



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Councilmember Campos  
Councilmember Salas  
Councilmember Mulcahy  
Councilmember Doan  
Councilmember Casey

**SUBJECT:** SEE BELOW

**DATE:** March 14, 2025

Approved

Date: 3/14/2025

**SUBJECT: Approval of the Fiscal Year 2025-2026 Mayor's March Budget Message**

## RECOMMENDATION

Approve the Mayor's Budget Message with the following modifications and additional direction:

1. Amend City Council Policy 1-18 (Operating Budget and Capital Improvement Program Policy)

Direct the City Manager to schedule public hearings and prepare all necessary actions to amend City Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, to make the following changes to the spending priorities and percentage allocations under Section 22, Real Property Transfer Tax Revenues:

- a. Maintain up to 5% of revenues for program administration.
- b. For Fiscal Year 2025-2026, allocate the remaining revenue using the following percentage allocations and spending priorities:
  - i. 10% for homelessness prevention, including rent payment assistance, utility payment assistance, and similar programs.
  - ii. 90% primarily for homeless support programs, shelter construction and operations, that may include, but is not limited to, case management, outreach teams, encampment services, safe parking, homeless shelters and interim housing construction and operations.
- c. For Fiscal Year 2026-2027, allocate the remaining revenue using the following percentage allocations and spending priorities:
  - i. 15% for homelessness prevention.
  - ii. 85% for homeless support programs.
- d. Limit the total investment from the General Fund Operating Budget in shelter/interim housing construction and operations to no greater than the amount of revenue allocated from Measure E, as specified above, excluding external funding sources specifically intended for homeless support programs. Should additional funding from the General Fund be required for shelter/interim housing construction and operations, the City Manager should prepare recommendations for the City Council to consider in a public hearing.

- e. Return to the City Council for review and potential revisions to Council Policy 1-18 during the development of the FY2027-2028 operating budget.
  2. Direct the City Manager to prepare Manager's Budget Addenda (MBAs) evaluating:
    - a. Stormwater Permit Compliance: Resources and an expenditure plan necessary to maintain compliance with Stormwater Permit requirements.
    - b. Housing Element Compliance: Resources and an expenditure plan required to maintain compliance with the City's adopted and certified Housing Element Programs.
    - c. General Fund Impact: Analysis of the long-term impact to the General Fund Operating Budget of investment in permanent supportive housing, interim housing construction and operations, and lower-cost alternatives to emergency interim housing (EIH), providing baseline scenarios based on the judgement of the City Manager and Department staff. The analysis should include:
      - i. The annual operating costs of existing lower-cost alternatives to EIH in the City of San José to provide an apples-to-apples comparison with the Interim Housing Forecast Expenditure Assumptions (Table 3: Interim Housing Costs).
      - ii. A minimum five-year forecast of projected expenditures, including operating and maintenance costs, impacting the General Fund Operating Budget.
      - iii. Recommendations for calculating "savings" from reductions in operational costs, achieved through the Mayor's proposals or from redirected funds to alternative approaches. The City Manager should propose allocation strategies to reinvest cost savings into homelessness prevention and long-term solutions.
    - d. Opportunities for revenue generation or operating expense offsets from City-owned property.
    - e. Implementation of large-scale Pre-Engineered Modular Shelter (PEMS), such as those concepts found in the SJLUV proposal and 2024/25 MBA #17, including a cost comparison to similar forms of shelter to assess feasibility, efficiency, and long-term sustainability, and prioritize the most cost-effective form of shelter that maximizes the City's resources.
  3. Direct the City Manager to continue fostering relationships with Santa Clara County, especially regarding unsheltered homelessness. Thank and continue our productive collaboration with the Office of Supportive Housing for their willingness to partner with our City, emphasizing that time turnarounds and faster response are still possible by working together.
  4. Direct the City Manager to use the Budget Balancing Strategy Guidelines and the Budget Principles to evaluate initiatives, programs, and projects proposed by the Mayor and City Council when preparing a balanced budget consistent with the Mayor's Budget Message.
  5. Direct the City Manager to review the City of San José Budget Principles and the Budget Balancing Strategy Guidelines and return to the City Council prior the beginning of the FY2026-2027 budget cycle with any recommended updates.

## BACKGROUND

We appreciate the work and recommendations prepared by the Mayor and the members of his Budget Brown Act. We recognize the challenge of balancing important and often competing community priorities during this period of resource scarcity and political uncertainty. Our recommendations are intended to produce the information we believe will help the City Council construct a balanced budget that appropriately addresses community needs and concerns, fulfills legal obligations, and protects basic neighborhood and other core services.

### Addressing Unsheltered Homelessness

Reducing unsheltered homelessness is a community priority and a City Council Focus Area. Although there are differences of opinion within our Brown Act group about the best ways to address this concern, we have set aside our differences and identified areas of compromise and agreement. Most importantly, we agree to reallocating the use of Measure E revenues to primarily support homelessness sheltering and support services. Our reallocation proposal will sustain interim housing operations for facilities constructed without reducing core neighborhood services. A significant tradeoff is the reduction in funding support for permanent affordable housing to zero dollars, which we do not take lightly. However, we acknowledge the need for considerable, short-term investment in immediate response to this crisis while respecting the regulations contemplated in the City Council-approved City of San José Budget Principles:

8) CAPITAL IMPROVEMENT PROJECTS Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. **Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.**

### Long-Term Fiscal Sustainability

To ensure that this allocation strategy continues to reflect the community's priorities, we recommend that the City Manager return to Council after two years for review and potential modifications.

We value and benefit from the analysis and recommendations provided by the professional staff of the City. Our remaining recommendations seek important information to guide our decision-making as we craft a balanced budget in a very resource-constrained environment. Specifically, we stress the importance of meeting our legal obligations and commitments enforced through the Stormwater Permit and California Housing Element Law. We request MBAs to help the Council understand what resources will be required to achieve (and remain in) compliance with the Stormwater Permit and Housing Element Program requirements.

Additionally, recognizing our different perspectives regarding long-term solutions to homelessness and the housing crisis, we request that the City Manager model out investments across the housing continuum to provide the Council a greater understanding of the long-term

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impacts of investment of General Fund revenues in various homelessness solutions. This crucial information will help us determine appropriate expenditures in solutions like interim housing and emergency shelter, including alternative best-in-class models nationwide. Recommendations from staff should balance considerations like cost-effectiveness, fiscal sustainability, compassion, and long-term success in reducing unsheltered homelessness. Anticipating cost savings from investment in alternative emergency shelter models, we request that the City Manager provide cost-effective and high-impact options for reinvesting any savings into homelessness prevention and long-term affordable housing solutions.

Acknowledging that resource-constraints are heavily influencing much of our decision-making, we request an MBA to explore opportunities to generate revenue from thoughtful use of City-owned property. We encourage the City Manager to consider leases, commercial partnerships, disposal of unproductive properties the City maintains, and other options recommended by staff, and to achieve operating expense offsets, mitigate the issues, environmental and otherwise, limiting the use of City land for sale, commercial use, or homeless solutions.

Finally, we appreciate and support the City Manager's Budget Request, which includes Budget Balancing Strategy Guidelines and the City Council-approved Budget Principles and Service Delivery Framework. These Guidelines and Principles ensure thoughtful, prudent, and strategic expenditure of limited ongoing resources to address the most important priorities determined by the City Council and informed by public input. These should be explicitly applied to initiatives, programs, and projects proposed by the Mayor and City Council during this particularly challenging budget cycle, giving the City Manager and City staff clear guidance and direction to appropriately balance complex and often competing priorities. Acknowledging that these Guidelines and Budget Principles have not been comprehensively reviewed and updated for quite some time, we recommend providing clear direction to review them after this budget process and return to the City Council with any recommended changes before the next budget cycle.

*The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.*