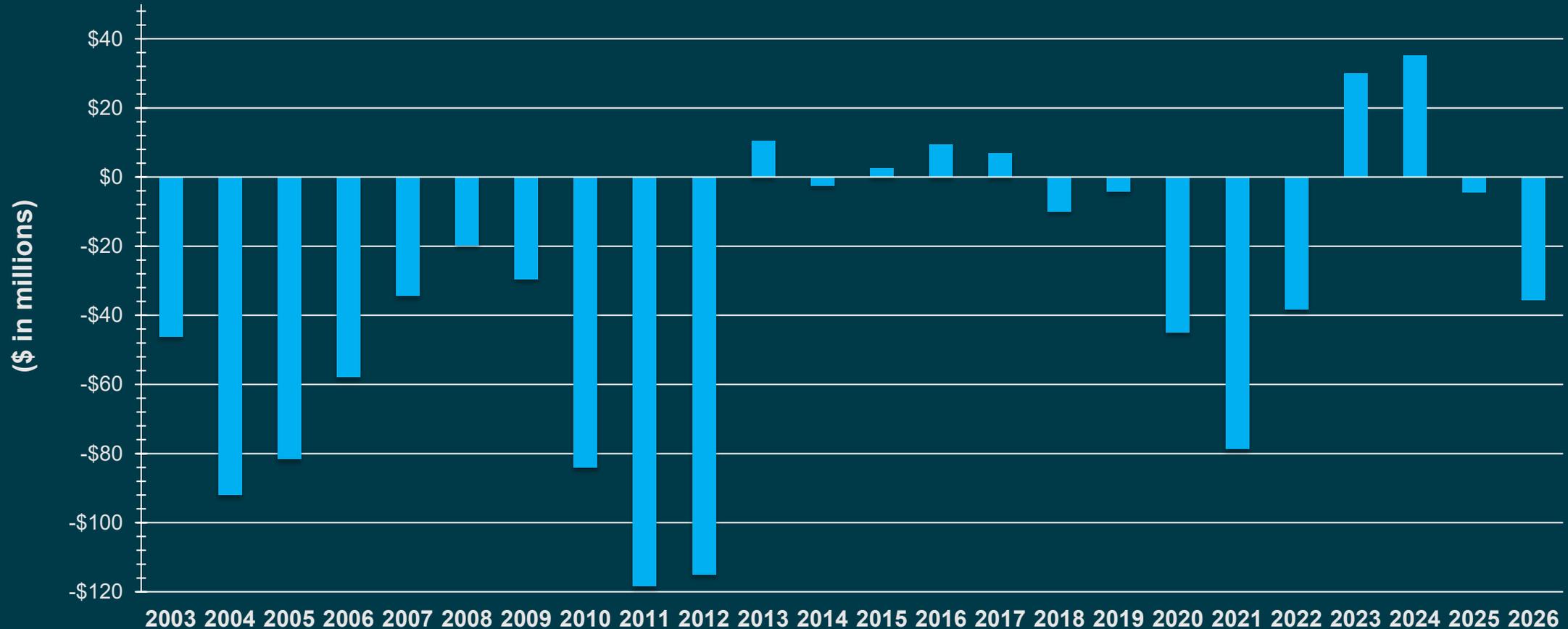
In total, Focus Area and Core Services should also be viewed in the context of specific organizational risks, including:

1. Deferred infrastructure maintenance
2. Lack of adequate reserves
3. Very limited back-of-house capacity to support community-facing services



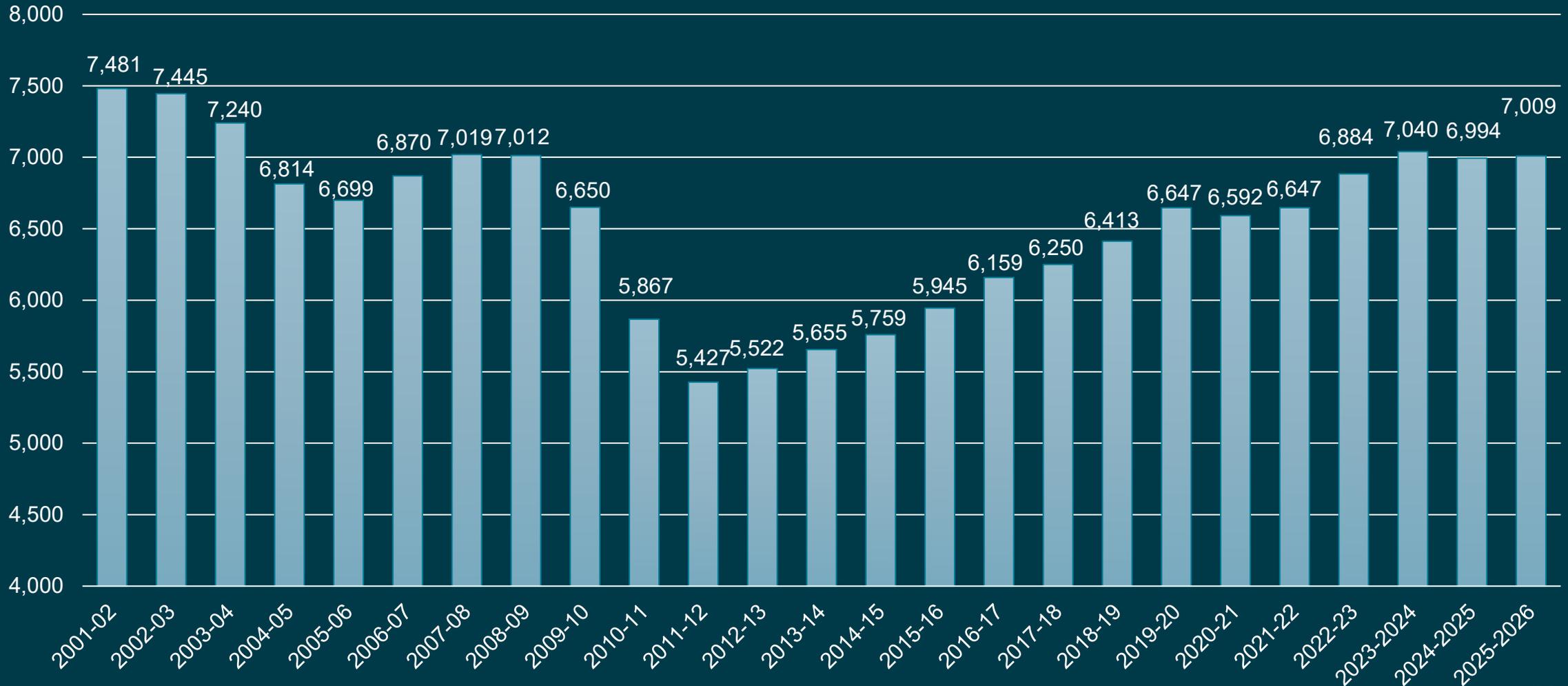
Potential Budget Balancing Strategies – Historical Context

Resolved Ongoing General Fund Shortfalls Exceeding \$800M



Potential Budget Balancing Strategies – Historical Context

Budgeted Positions Well Below peak in 2001 – 2002 (All Funds)



Potential Balancing Strategies

Guiding Documents for Proposed Budget Development

City Council Policy 1-18

Guidelines, standards, and requirements for preparation and monitoring of operating and capital budgets. The City Council's high-level rulebook for budgeting. Updated as necessary.

City Council Budget Principles

Identification of key principles to ensure a sustainable, comprehensive approach to balancing the budget year in and year out. Last updated in September 2008. *See attached materials for recommended updates.*

Budget Balancing Strategy Guidelines

Provides a decision-making framework to the Administration on how to develop the Proposed Budget. Updated annually.

Mayor's March Budget Message

Identifies the City Council's funding and service level priorities, including potential trade-offs to ensure a balanced budget. Incorporates the Budget Balancing Strategy Guidelines. New each year.

Potential Balancing Strategies

City Council Perspectives are Critical

There are no silver bullets or easy levers to pull to balance the budget – just a lot of hard work and hard choices

The Administration is skilled and experienced in the review of revenues, costs, and performance data to evaluate proposals to resolve the shortfall

The City Council first needs to identify the service priorities and acceptable trade-offs to guide the Administration's work



Potential Balancing Strategies

Holistic Approach to Balance the Budget

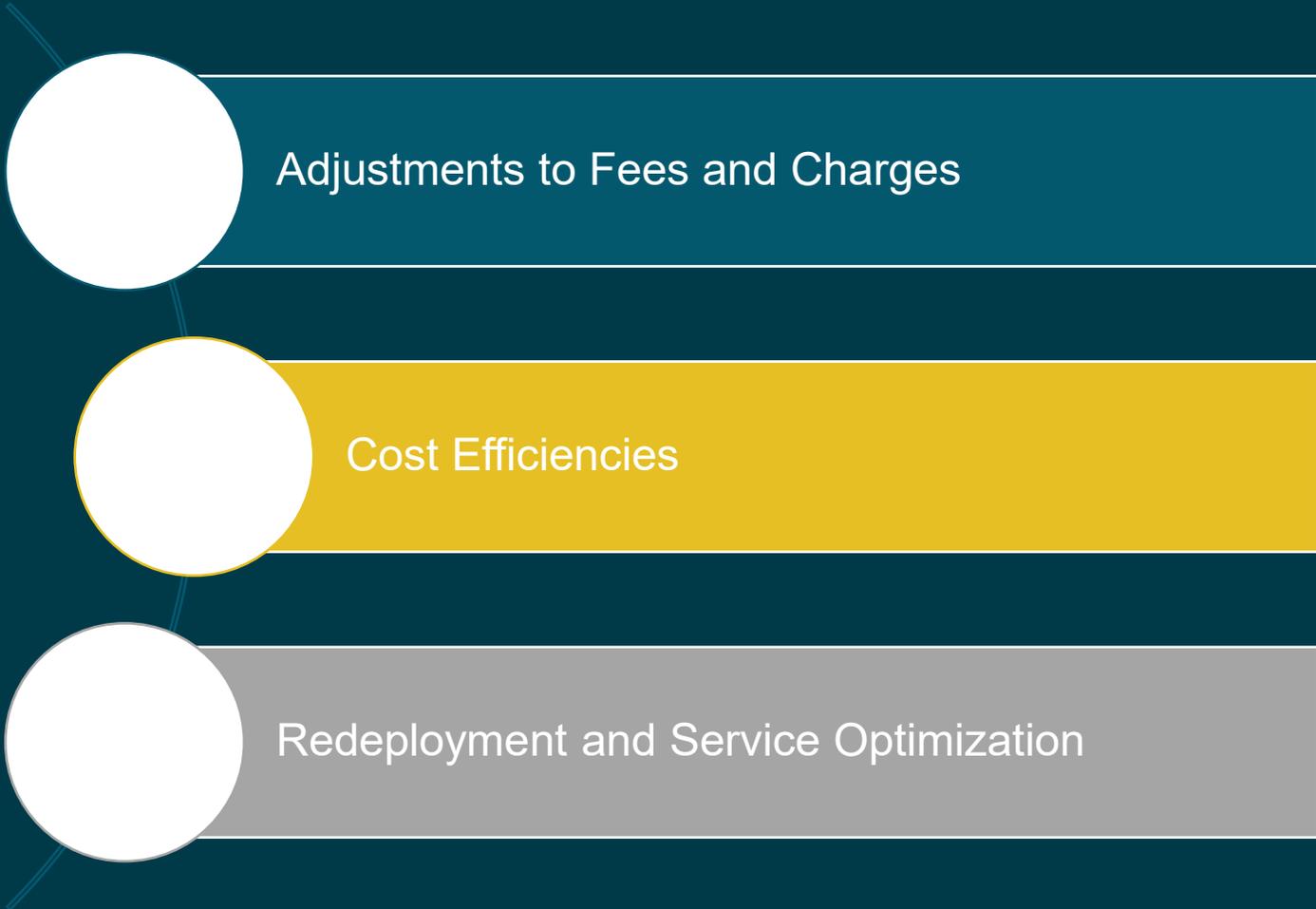
The 2026-2027 City Manager's Budget Request will recommend a set of general budget balancing strategy guidelines for the development of the 2026-2027 Proposed Budget

Overarching goal is to align limited resources with the City Council's most important priorities, acknowledging that a robust service delivery framework is necessary to achieve these priorities



Potential Budget Balancing Strategies

Proposals with No Service Impacts



Adjustments to Fees and Charges

Cost Efficiencies

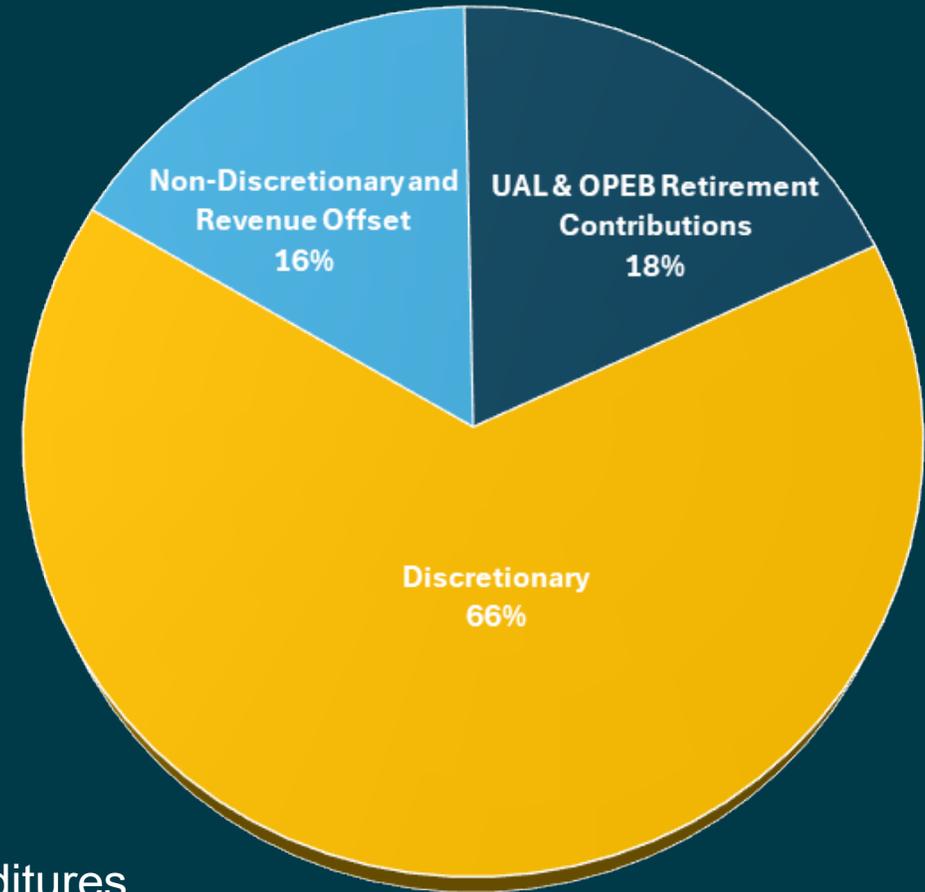
Redeployment and Service Optimization

Every budget cycle brings new opportunities to adjust cost recovery, generate new revenue, achieve efficiencies, and redeploy existing resources to maximize effectiveness

Potential Budget Balancing Strategies

Discretionary vs. Non-Discretionary

Only 66% of the General Fund Base budget can be considered “discretionary”, making reductions that much harder to achieve



Non-Discretionary Budget: Unfunded Actuarial Liability (UAL), Other Post Employment Benefit (OPEB), revenue-offset expenditures

\$1.6 billion

Potential Budget Balancing Strategies

Potential Service Impacts

2026-2027 ONGOING GENERAL FUND REDUCTION TARGETS

City Department/Offices	Amount
Energy	\$112,000
Environmental Services	\$321,000
Finance	\$2,080,000
Fire	\$5,240,000
Housing	\$2,828,000
Human Resources	\$1,604,000
Information Technology	\$2,296,000
Library	\$5,463,000
Parks, Recreation & Neighborhood Services	\$15,006,000
Planning, Building, and Code Enforcement	\$603,000
Police	\$11,468,000
Public Works	\$5,994,000
Transportation	\$2,740,000
Mayor, City Council & Appointees	\$4,245,000
ONGOING TOTAL	\$60,000,000

Issuing targets by department and office does not mean that reductions will be applied uniformly across the organization

Instead, these proposals help the organization evaluate options that can best address the budgetary shortfall while still prioritizing the most critical needs of our community

Continued focus on the consideration of racial and social equity as we work to balance the budget

Potential Budget Balancing Strategies

Potential Service Impacts

California Room Access	Neighborhood Center Partner Program
Child and Youth Services	Office of Equality Assurance
City Attorney Staffing	Park Activation and Placemaking
City Auditor Staffing	Parks Maintenance
City Clerk Staffing	Police Main Lobby
City Manager Staffing	Police School Liaison Elimination
Citywide Planning	Police Training Center (defer opening)
Climate Smart	Police Traffic Enforcement Unit
Code Enforcement	Preventative Maintenance of City Facilities
Community Center Programming	Recreation Services
Community Forest	Recreation of City Kids Afterschool Program
Contract Security Services	Regional Parks, Monday Closure
Deferred Maintenance	Safe School Campus Initiative
Disaster Recovery and Grants Management	San José Works
Electrical Maintenance	School Crossing Guard Program
Employee Recruitment	SharePoint Support
Enterprise Resource Planning Project Staffing	SJ Learns
Landscape Maintenance	SJ Works
Library Hours	Supplies, Materials, Contractual Services, etc.
Fire Station 32 (deferred opening)	Tree and Sidewalk Hardship Program
Information Technology Infrastructure and Support	Vacant Position Eliminations
Janitorial Services	Vehicle Replacement
Mayor and City Council Office Budget	Workforce Pipeline Development

Partial listing of services that have previously been considered for reductions or may be considered for future reductions

Equity considerations are key, as are City Council's priorities for service preservation

Potential Budget Balancing Strategies

Strategic and Equity-Focused Approach to Cost and Service Reductions

Last year's approach:

- **Non-Personal/Equipment Savings** – Identify efficiencies and cost savings through reduction in consulting services, supplies, materials and other contractual services with minimal service impacts
- **Strategic Support** – Implement targeted reductions that minimize disruptions to community-facing departments while still preserving the back-of-house infrastructure necessary for day-to-day service delivery (*the City is reaching its limit here*)
- **Public Safety Services** – Achieve meaningful cost reductions within Police and Fire Departments while still maintaining public safety, especially in historically underserved neighborhoods (*Considering deferred opening of new facilities*)
- **Community Services** – To the maximum extent possible, preserve the City's basic core services that are vital to low-income communities, communities of color, immigrants, and other historically marginalized residents
- **Year Two Reductions** – Authorize reductions that will take effect in the following year

Potential Budget Balancing Strategies

Preserve or Create Capacity for Critical Priorities

City Council Focus Areas:

- Reducing Unsheltered Homelessness
- Increasing Community Safety
- Cleaning Up Our Neighborhoods
- Building More Housing
- Growing Our Economy

Other select areas of important core service work within other community services, strategic support, and deferred infrastructure areas

In areas where funding is preserved, apply recent lessons learned to improve, experiment, and refine service delivery

Potential Budget Balancing Strategies

Budget Stabilization Reserve (Limited Use)

The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. City Council Policy 1-18, Section 3

Balance on July 1, 2024: \$63.0 million

Current Balance: \$12.5 million

Decreased over \$50 million in 18 months

Must be carefully managed to:

- partially address the one-time lack of ending fund balance in 2025-2026
- provide some limited one-time funding for critical needs in 2026-2027
- provide an additional buffer if conditions worsen further in 2026-2027

Potential Budget Balancing Strategies

Budget Stabilization Reserve

Potential Near-Term Needs	Amount (Millions)
City Hall Foundation Water Intrusion	\$45
At-Risk ERAF	\$35
2025-2026 Ending Fund Balance Target	\$20
Other Significant Deferred Maintenance/Technology Investments	TBD
Other critical one-time service delivery needs	TBD

The City will have access to one-time funding, but it will need to be prioritized for deferred capital investment and technology needs, partially address current year revenue shortfall, support critical and targeted one-time needs, and build reserves against future uncertainty

2026-2027 Preliminary General Fund Forecast

Next Steps in the Budget Process

2026-2027 City Manager's Budget Request / 2026-2030 Five-Year Forecast and Revenue Projections (March 2)

Public Hearing and City Council review and approval of the Mayor's March Budget Message for Fiscal Year 2026-2027 (March 17)

Release of City Manager's Proposed Budget Documents (late April through early May)

City Council Budget Study Sessions on the Proposed Budget (May 6 -14)

Initial Public Hearing on the Proposed Budget (May 12)

Community Budget Meetings (Throughout May)

Final Public Hearing and review/approval of the Mayor's June Budget Message and Proposed Budget (June 16)

City Council Discussion

Critical Questions for Discussion:

1. Should we further **modify, refine, or narrow** any Focus Area scope given the City's budgetary outlook?
2. Which programs or services are the **most essential to preserve**, even in the face of significant budget constraints, and why?
3. Which programs or services should be **considered for reduction**?
4. Are there program areas where the City Council is willing to consider **structural changes, service model shifts, or eliminations** rather than incremental reductions?
5. What criteria should the Administration apply when bringing forward **budget-balancing proposals** for City Council consideration?
6. How should the City weigh **services that are uniquely provided** by the City against those where other public, nonprofit, or private providers play a significant role?
7. How should the City weigh services that produce substantial improvements for **smaller, vulnerable populations** against services that deliver more modest benefits to a **broader segment of the community**?