

City Council 2025-2026 Budget Priorities Study Session

February 11, 2025

Lee Wilcox, Assistant City Manager

Jim Shannon, Budget Director

Sarah Zárate, Director of Administration, Policy, and Intergovernmental Relations



Budget Priorities Study Session

Today's Agenda

Part I

- 1 Introduction and Opening Comments
- 2 Preliminary General Fund Forecast and Budget Process
- 3 Resident Priorities
- 4 Potential Budget Balancing Strategies for 2025-2026 and Beyond
- 5 Administration Perspective on Preserving Key City Services
- 6 City Council Discussion on Budget Priorities

Part II

- 7 Reducing Unsheltered Homelessness Strategic Planning
- 8 City Council Discussion on Reducing Unsheltered Homelessness Strategic Planning
- 9 Next Steps and Closing

Potential Balancing Strategies

#1 – Measure E Policy Change

Consider a permanent change to Measure E policies, allowing for more flexible use of Measure E revenues for homeless sheltering and support

- The City has become a major provider of homelessness sheltering and support services, a role that it did not occupy prior to the pandemic
- Without strong economic growth or a new revenue source, the level of ongoing General Fund support for homeless sheltering and related services previously directed by the City Council – and the community’s top priority – will require deep cuts to other core existing community services
- The Administration recommends changing City Council Policy 1-18, Section 22, to allow more flexible use of Measure E revenues for homelessness support programs and interim housing construction and operations

Potential Balancing Strategies

#1 – Measure E Potential Reallocation

Expenditure Category	Existing Allocation Spread	2025-2026 Measure E Revenue Estimate (Millions)
Program Administration*	5%	\$2.75
New Affordable Housing: Extremely Low-Income	40%	\$20.90
New Affordable Housing: Low-Income	30%	\$15.67
New Affordable Housing: Moderate-Income	5%	\$2.61
Homelessness Prevention	10%	\$5.23
Homelessness Support	15%	\$7.84
Total	100%	\$55.0

Up to **\$39 million** could be made available for interim housing and other homelessness support programs, thereby reducing the preliminary shortfall from \$60 million to **\$21 million**

* 5% of the total amount is allocation for administration purposes, with the remaining amount allocated in accordance with the listed percentages.

Potential Budget Balancing Strategies

#1 – Measure E Policy Change Options

A permanent change to City Council Policy 1-18, Section 22, would give the City Council budgetary flexibility to address the urgency of homelessness, one of the City Council's and community's most important priorities. Potential options:

- In years where the General Fund would otherwise experience an ongoing shortfall, up to 90% of Measure E revenues could be budgeted for homelessness sheltering and support services with a majority vote; the policy change would include a mechanism to restore ongoing funding for affordable housing uses when the General Fund improves
- Permanently change spending allocation percentages to instead be fully spent on homelessness prevention, support, and sheltering services; in high-performance years when Measure E revenues exceed ongoing homeless support and sheltering costs, any excess revenue in that year would be allocated for affordable housing preservation and development

In either scenario, the Administration has identified strategies and is conducting due diligence to fund affordable housing preservation and development

Potential Budget Balancing Strategies

Holistic Approach to Balance the Budget

Budget Balancing Strategy #1

Change City Council Policy 1-18 to flexibly use Measure E for homelessness support and sheltering services

Ongoing reallocation of Measure E resources is fundamental to fully implement Strategies #2 - #5

Budget Balancing Strategy #2

Carefully consider cost reductions and work to minimize service level reductions/employee impacts

Budget Balancing Strategy #3

Strategic use of the Budget Stabilization Reserve to fund one-time investments

Budget Balancing Strategy #4

Preserve gains made in recent budget cycles

Budget Balancing Strategy #5

Address a very select few new investments for urgent priorities and imminent risk mitigation

Potential Budget Balancing Strategies

Reallocation of Measure E for Homelessness

For Illustration Purposes Only

POTENTIAL BALANCING STRATEGY - MEASURE E REALLOCATION		
	2025-2026	Ongoing
2025-2026 GENERAL FUND SHORTFALL [A]	(60)	(60)
SOURCE OF FUNDS		
Fees and Charges Cost Recovery Adjustments	1	-
Overhead Reimbursement Changes	1	1
Other Miscellaneous Revenues	2	1
Liquidation of Available Reserves	TBD	-
Budget Stabilization Reserve	5	-
Total Revenue Changes [B]	9	2
USE OF FUNDS		
	2025-2026	Ongoing
Shift of Interim Housing/Homeless Support Costs to Measure E	(39)	(39)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(25)	(25)
Unmet/Deferred Technology, Infrastructure, and Maintenance	2	
Previously One-Time Funded Services	5	4
Service Enhancements (Targeted Investments)	5	2
Essential Services Reserve	1	
Total Expenditure Changes [C]	(51)	(58)
TOTAL CHANGES [D] = [B] - [C]	60	60
Remaining Surplus/(Shortfall) [E] = [A] + [D]	-	-

Identify changes to fee cost recovery levels and identify any other sources of new revenue (expected to be limited)

Review all available reserves for potential liquidation as a one-time funding source

Careful use of the Budget Stabilization Reserve to fund one-time needs

Reallocate eligible ongoing General Fund costs for homelessness support and interim housing to Measure E (Real Property Transfer Tax Fund)

Still requires service level cuts, but the potential cuts in this example would only be half of the full department reduction target

Small handful of targeted investments

Potential Budget Balancing Strategies

Reallocation of Measure E for Homelessness

For Illustration Purposes Only

NO MEASURE E REALLOCATION		
	2025-2026	Ongoing
2025-2026 GENERAL FUND SHORTFALL [A]	(60)	(60)
SOURCE OF FUNDS		
Fees and Charges Cost Recovery Adjustments	1	-
Overhead Reimbursement Changes	1	1
Other Miscellaneous Revenues	2	1
Liquidation of Available Reserves	TBD	-
Budget Stabilization Reserve	6	-
Total Revenue Changes [B]	10	2
USE OF FUNDS		
Shift of Interim Housing/Homeless Support Costs to Measure E	-	-
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(50)	(50)
Unmet/Deferred Technology, Infrastructure, and Maintenance	-	-
Previously One-Time Funded Services	-	-
Service Enhancements (Targeted Investments)	-	-
Essential Services Reserve	-	-
Total Expenditure Changes [C]	(50)	(50)
TOTAL CHANGES [D] = [B] - [C]	60	52
Remaining Surplus/(Shortfall) [E] = [A] + [D]	-	(8)

Without the reallocation of Measure E resources, even with the full \$50 million of cost and service reductions and eliminating all other increases, the General Fund would still have an ongoing shortfall

The City would likely experience significant cuts to community services, with up to 180 positions eliminated

Additional use of the Budget Stabilization Reserve would be required to balance 2025-2026, but since it is only a one-time funding source, an ongoing shortfall remains

Any remaining ongoing shortfall exacerbates the following year's projected ongoing shortfall

In this example, the \$30 million shortfall preliminarily forecasted in 2026-2027 increases to \$38 million

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A photograph of a person with long, curly grey hair and a red headband sleeping on a wooden bench. They are wearing a yellow jacket and a grey sweater. Several coats and bags are scattered around them on the bench, suggesting they are homeless. The image is semi-transparent, allowing text to be overlaid.

There are about
5,477 unsheltered people
living in San José.

FY 2025-2026 Budget Priority Session

Scope of the Problem

Currently, the City and County
operate 2,968 units across a variety of shelter options
in the City of San Jose and are building 1,723 more units and
managed spaces.

Even with the units/spaces we are building,
there is not enough shelter space
for the 5,477 unsheltered people.

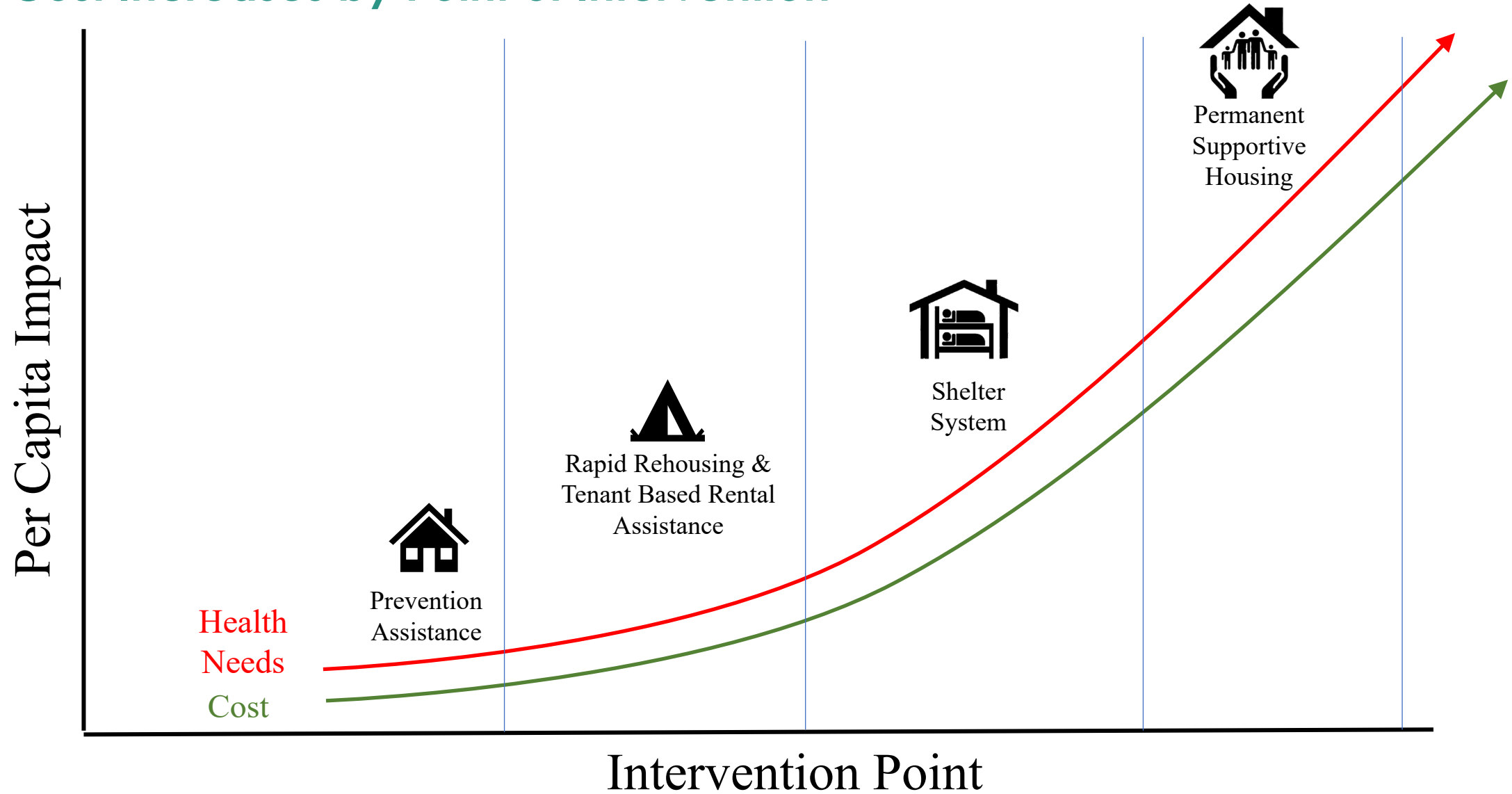
FY 2025-2026 Budget Priority Setting

Community Goal: Functional Zero in Unsheltered Homelessness

- ✓ *Reduce* the inflow of unsheltered residents, whereby more persons enter shelter and permanent housing than experience unsheltered homeless measured on a monthly and yearly basis.
- ✓ *Provide* shelter or housing for persons experiencing unsheltered homelessness
- ✓ *Limit* the time-period of unsheltered homelessness experience to 30-days or less to mitigate chronic homelessness and its according per capita health impacts and costs

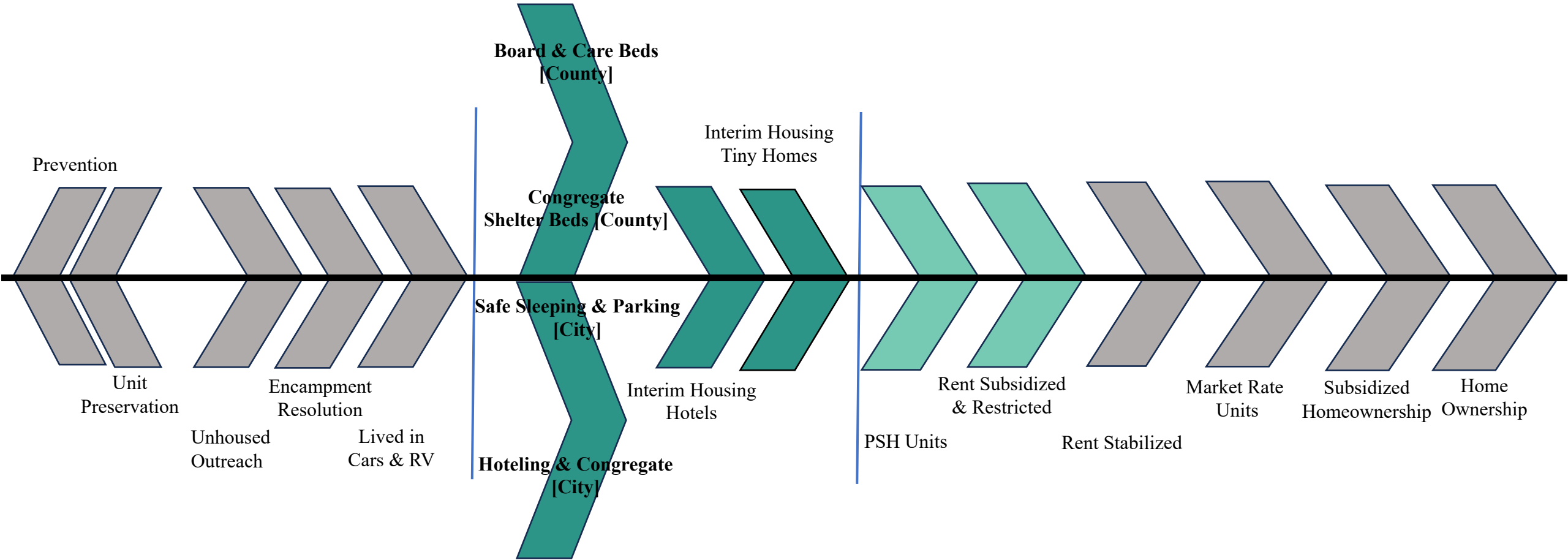
FY 2025-2026 Budget Priority Session

Cost Increases by Point of Intervention



FY 2025-2026 Budget Priority Session

“Shelter” Within the Context of the Housing Continuum



FY 2025-2026 Budget Priority Session

City's Evolving Approach to Shelter



Encampment Abatements

Affordable Housing

Warming Centers at City Facilities

Safe Parking Program

Hotel / Motel Sheltering

Interim Housing

The City has expanded its shelter programs considerably over the past ten years.



Hotel/ Motel Sheltering



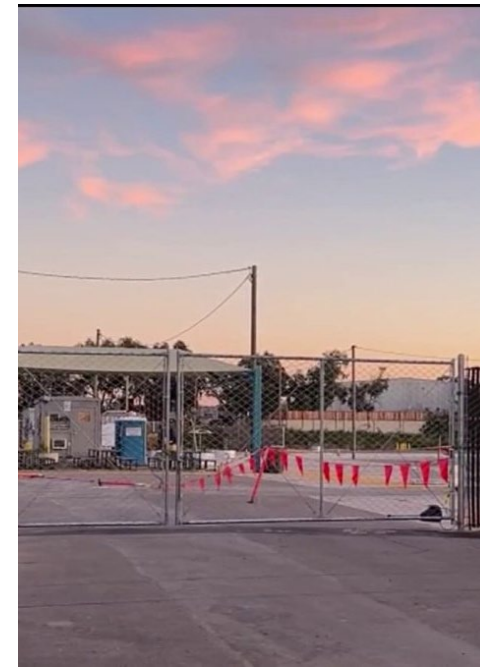
Tiny Homes



Congregate Shelter



Safe Sleeping Sites



Safe Parking

Variety of Shelter Types

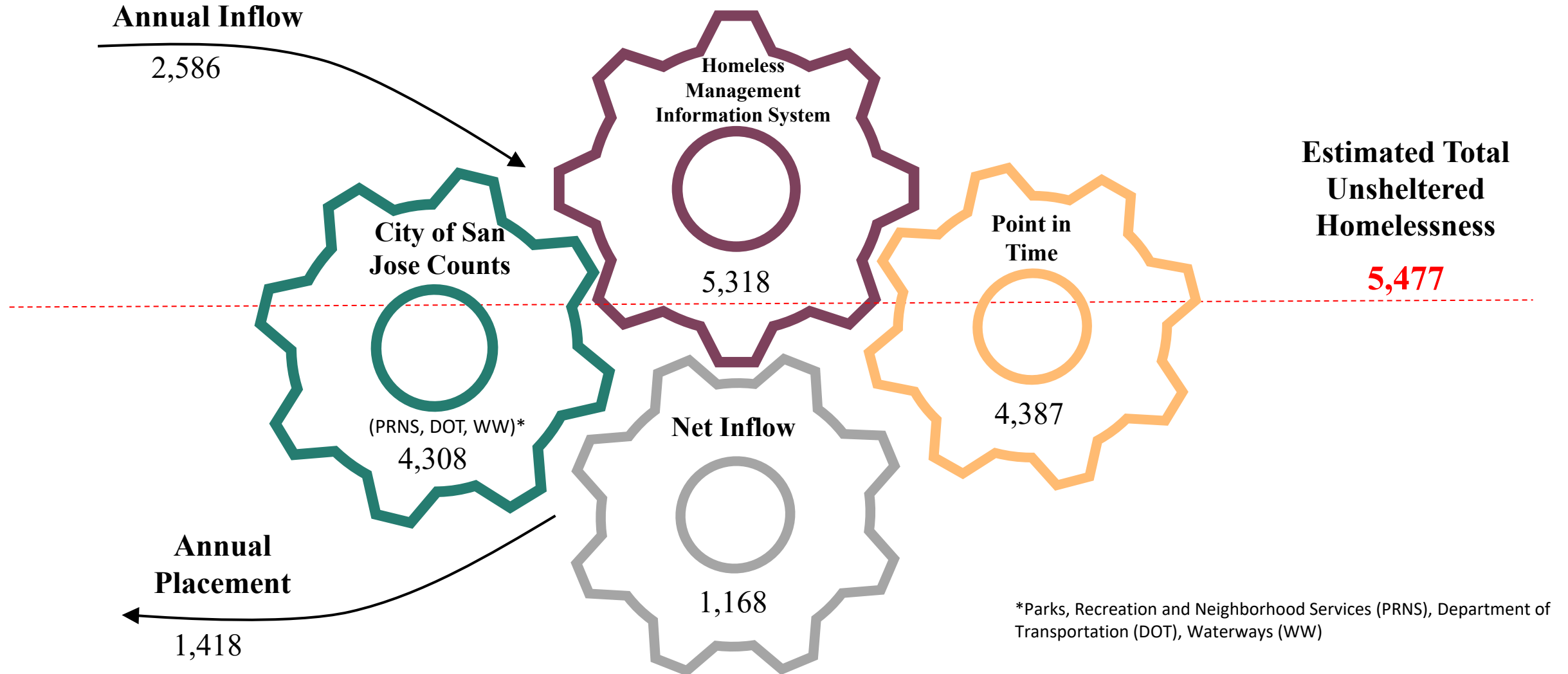
FY 2025-2026 Budget Priority Setting

Scale of the Problem: Supply Gap

Even with all the shelter units/spaces we are building, **there is not enough shelter** for the existing 5,477 unsheltered population.

FY 2025-2026 Budget Priority Session

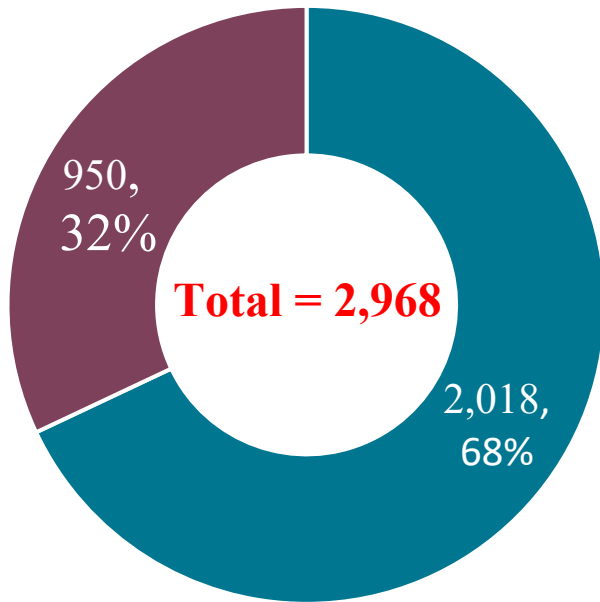
Scale of the Problem: Calculating Unsheltered Homeless



FY 2025-2026 Budget Priority Session

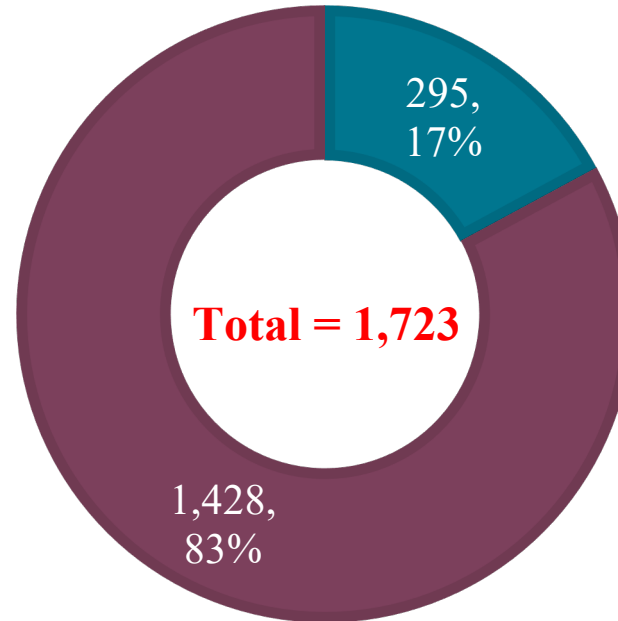
Scale of the Problem: City and County Shelter Units in San José

Current Supply



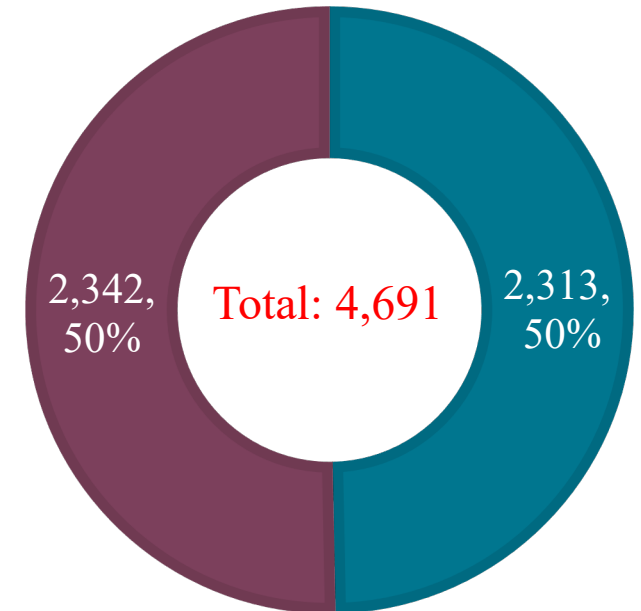
■ County Total ■ City Total

Current Production



■ County Total ■ City Total

Supply + Production



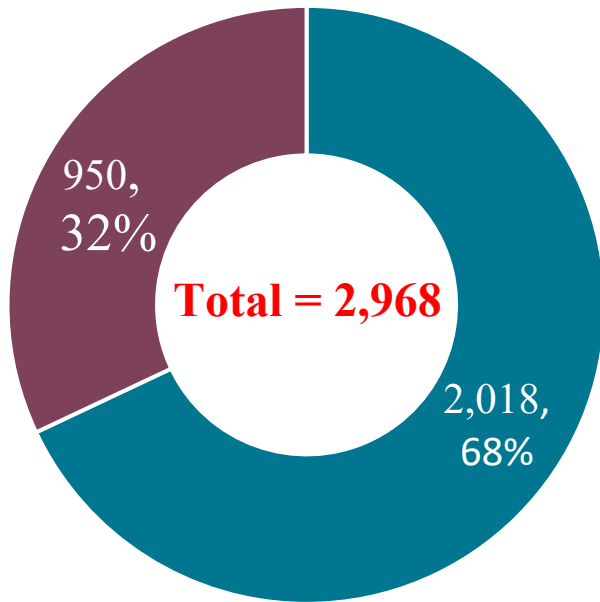
■ County Total ■ City Total

The City and County currently operate 2,968 units across a variety of shelter options and are building 1,723 more units in San Jose.

FY 2025-2026 Budget Priority Session

Scale of the Problem: City and County Shelter Units in San José

Current Supply

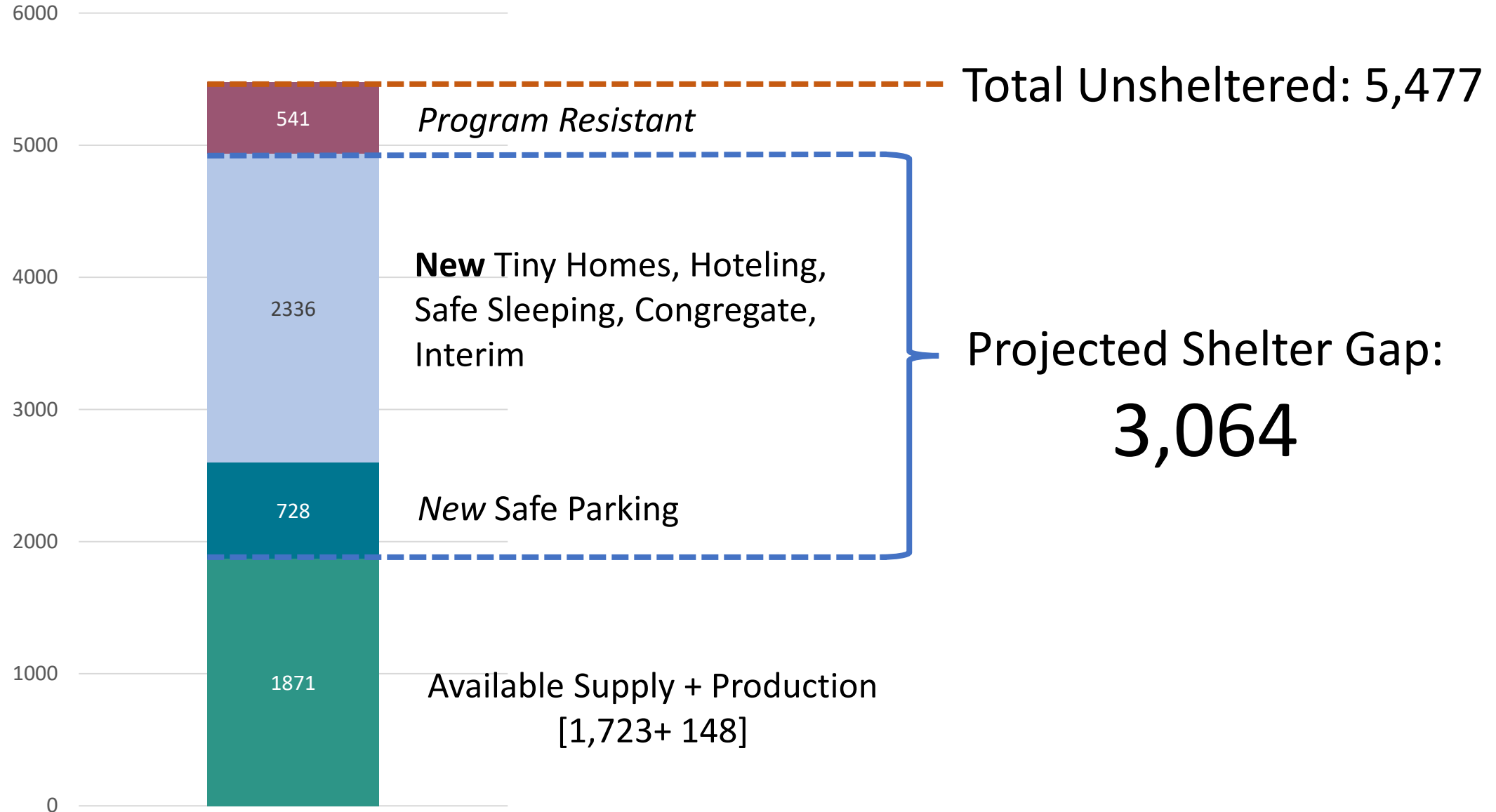


■ County Total ■ City Total

- Importantly, the current supply of shelter has high utilization, resulting in very low vacancy rates.
- On average, there is a 5% vacancy rate or just 148 available spaces.

FY 2025-2026 Budget Priority Setting

Scale of the Problem: Supply Gap (Baseline)



FY 2025-2026 Budget Study Session

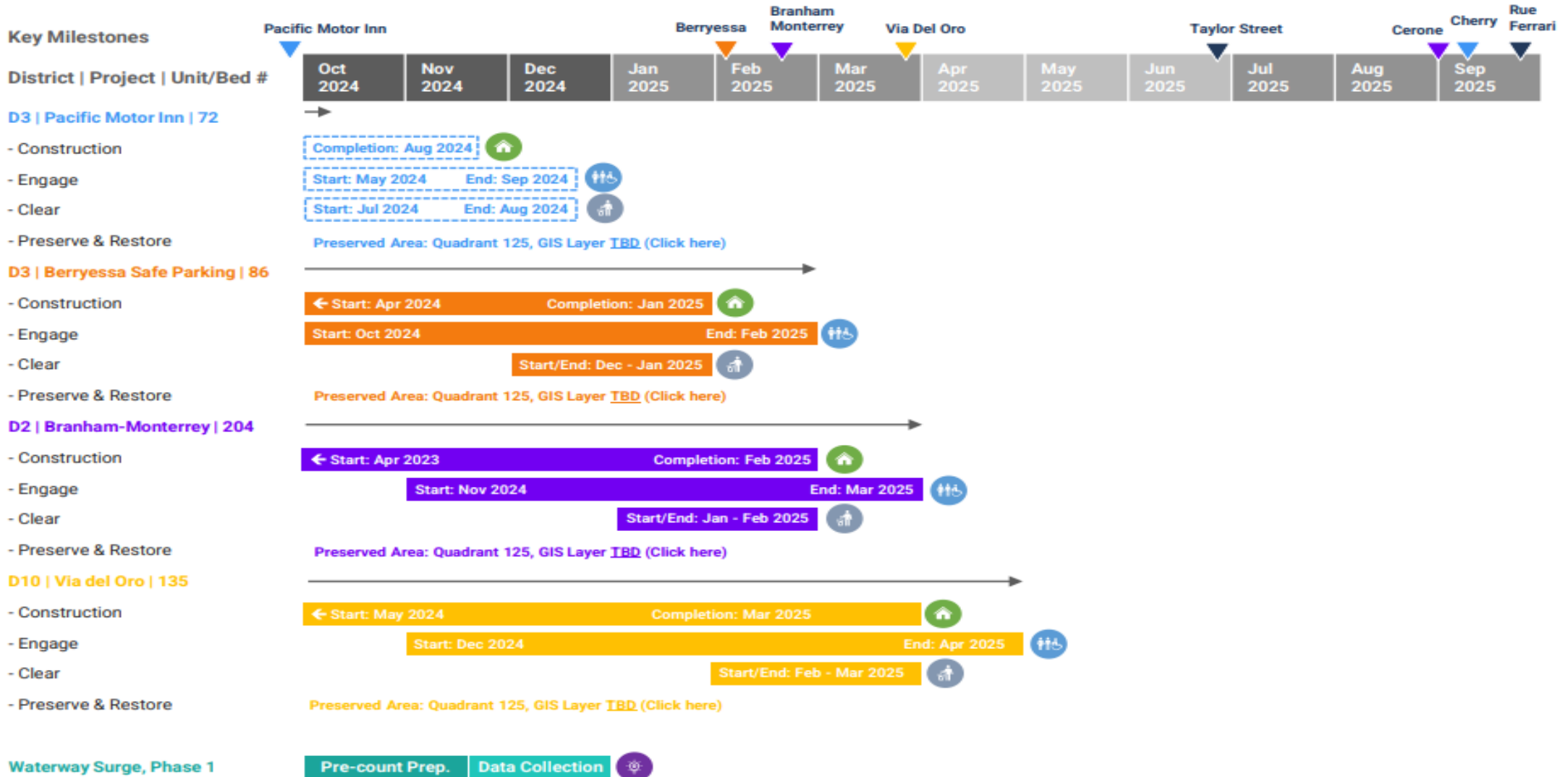
The City's Current Shelter Portfolio

The City's current Shelter System portfolio is comprised of **950 units/spaces**

Site	Unit Count
Mabury	38
Felipe	38
Monterey/ Bernal	78
Rue Ferrari	82
Evans Lane	49
Guadalupe	96
Branham-Monterey	204
First Street Hotel	76
Plaza Hotel	43
Arena Hotel	89
Pacific Motor Inn	72
Pavilion Hotel	43
Santa Teresa Supportive Parking	42

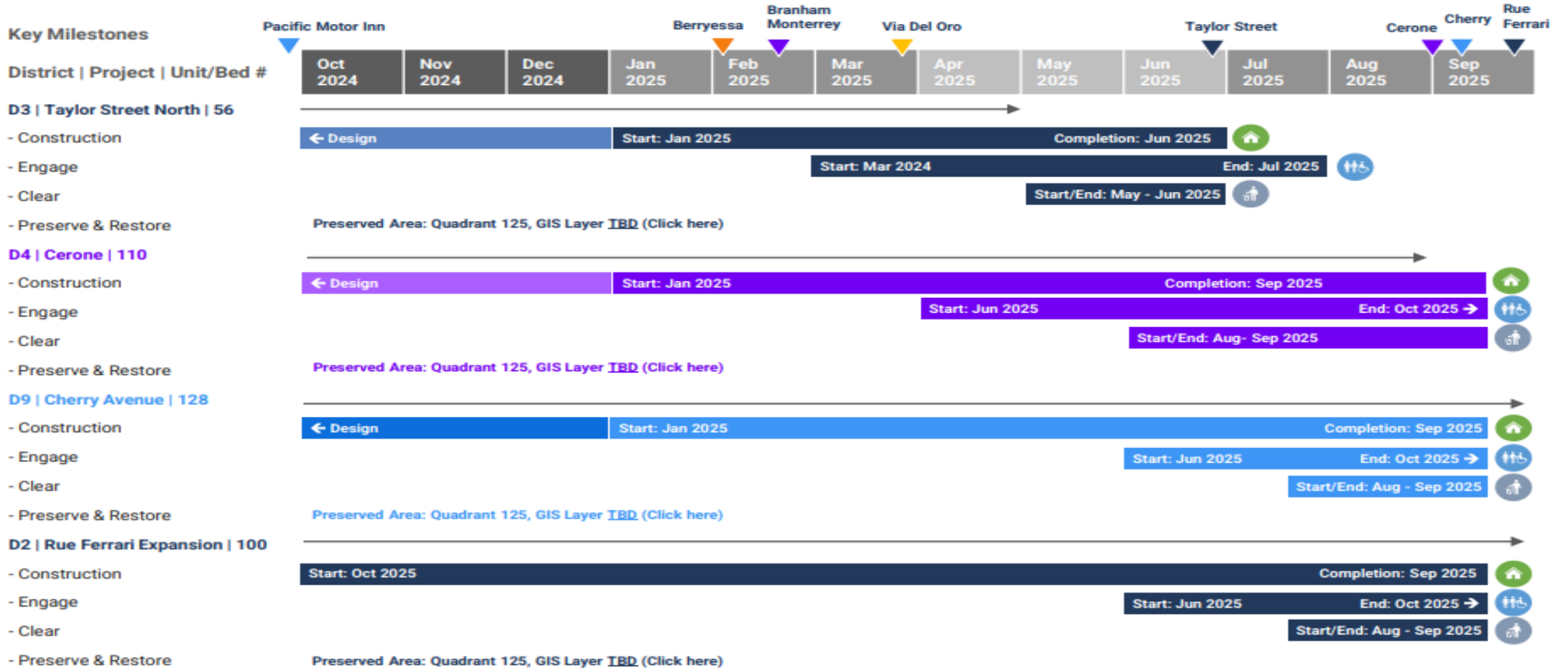
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Current Supply Pipeline (Existing City Council Direction)



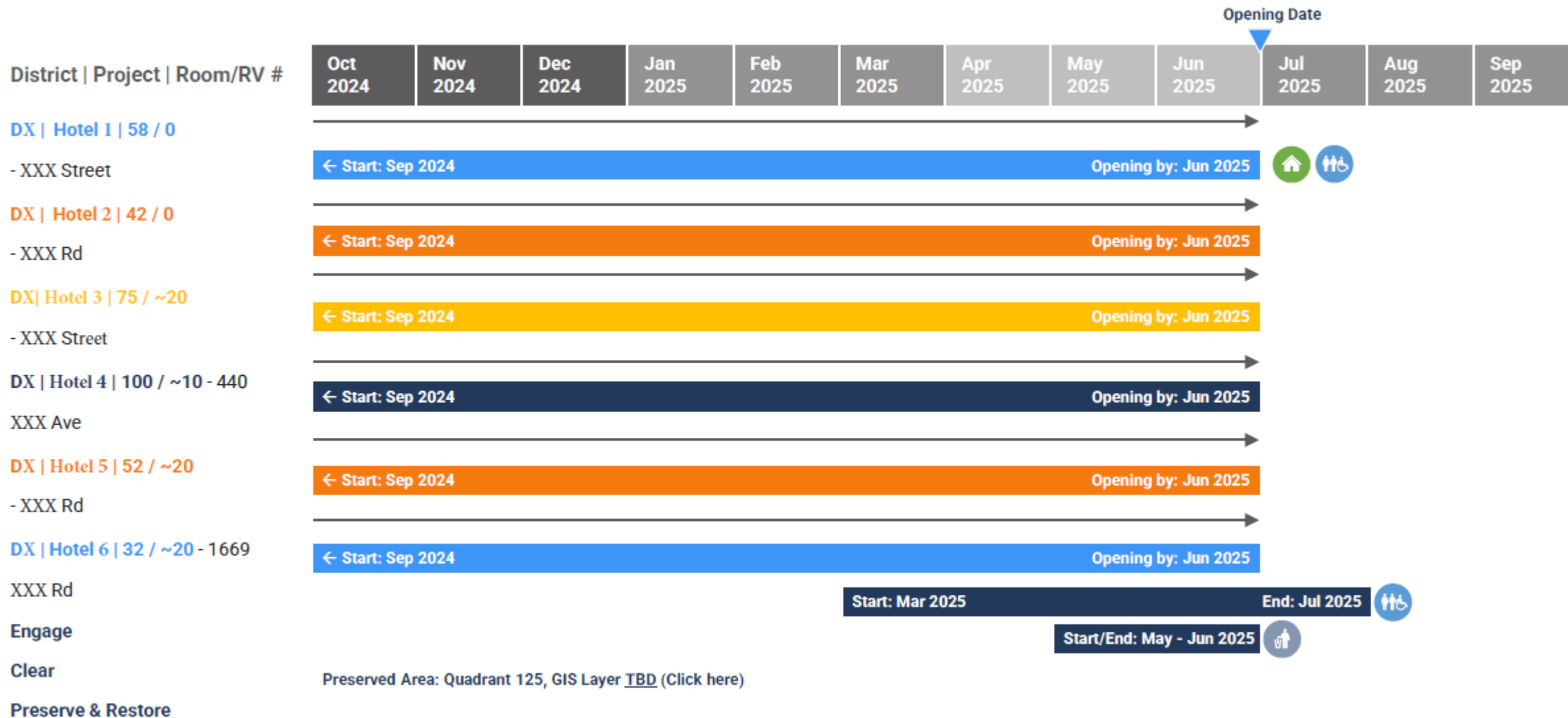
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Current Supply Pipeline Continued (Existing City Council Direction)



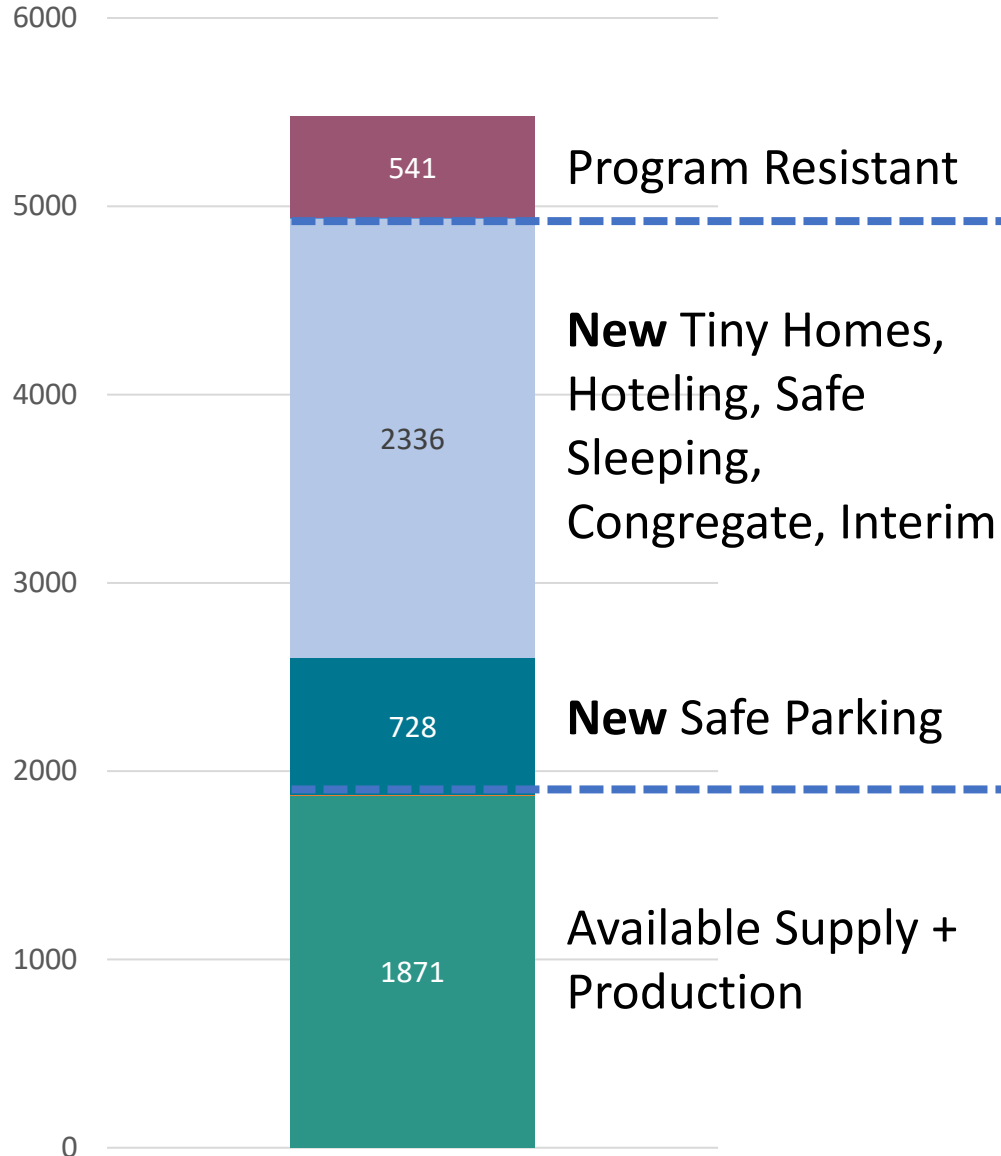
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Current Supply Pipeline Continued (Existing City Council Direction)



FY 2025-2026 Budget Priority Setting

Supply Gap – Estimated Costs of Reaching Functional Zero



To achieve functional zero, closing the 3,064-unit gap requires ~\$255 million in Capital funding, and ~\$234 million annually to operate a full shelter system.

Total Onetime Capital Costs for Gap:

\$255 million

+

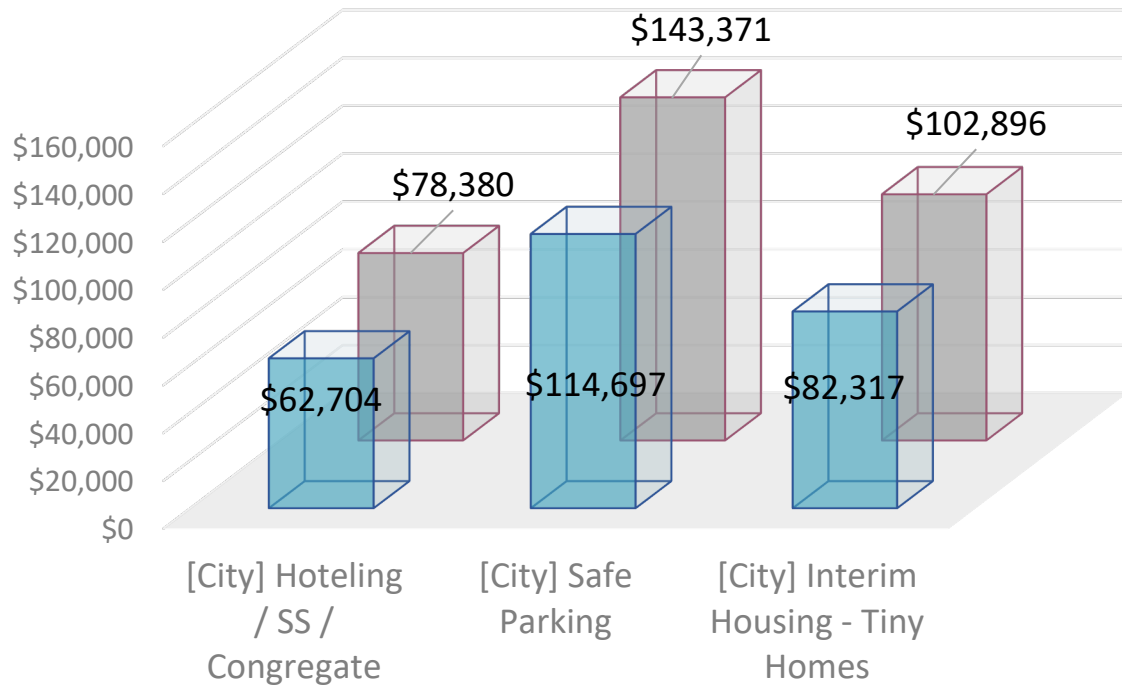
Total Annual Operating Costs for City Shelter System:

\$234 million

FY 2025-2026 Budget Priority Setting

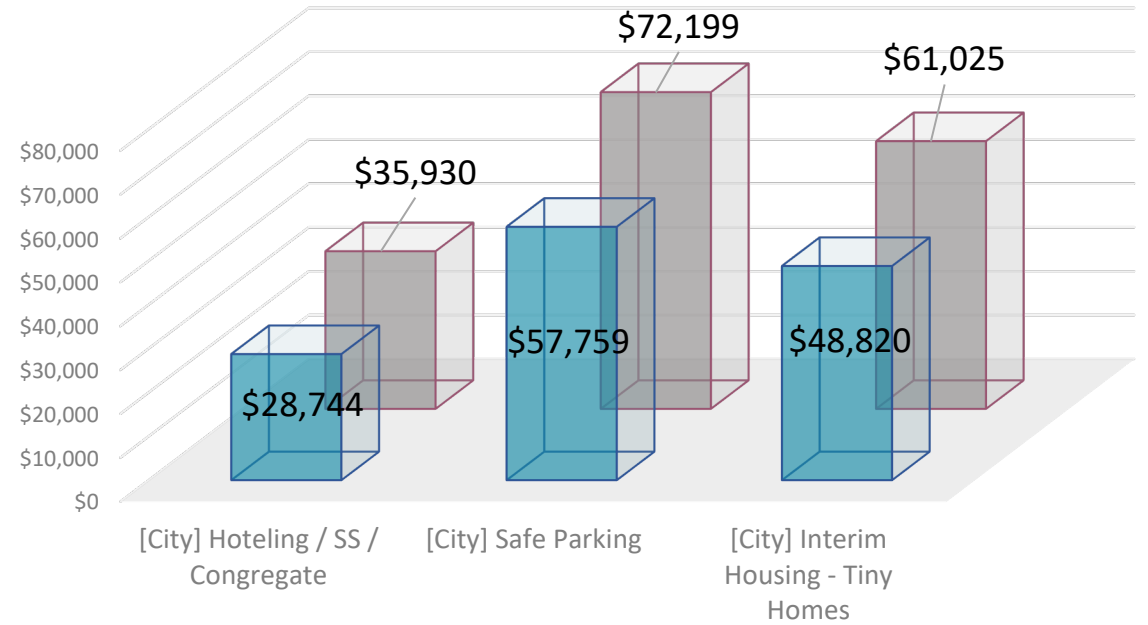
Historical and Projected Costs & Savings to Produce & Operate Units

Production Per Unit Costs



■ Capital PUC @ 20% Reduction ■ Capital PUC [Average]

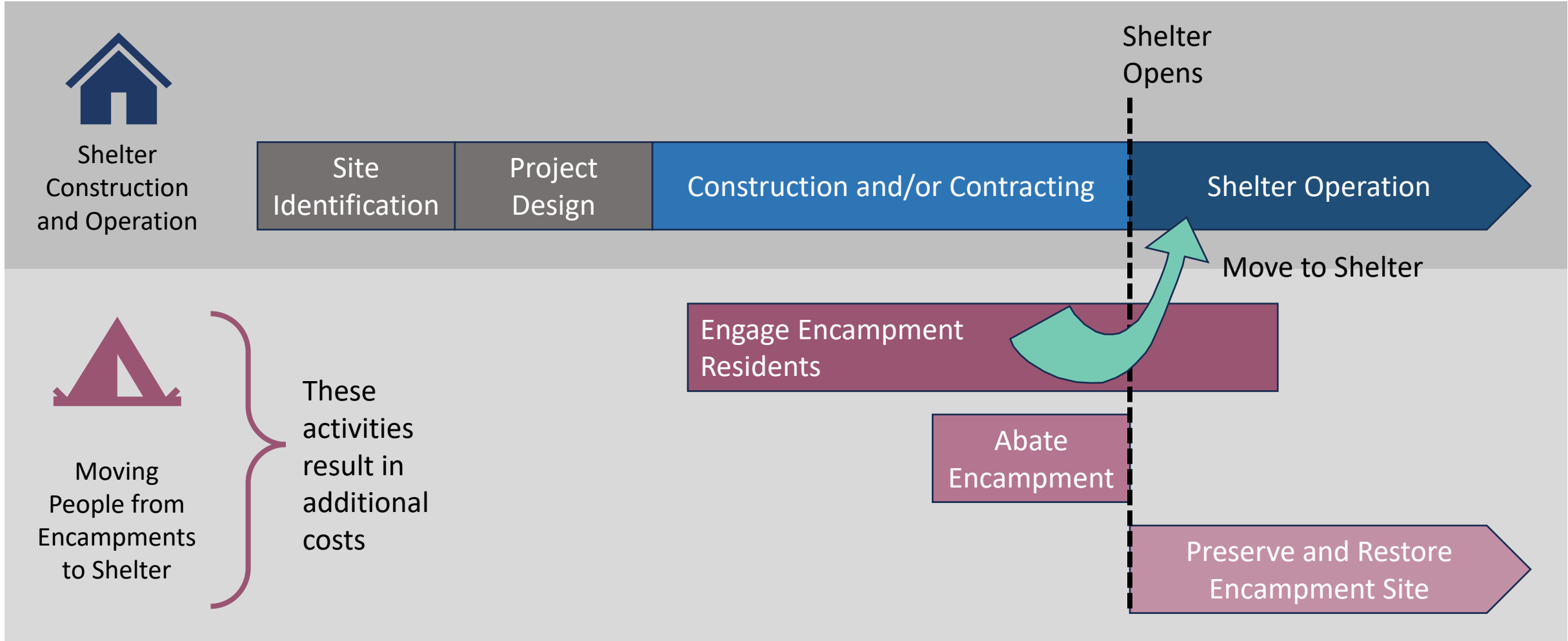
Operating Per Unit Costs



■ Operating PUC 20% Reduction ■ Operating PUC

FY 2025-2026 Budget Study Session

Shelter Construction and Clearing Encampment Process



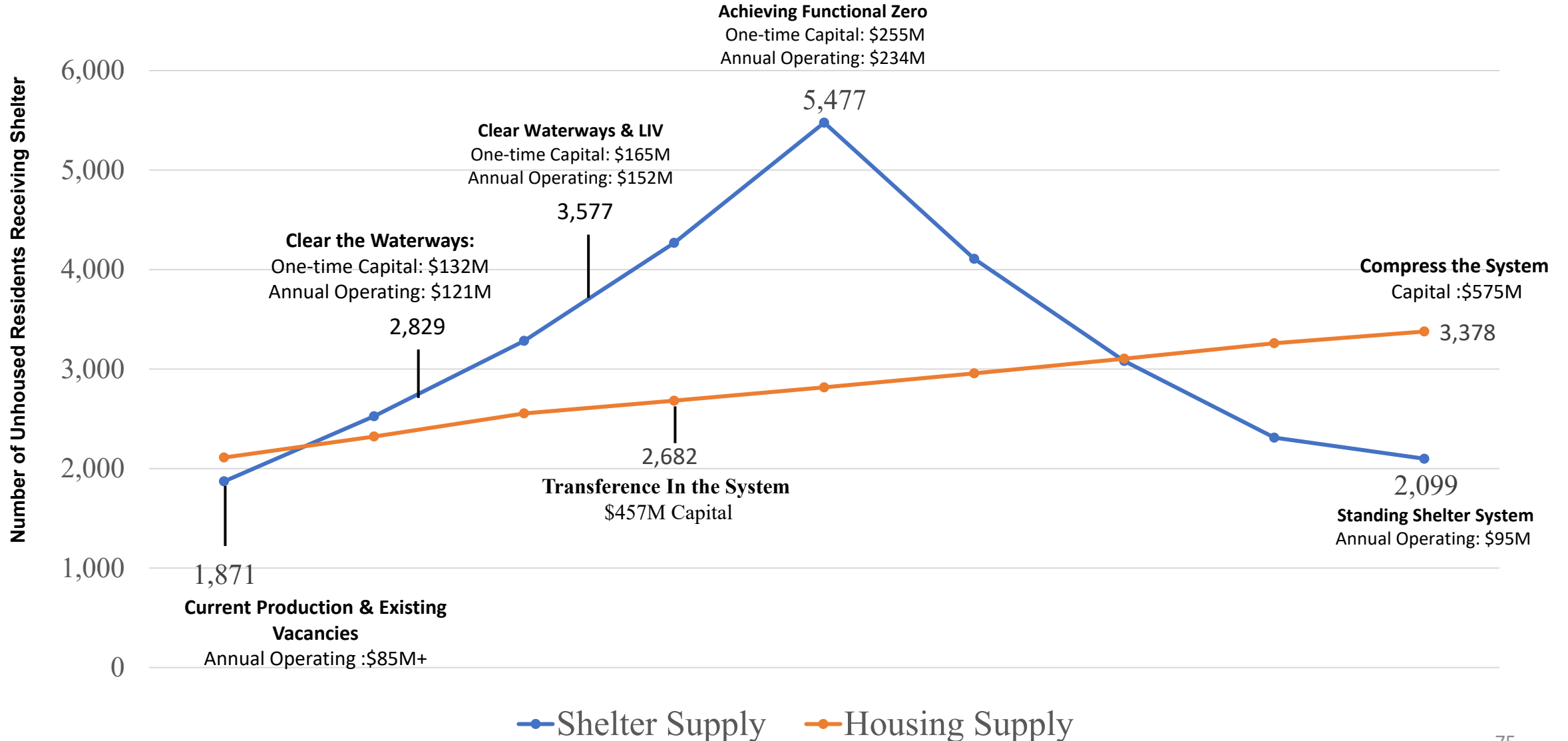
FY 2025-2026 Budget Study Session

Many Paths Forward, but Funding Remains a Major Obstacle



FY 2025-2026 Budget Study Session

Many Paths Forward, but Funding Remains a Major Obstacle



FY 2025-2026 Budget Study Session

Many Paths Forward, but Funding Remains an Obstacle

If the goal is functional zero...

We need to:

- ✓ **Expand** the shelter system;
- ✓ **Build** significantly more permanent supportive housing and transfer people to it from the shelter system;
- ✓ **Compress** the shelter system due to the high shelter operating costs;
- ✓ **Prevent** homelessness to stop the inflow

...and find the resources to pay for it

Budget Study Session

The City Can't Do it Alone - Alternative Revenue Options



Public Private Partnerships

- Asset Financing
- Philanthropic Donations
- Incorporate Faith-based Shelter Service Network



Ballot Measures

- Bond Issuance for Capital Expenditures
- Operating Subsidy
- Others



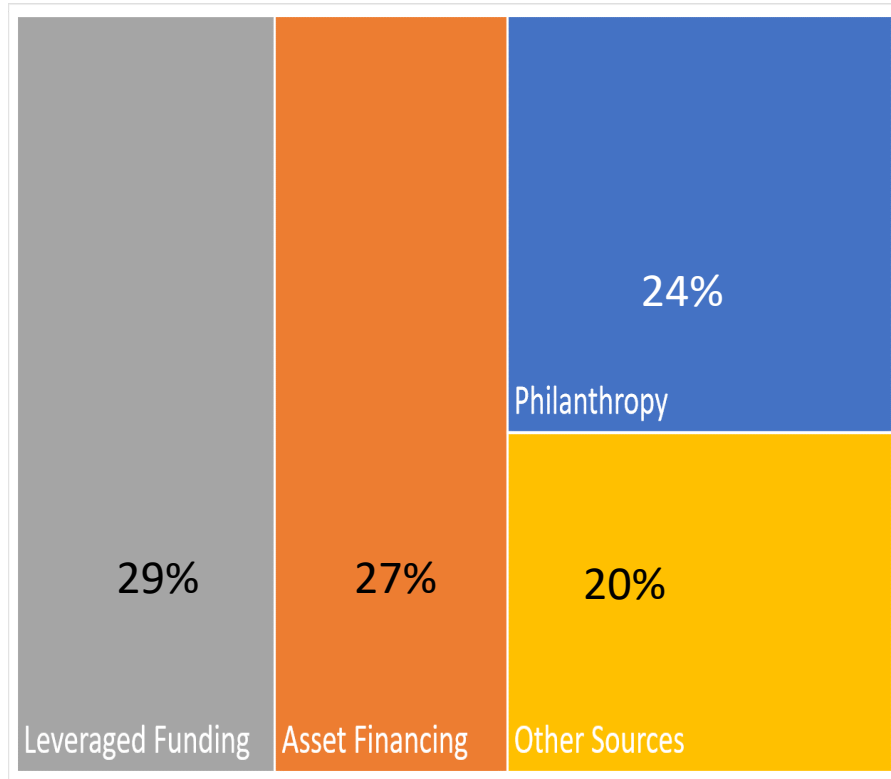
State and Federal

- Expanding Tax Credit Financing
- Ongoing Funding for Operations
- Explore Operating Subsidies

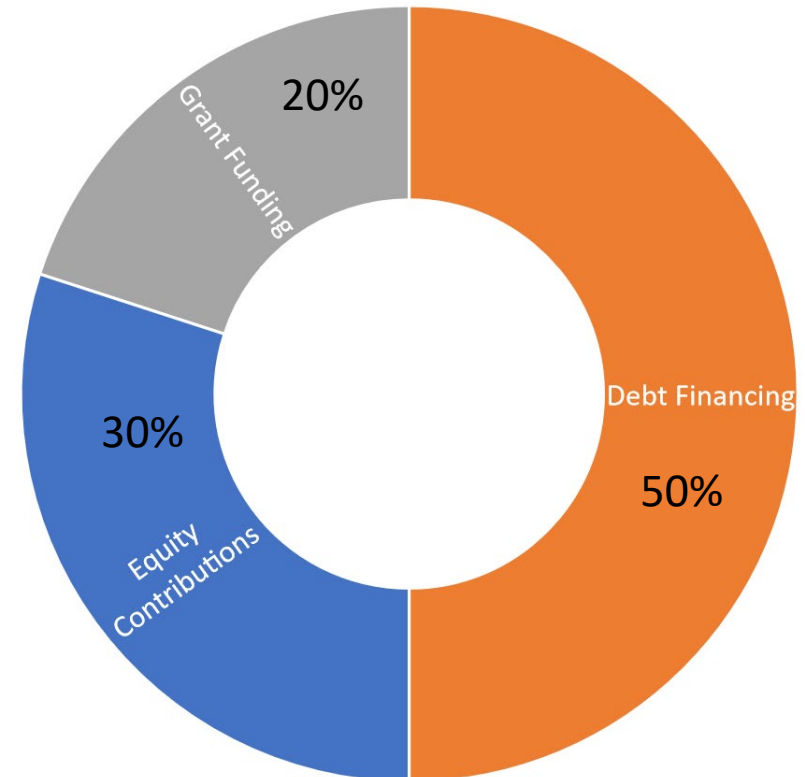
Budget Study Session

Alternative Revenue Options: Public-Private Partnerships

Public-Private-Partnerships are required to solve this problem through philanthropy, leveraged funding, and financing



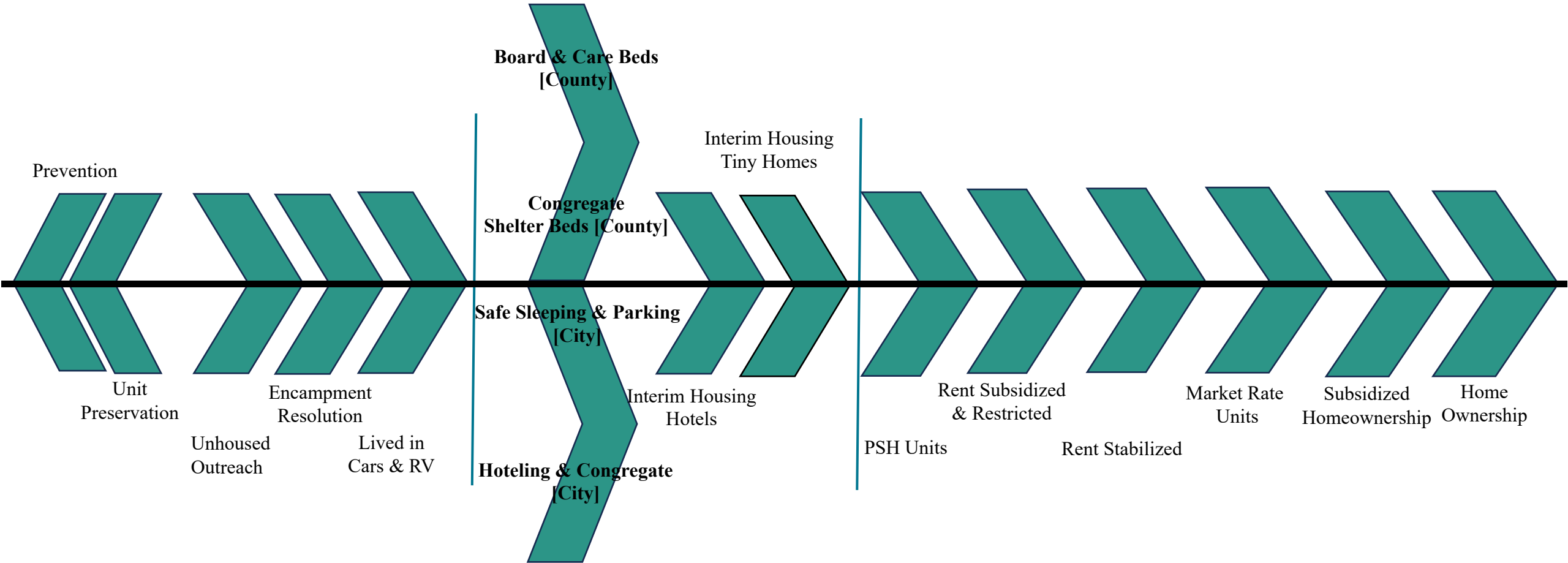
\$255M In Capital Funding – Shelter System



\$575M In Capital Funding – Housing Production

FY 2025-2026 Budget Study Session

Staff will Continue Driving Solutions Towards the Housing Continuum



FY 2025-2026 Budget Study Session

Staff will Continue Driving Solutions Towards the Housing Continuum

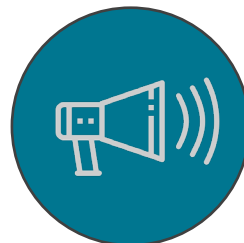


Alternative Revenue Options



Policy and Programmatic Efforts

- General Plan Four Year Review
- Housing Catalyst Team Work Plan
- Increasing Capacity for Prevention
- Site Identification + Community Engagement (to prepare for capital funding)
- Realizing capital and programmatic efficiencies
- Strategic planning for shelter system compressions
- Moderate Income Workforce Housing Strategy
- Prevention System Expansion



Intergovernmental Advocacy

- Advocating for State and Federal government to do their fair share
- Sponsoring a Credit Bill
- State Health Care Services rule on transitional rent
- Strategies for the program resistant

**City Council Discussion:
Reducing Unsheltered Homelessness
Strategic Planning**


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HOUSING DEPARTMENT

RENT STABILIZATION PROGRAM FEES FOR FISCAL YEAR 2025-2026

Housing and Community Development Commission

April 10, 2025

Item # VII-A

Emily Hislop

Division Manager

Cost Recovery

- Apartment Rent, Tenant Protection, Mobilehome Rent, and Ellis Act Ordinances are Category I fees
- Category I fees should be 100% cost recovery
- Fees charged must cover the costs of the program - no more, no less

Fee Descriptions

- **ARO Fee:** Charged to units covered by the Apartment Rent Ordinance & Tenant Protection Ordinance (3+ units built before Sept. 7, 1979)
- **TPO-Only Fee:** Charged to units covered only by the Tenant Protection Ordinance (3+ units built after Sept. 7, 1979)
- **MRO Fee:** Charged to lots covered by the Mobilehome Rent Ordinance
- **Ellis Act Fee:** Charged per unit when all units in building are withdrawn from the rental market

What costs do the fees cover?

Personal Services

Wages, Benefits, and Retirement

- Program Staff
- Management & Legal
- Admin, IT & Public Info

Non-Personal Services

Equipment, Hearing Officers, Materials

- Laptops, Licensing
- Printed Communications (mailers, flyers, forms)
- Outreach and Technical Support

Fee History and Proposed

	Adopted 2023-2024	Adopted 2024-2025	Proposed 2025-2026
Annual Apartment Rent Control Fee (ARO Fee)	\$72.00	\$76.00	\$77.00
Annual Apartment Non-Rent Controlled Fee (TPO-only Fee)	\$23.00	\$23.00	\$23.00
Annual Mobilehome Rent Control Fee	\$33.00	\$30.00	\$32.00

Jurisdictional Comparison

	San José (Proposed FY 2025-26)	Los Angeles County	Oakland	San Francisco	Inglewood	Mountain View
Population	1,015,785	1,057,162	413,775	873,965	107,762	82,376
# Covered Units	95,993	128,986	80,000	173,000	23,000	15,000
# Full-Time Staff	17	n/a	26	50	11	8
Staff per 1,000 units	0.18	n/a	0.32	0.29	0.48	0.50
Per Unit Apt. Fee	\$76 / \$28	\$90 / \$30	\$101	\$59	\$184	\$120
Per Unit MH Fee	\$32	\$90	n/a	n/a	n/a	\$285