

City Council 2025-2026 Budget Priorities Study Session

February 11, 2025

Lee Wilcox, Assistant City Manager

Jim Shannon, Budget Director

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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

Budget Priorities Study Session

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- 6 City Council Discussion on Budget Priorities

Jim Shannon, Budget Director

Bonny Duong, Assistant Budget Director

Claudia Chang, Deputy Budget Director

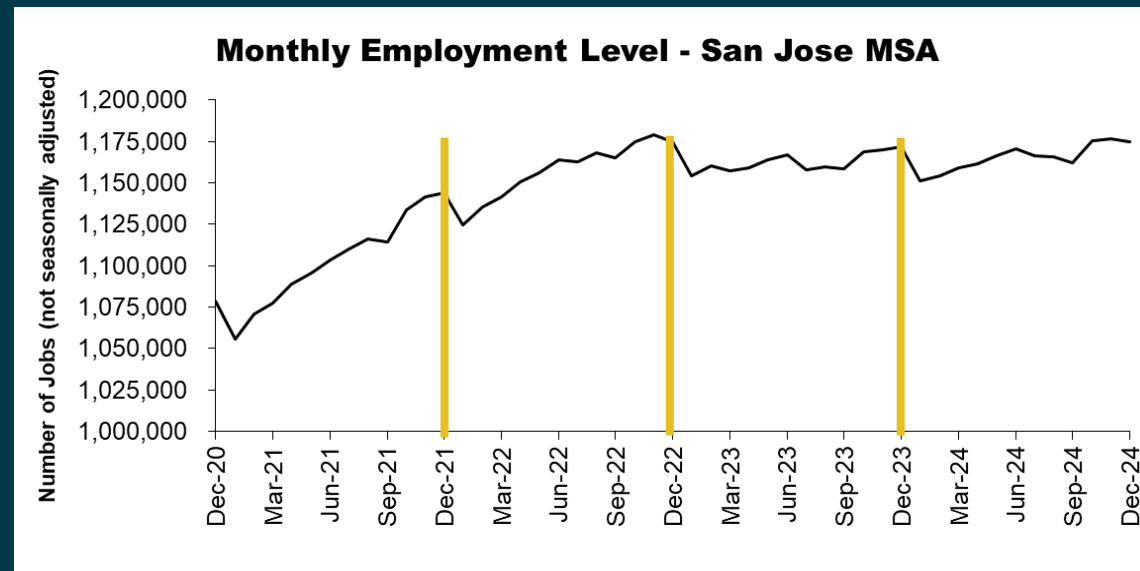


2025-2026 Preliminary General Fund Forecast

Economic Conditions

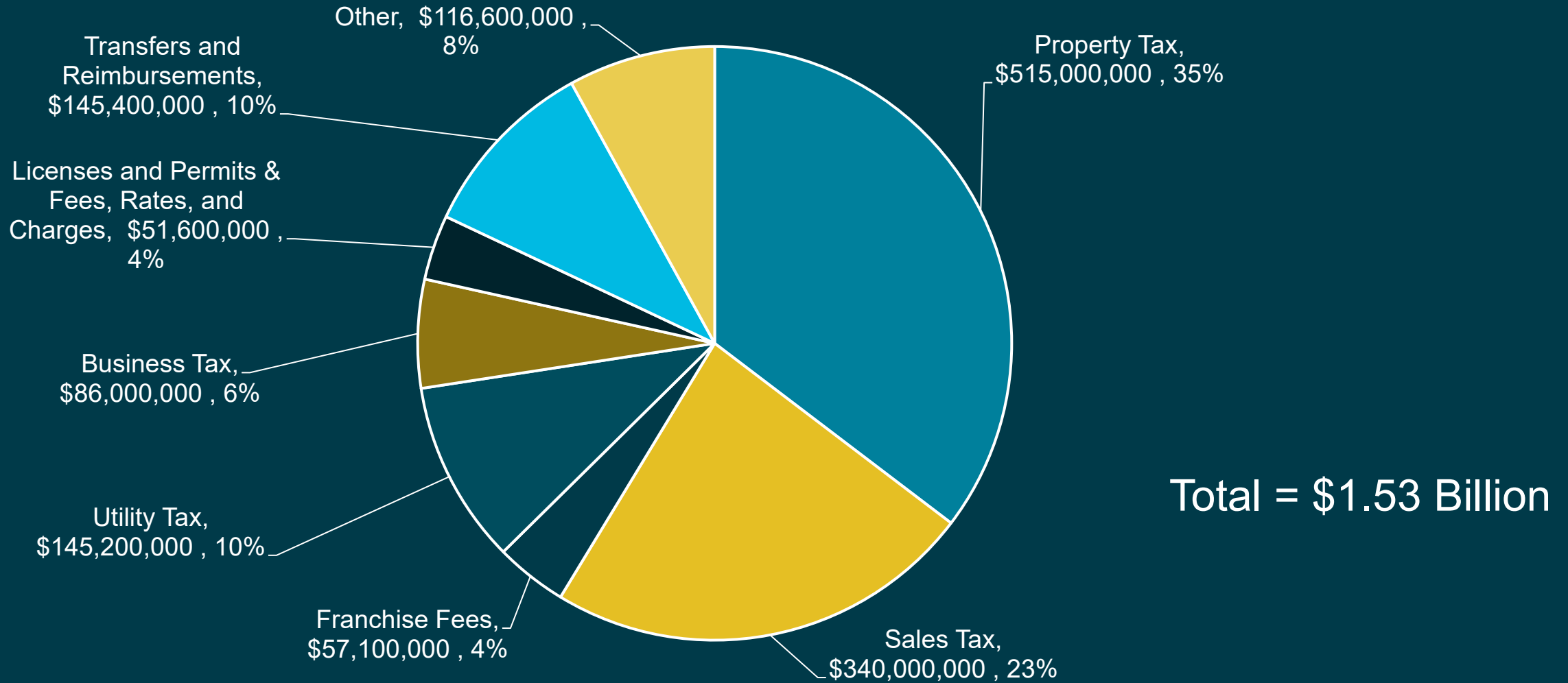
Though relatively healthy, the local economy is experiencing only modest growth and battling headwinds

- Residential real estate prices are increasing, but transaction volume is low
- Office vacancies remain high
- Technology sector impacted by layoffs and lower levels of venture capital investment
- Low levels of private development activity
- Stagnant employment growth and slight population declines
- Federal actions create future uncertainty



2025-2026 Preliminary General Fund Forecast

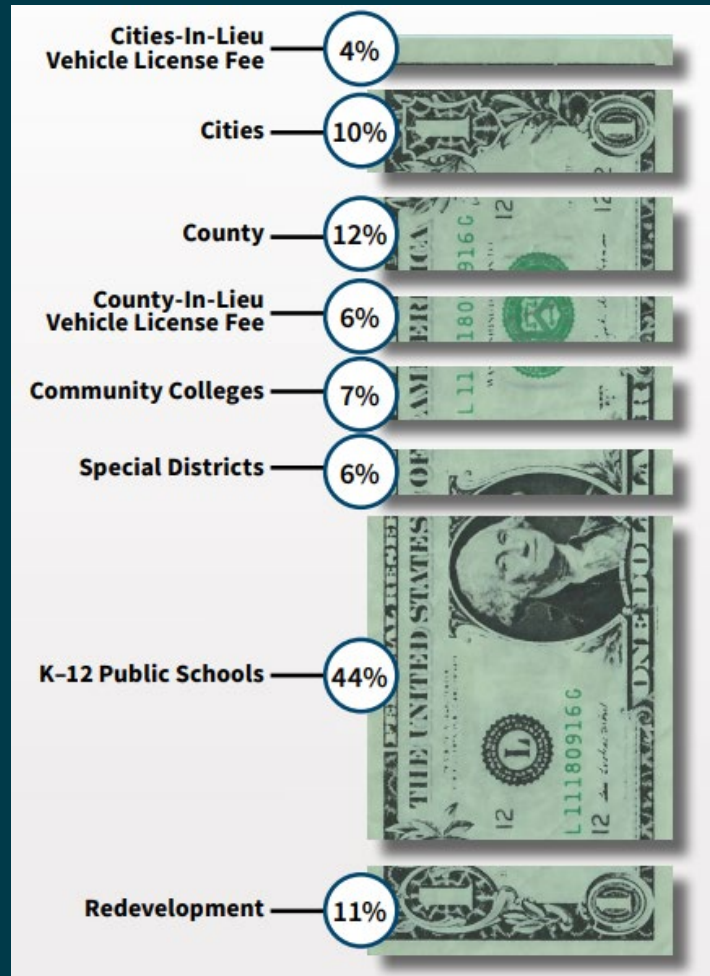
Preliminary Revenue Estimates



2025-2026 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

Average Santa Clara County Property Tax Allocation



Property Tax Revenue Components

Secured Prop

Unsecured Property Tax

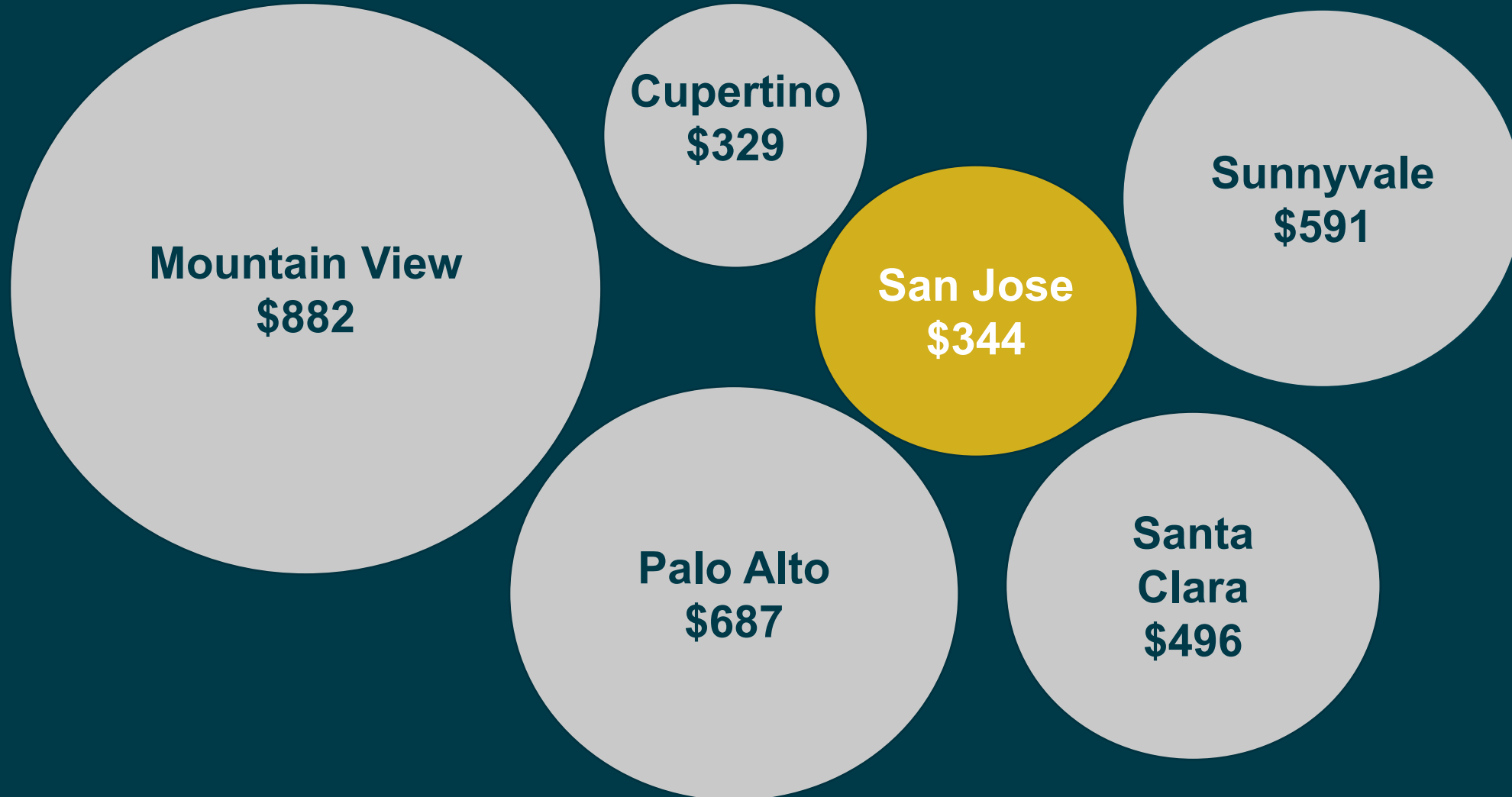
SB813 Property Tax

Aircraft Property Tax

Homeowner's Property Tax Relief (HOPTR)

2025-2026 Preliminary General Fund Forecast

Property Tax Per Capita



2025-2026 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

Secured Property Tax Collections

Category	24-25 Est. (Millions)	25-26 Est. (Millions)
General Secured	\$398	\$416
Educational Revenue Augmentation Fund (ERAF)	\$42	\$43
Successor Agency to the Redevelopment Agency (SARA)	\$25	\$27

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 \$8 million ongoing and a one-time claw back of approximately \$30 million

2025-2026 Preliminary General Fund Forecast

Property Tax Preliminary Estimates

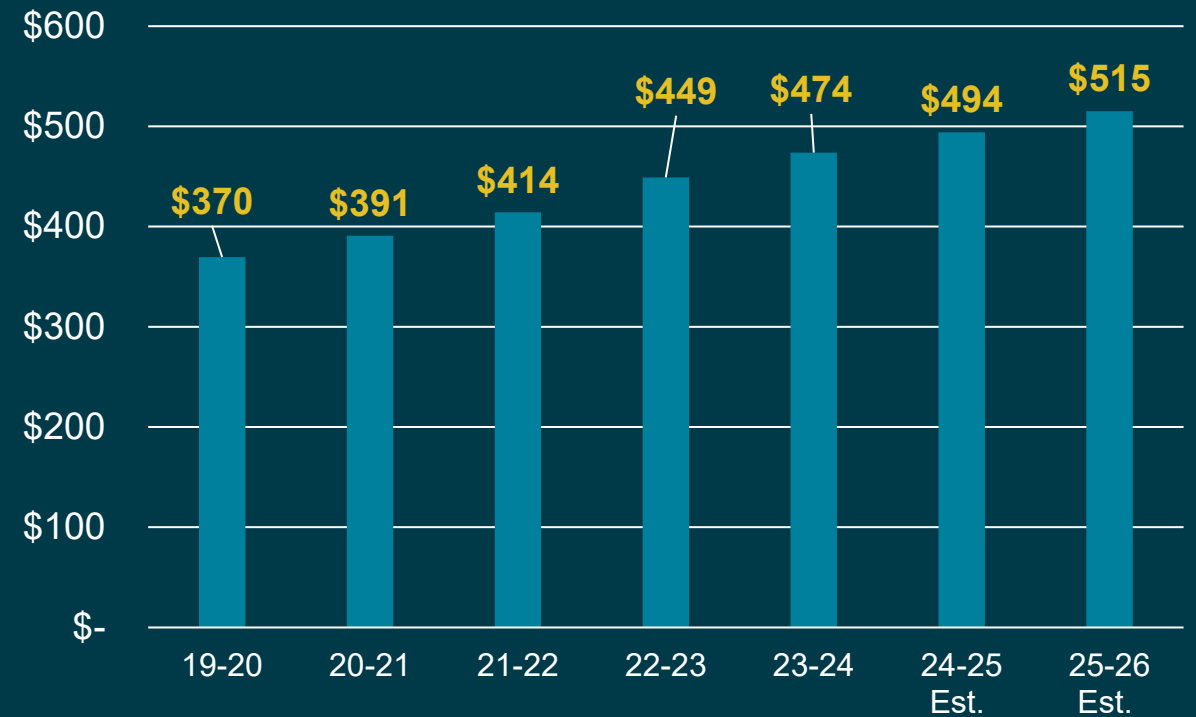
Property Tax growth is slowing compared to recent years

While residential valuation remains strong, property transactions are relatively low

Commercial sector is relatively weak and some existing valuations are under appeal

Overall low levels new of construction

Property Tax Collections (Millions)



	20-21	21-22	22-23	23-24	24-25 Est.	25-26 Est.
% Growth	5.8%	5.9%	8.4%	5.5%	4.3%	4.3%

2025-2026 Preliminary General Fund Forecast

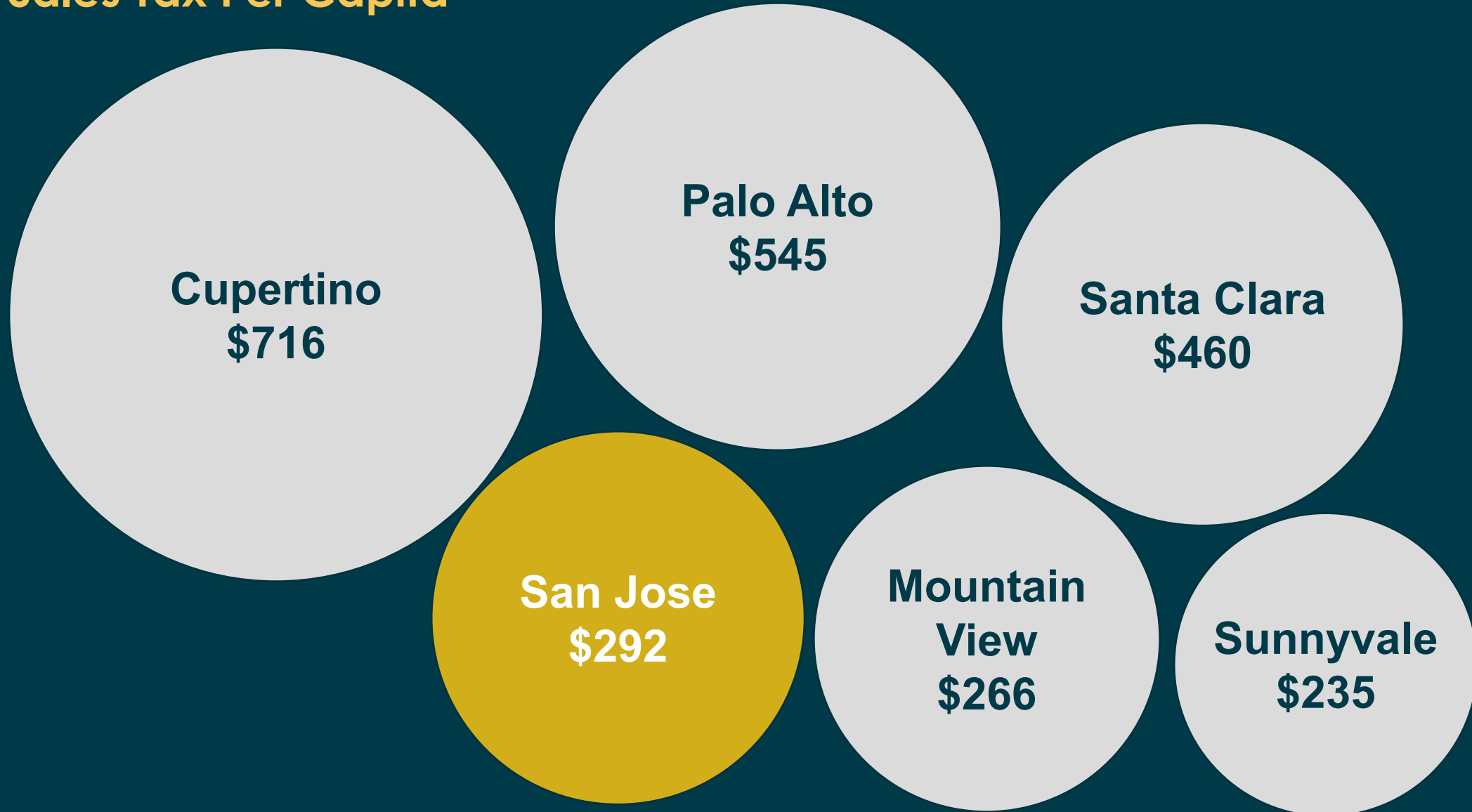
Sales Tax Preliminary Estimates - Breakdown

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)	2.000%
Peninsula Corridor Joint Powers Board (Caltrain)	0.125%
Total	9.375%

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

2025-2026 Preliminary General Fund Forecast

Sales Tax Per Capita

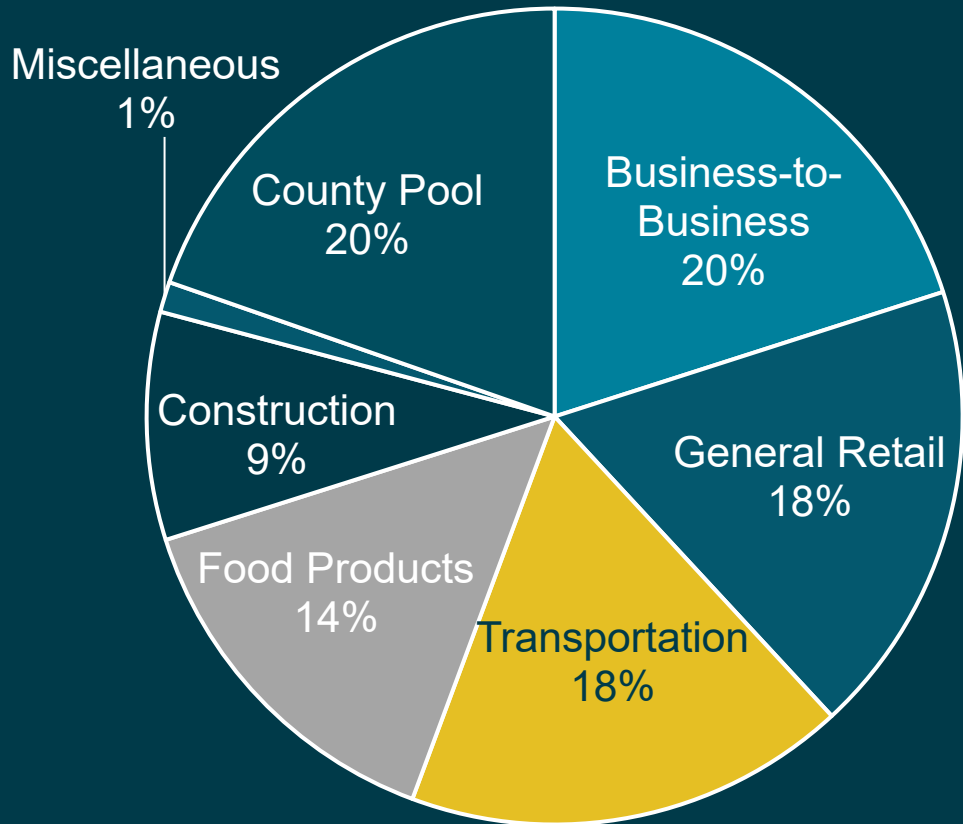


2025-2026 Preliminary General Fund Forecast

General Sales Tax – Economic Sectors

2023-2024 Actuals

General Sales Tax by Economic Sector



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

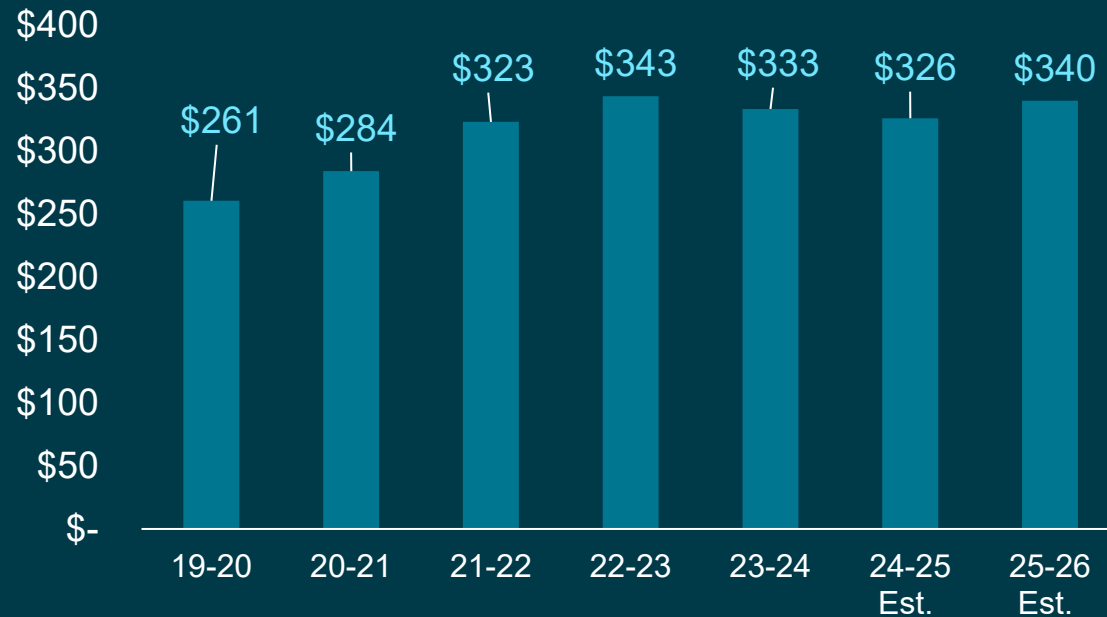
Economic Sector	2021-2022 % Change	2022-2023 % Change	2023-2024 % Change
Business-to-Business	14.2%	28.3%	2.3%
General Retail	23.4%	0.7%	(2.2%)
Transportation	24.3%	3.8%	(2.0%)
Food Products	26.7%	9.8%	3.2%
Construction	(7.4%)	(1.6%)	(1.2%)
County Pool*	4.9%	3.9%	(11.5%)

*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.

2025-2026 Preliminary General Fund Forecast

Sales Tax Preliminary Estimates

Sales Tax Collections (Millions)



	20-21	21-22	22-23	23-24	24-25 Est.	25-26 Est.
% Growth	9.0%	13.8%	6.3%	(2.9%)	(2.2%)	4.3%

Last two quarters of General Sales Tax collections were significantly lower than prior years:

- Apr – Jun: -9%
- Jul – Sep: -10%

Underperformance is expected to continue through most of 2024-2025

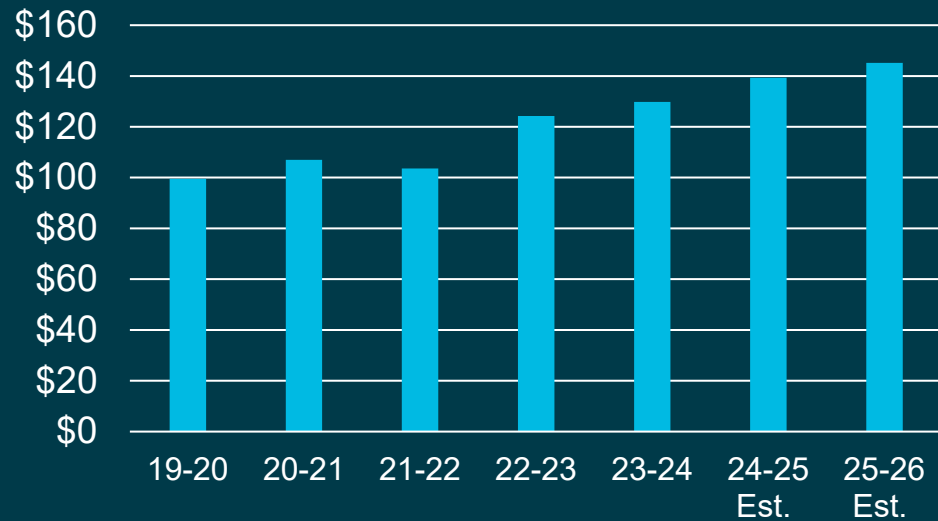
Growth is anticipated for 2025-2026, but from a lower starting point than previously forecasted

Data from Oct – Dec will be received at the end of February, which will further inform these estimates

2025-2026 Preliminary General Fund Forecast

Utility Taxes and Franchise Fees Preliminary Estimates

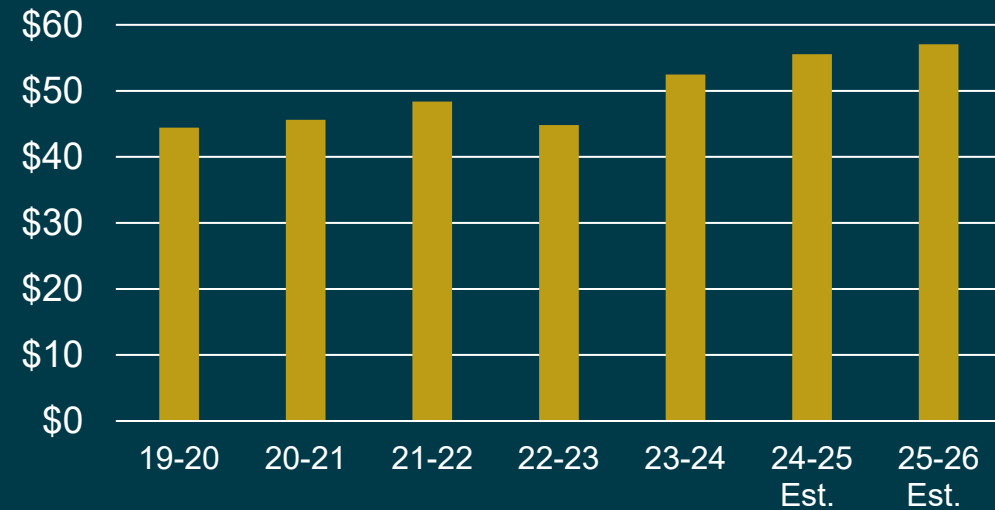
Utility Tax Collections (Millions)



	20-21	21-22	22-23	23-24	24-25 Est.	25-26 Est.
% Growth	7.5%	(3.2%)	20.0%	4.4%	7.3%	4.2%

Surcharge on electricity, gas, water, and telephone bills

Franchise Fees Collections (Millions)



	20-21	21-22	22-23	23-24	24-25 Est.	25-26 Est.
% Growth	2.7%	6.0%	(7.3%)	17.1%	5.9%	2.7%

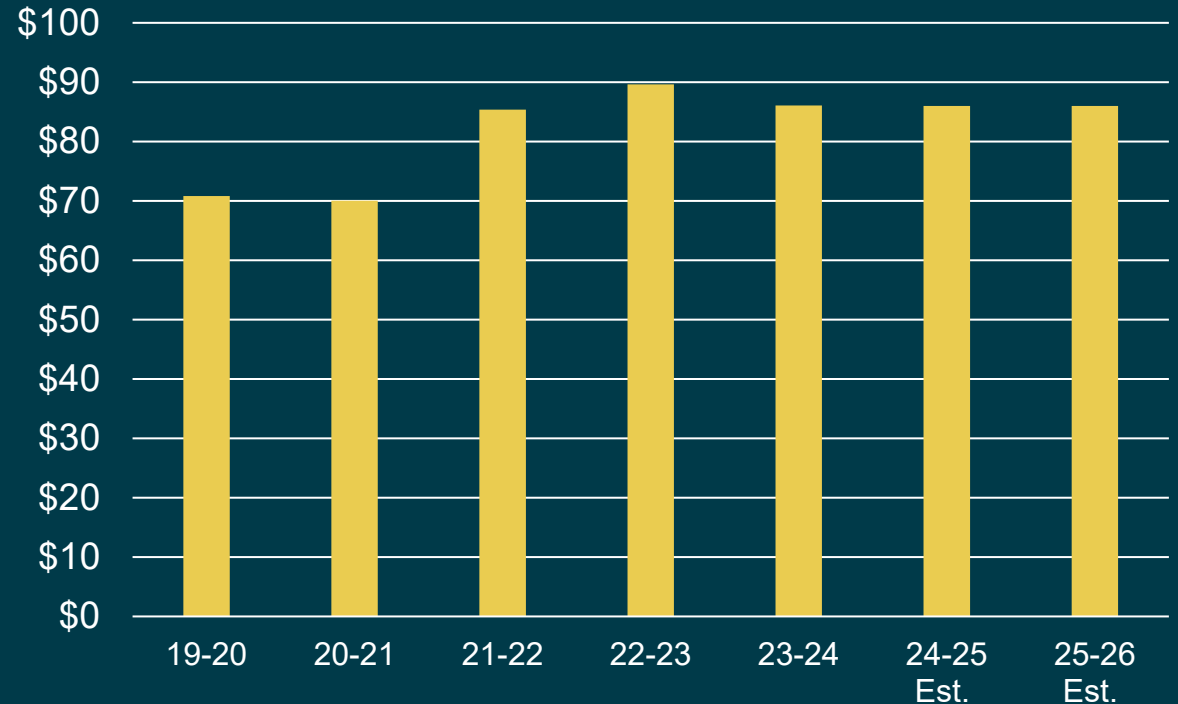
Payment by companies providing electricity, gas, water, commercial solid waste, cable, nitrogen/jet fuel, and cable services

2025-2026 Preliminary General Fund Forecast

Business Taxes Preliminary Estimates

Category	24-25 Est. (\$ in millions)	25-26 Est. (\$ in millions)
Cardroom	\$32.0	\$32.0
Cannabis	\$12.0	\$11.0
Disposal Facility	\$12.0	\$12.0
General Business	\$30.0	\$31.0
Total	\$86.0	\$86.0

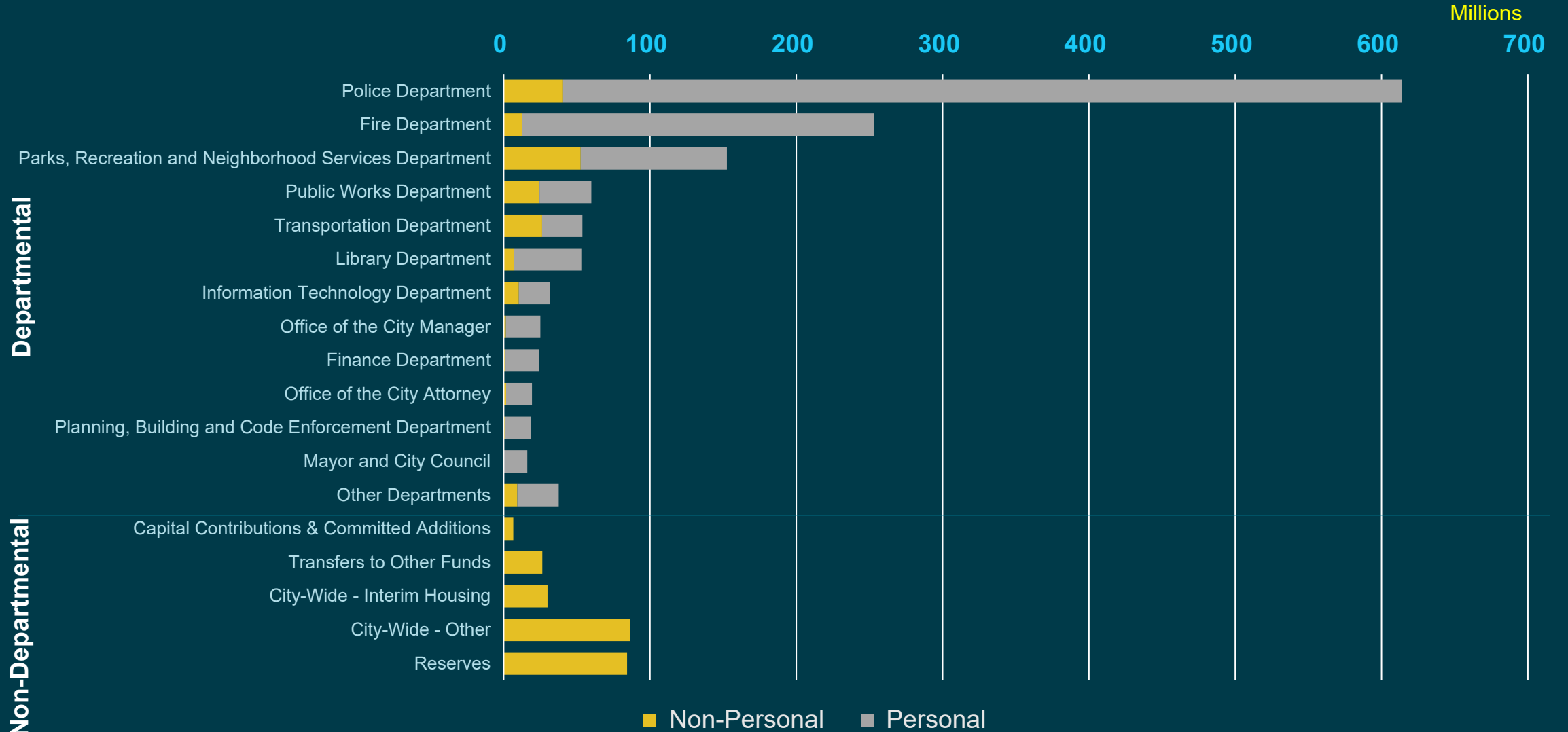
Business Tax Collections (Millions)



	20-21	21-22	22-23	23-24	24-25 Est.	25-26 Est.
% Growth	(1.1%)	21.9%	5.0%	(4.0%)	(0.1%)	0.0%

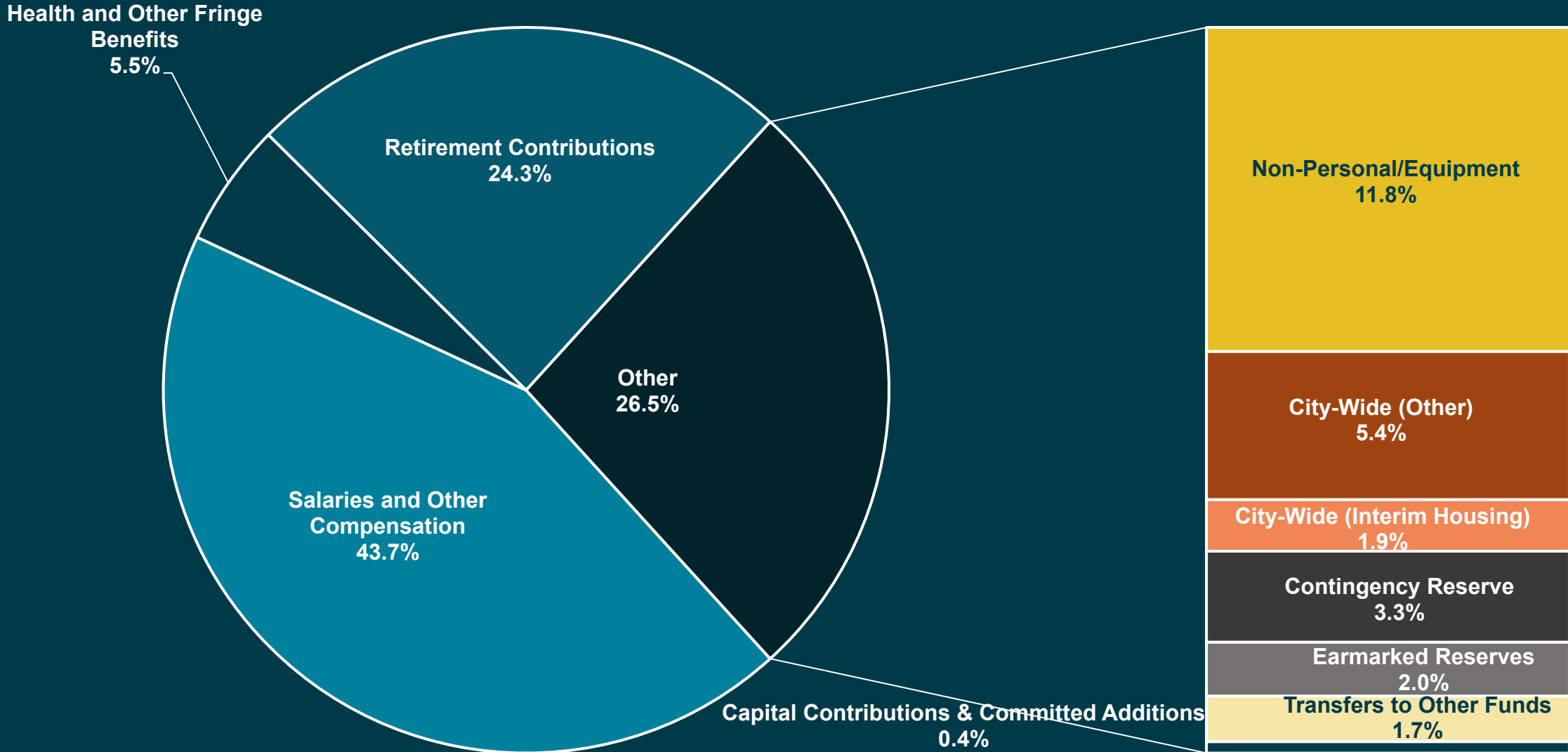
2025-2026 Preliminary General Fund Forecast

Base Budget Expenditures by Category (Preliminary)



2025-2026 Preliminary General Fund Forecast

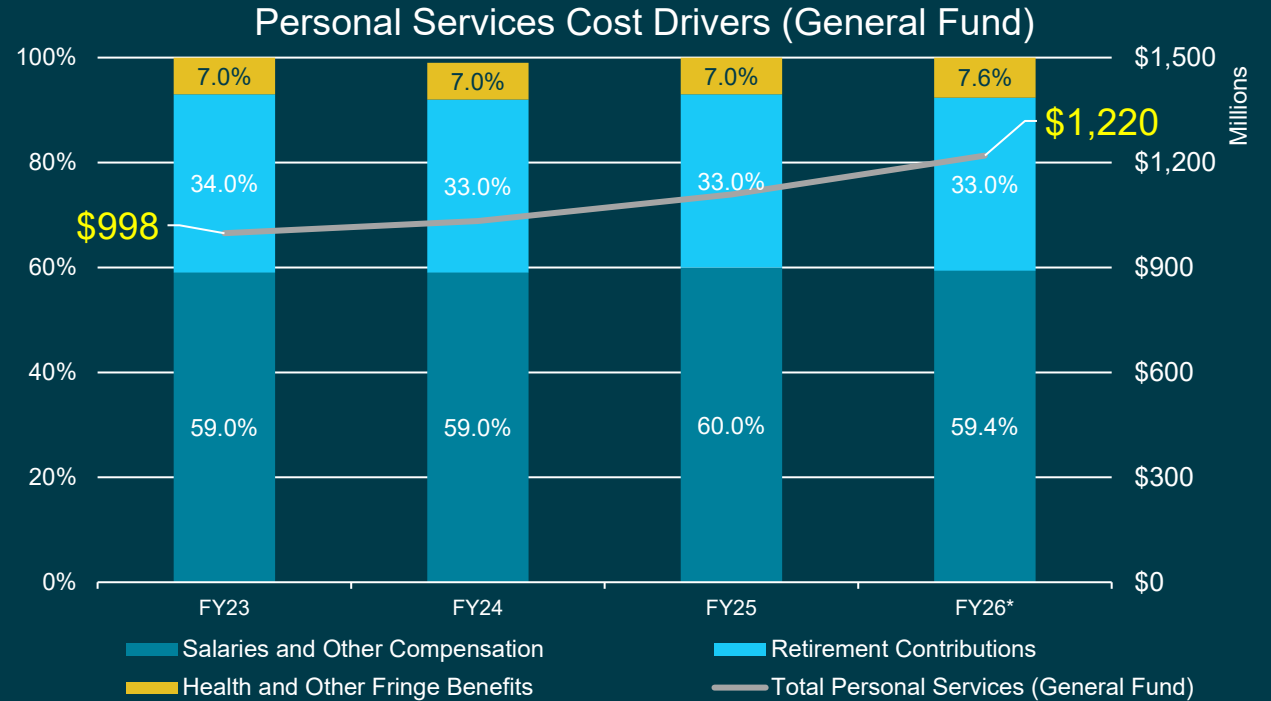
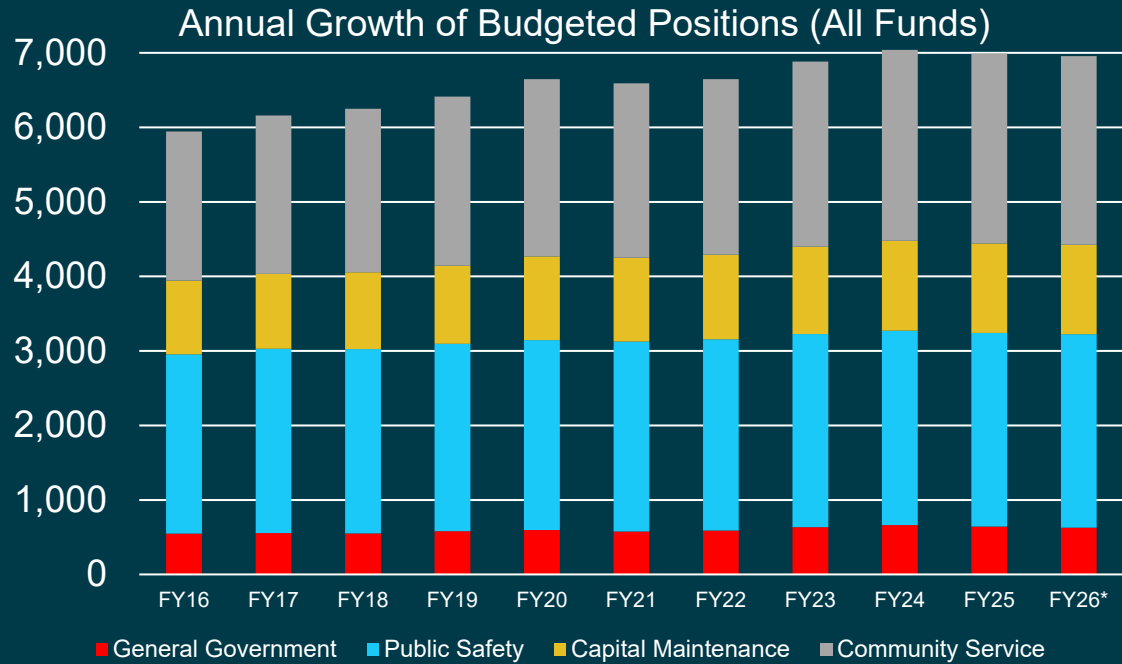
Expenditure Components (Preliminary)



Total Preliminary Forecast Expenditures: \$1.59 billion

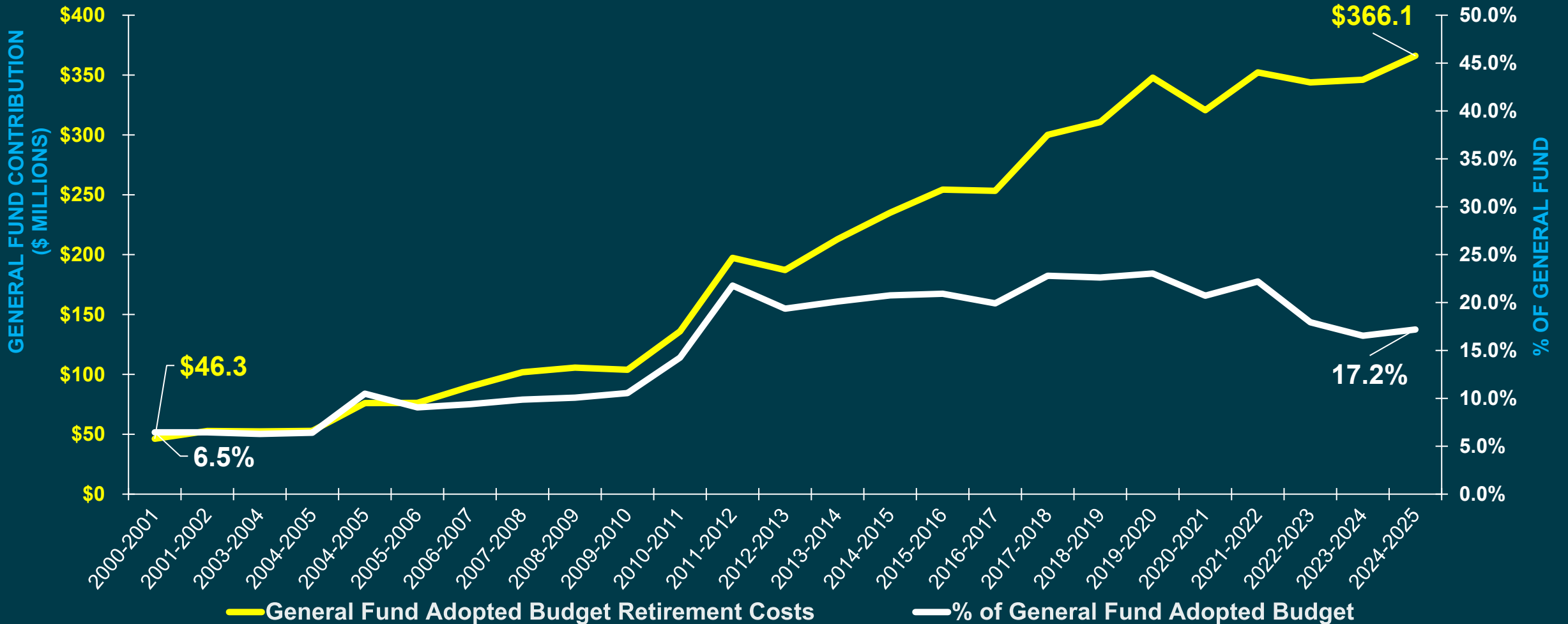
2025-2026 Preliminary General Fund Forecast

Expenditure Components (Preliminary)



2025-2026 Preliminary General Fund Forecast

Retirement – Historical Perspective

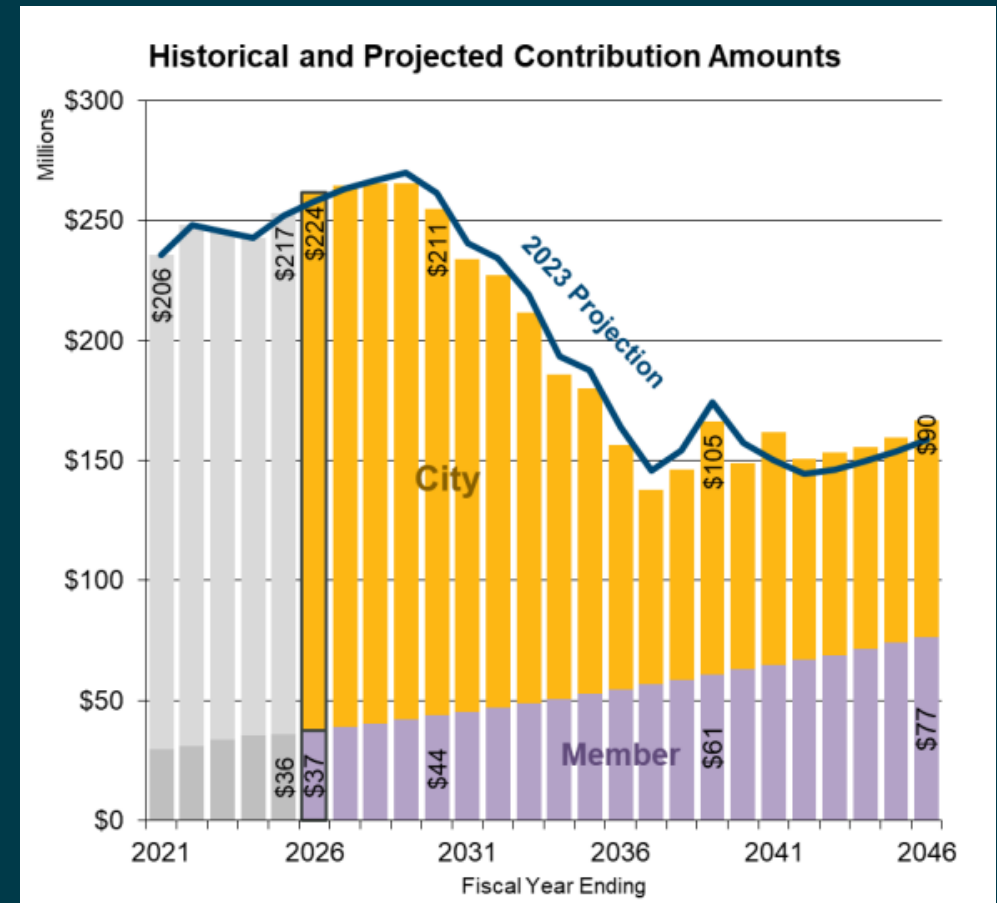


2025-2026 Preliminary General Fund Forecast

Retirement Contributions Actuarial Forecast

- The most recent actuarial projections for contributions to the City's retirement system is similar to previous forecasts
- By the end of this decade, the City's contribution is expected to peak and then decline as the unfunded actuarial liability (UAL) is paid down
- Future projections include a number of assumptions, including that future years average a return of 6.625%
- Potential UAL impacts in future years resulting from wage increases higher than actuarial projections

Police and Fire Based on June 30, 2024 Valuation

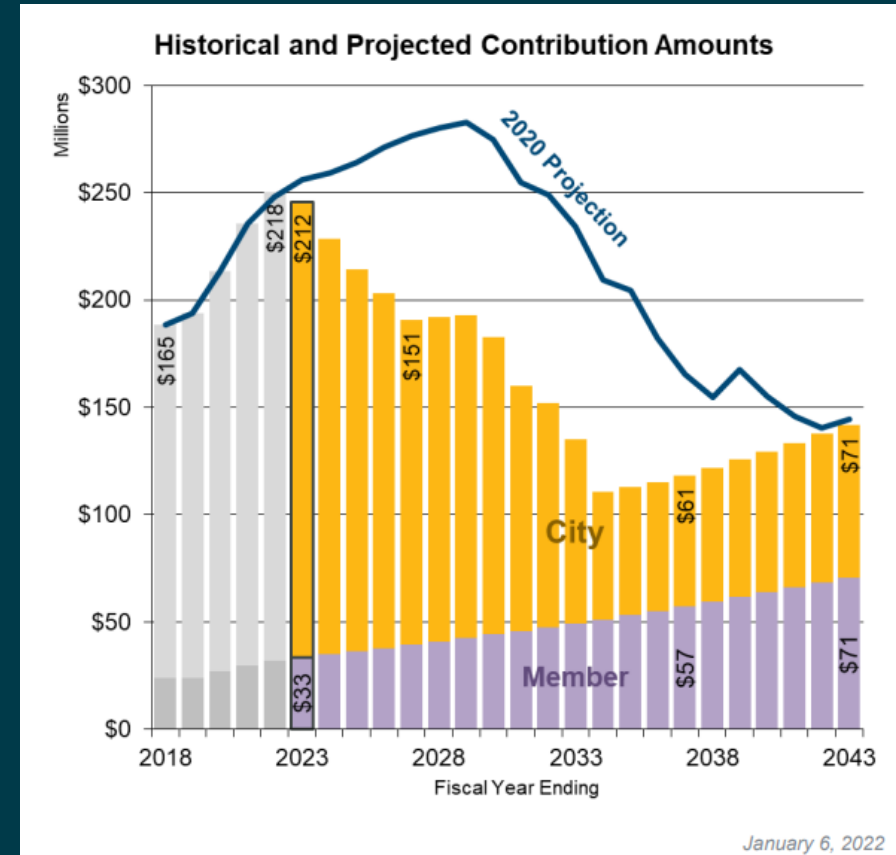


2025-2026 Preliminary General Fund Forecast

Retirement Contributions - Proceed with Caution

Police and Fire Based on June 30, 2021 Valuation

- Like all forecasts, actuarial projections are based on assumptions that will likely differ from reality
- The high market returns in 2020-2021, even after applying multi-year actuarial smoothing, resulted in significantly lower projections of future retirement contributions...assuming that future years average a return of 6.625%
- However, returns in **2021-2022 did not meet** assumptions and future retirement contributions needed to increase



2025-2026 Preliminary General Fund Forecast

Other Costs Continue to Increase

Non-Personal/Equipment

- Electricity costs have increased about 26% since Jan 2023, but future increases expected to slow
- Water rates expected to increase 9% next year due to cost of water and capital investments
- Further increases for information technology application subscriptions, janitorial and security services, and equipment leases

Committed Additions

- Costs to operate and maintain completed capital projects; notably Measure T projects starting to come online in early 2026 through 2028
- Fire Station 32 (~\$13 M), Fire Station 36 (~\$7 M), Police Training Facility (~\$2 M)
- Category tentatively scheduled to increase from \$5 M in 2025-2026 to \$30 M in 2026-2030

City-Wide Expenses

- Ongoing General Fund contribution to support the **Interim Housing Portfolio** tentatively forecasted at \$30 M in 2025-2026 and increase to approximately \$90 M by 2029-2030
- Cost of living increases for support of community-based organizations

2025-2026 Preliminary General Fund Forecast

Ongoing General Fund Shortfall

The General Fund preliminary forecast shows a shortfall of approximately **\$60 million** in 2025-2026 followed by another **\$30 million** in 2026-2027 [*subject to change*]

- A reduction in Sales Tax revenue, modest revenue growth elsewhere in the General Fund, and continuing cost increases result in a structural imbalance that will need to be addressed in the 2025-2026 Proposed Operating Budget
- The forecast does not include costs associated with unmet/deferred infrastructure and maintenance needs, the approximately **\$8.5 million** of one-time services/programs currently funded in the General Fund, or any new targeted investments for service level enhancements

Local Perceptions of Top Issues 2024



We asked residents:
If the City government could change one thing to make San José a better place to live, what change would you like to see?

These are the top issues (in rank order) for San José residents in 2024.

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.

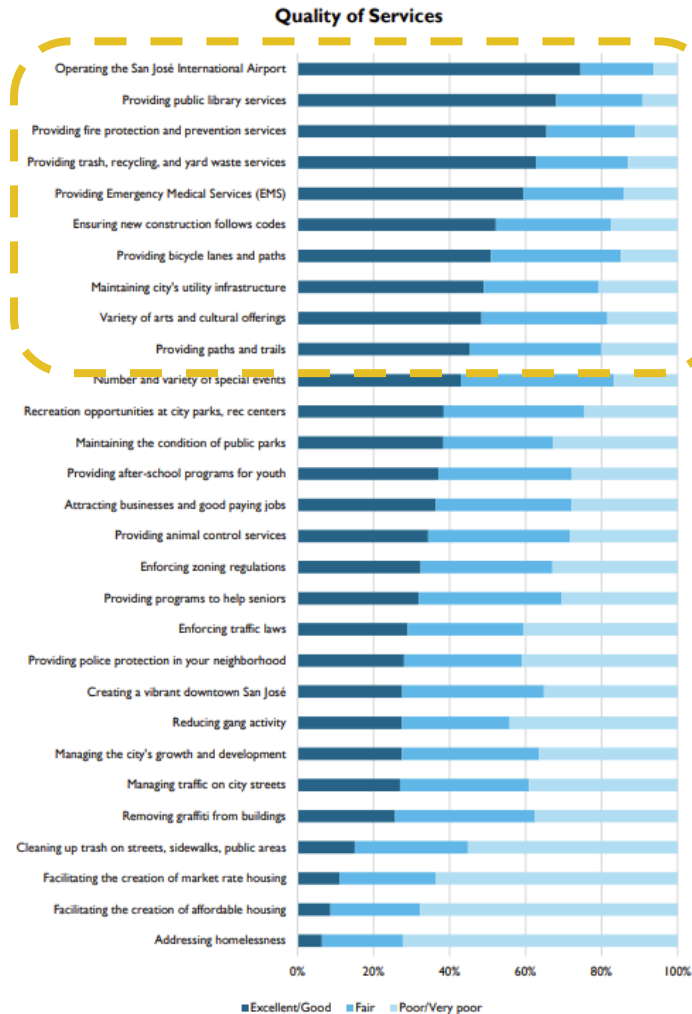


(Source: Auditor's Annual Services Report 2024)

(Source: PPIC Statewide Survey, Dec 2024)

Resident Perceptions of City Services

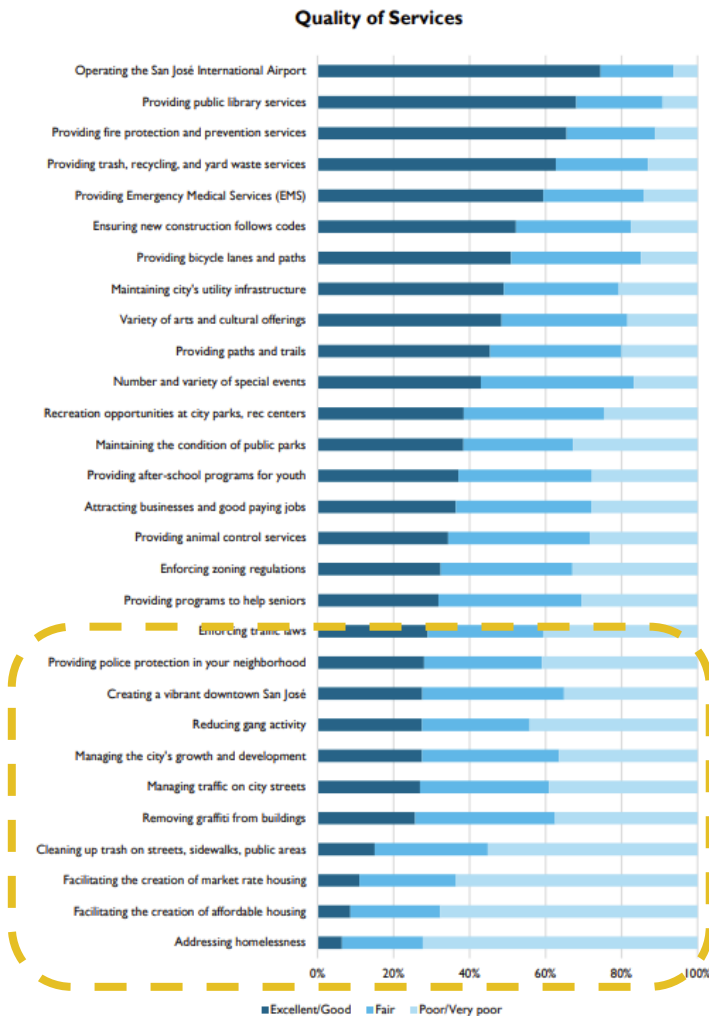
Top Issue. Ten Highest Ranked City Services Similar to Last Year



2024 Rank	Service	YoY Rank Change
1	Operating the San José International Airport	--
2	Providing Public Library Access	--
3	Providing Fire Protection and Prevention Services	+1
4	Providing Trash, Recycling, and Yard Waste Services	-1
5	Providing Emergency Medical Services (EMS)	--
6	Ensuring New Construction Follows Codes	+3
7	Providing Bicycle Lanes and Paths	--
8	Maintaining the City's Utility Infrastructure	+3
9	Variety of Arts and Cultural Offerings	+11
10	Providing Paths and Trails	+3

Resident Perceptions of City Services

Top Issue. Ten Lowest Ranked City Services Similar to Last Year



2024 Rank	Service	YoY Rank Change
20	Providing police protection in your neighborhood	+3
21	Creating a vibrant downtown San José	--
22	Reducing gang activity	+4
23	Managing the city's growth and development	-1
24	Managing traffic on city streets	-4
25	Removing graffiti from buildings	-1
26	Cleaning up trash on streets, sidewalks, public areas	+1
27	Facilitating the creation of market rate housing	-2
28	Facilitating the creation of affordable housing	--
29	Addressing homelessness	--

Alignment with City Focus Areas


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



Increasing Community Safety



Reducing Unsheltered Homelessness



Cleaning Up Our Neighborhoods



Attracting Investment in Jobs and Housing

Improve Public Safety, Reduce Crime

Addressing Homelessness

Beautify City, Landscaping

Provide More Affordable Housing

Reducing Gang Activity

Addressing Homelessness

Cleaning up Trash on Streets, Sidewalks, Public Areas

Creating a Vibrant Downtown

Providing Police Protection in your Neighborhood

Removing Graffiti on Building

Managing the City's Growth & Development

Managing Traffic on City Streets

Facilitating the Creation of Affordable Housing

Facilitating the Creation of Market Rate Housing

Administration Perspectives/Priorities

2024-2025 CSA Outcomes and Key Priorities

City Council Focus Area		Increasing Community Safety		Reducing Unsheltered Homelessness		Cleaning Up Our Neighborhoods		Attracting Investment in Jobs and Housing
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City Service Area	Community and Economic Development	Environmental and Utility Services	Neighborhood Services	Public Safety	Transportation and Aviation Services
Outcomes	<ul style="list-style-type: none"> • Thriving, inclusive, and attractive communities and vibrant public spaces • Strong, Responsive, and Equitable Economy and Development Services • Accessible and Diverse Range of Housing and Business Opportunities 	<ul style="list-style-type: none"> • Reliable Utility Infrastructure • Healthy Streams, Rivers, Marsh, and Bay • Clean and Sustainable Air, Land, and Energy • Safe, Reliable, and Sufficient Water Supply 	<ul style="list-style-type: none"> • Safe and Clean Neighborhoods and Public Spaces • Welcoming and Vibrant Neighborhoods and Public Life • Equitable Access to Community Opportunities to Flourish • Housing Security through Supportive Solutions 	<ul style="list-style-type: none"> • Safer San Jose with Effective Emergency Response Services • Resilient Communities that are Prepared for Emergencies 	<ul style="list-style-type: none"> • Provide Safe and Secure Transportation Systems • Provide Viable Transportation Choices that Promote a Strong Economy • Travelers Have a Positive, Reliable, Efficient Experience • Preserve +Improve Transportation Assets + Facilities • Provide a Transportation System that Enhances Community Livability
Key Priorities	<ul style="list-style-type: none"> • Economic Growth Positioning: Incentives for AI, MFG, Downtown Leasing, and Residential High Rise • World Cup + Super Bowl 2026 • Downtown Vibrancy, Lighting, and Marketing • Online Fee Estimator • Development Fee Framework • Housing NOFAs 	<ul style="list-style-type: none"> • Storm Water Permit • <i>City Infrastructure Strategy</i> • <i>Clean Energy Scaling and Programs</i> 	<ul style="list-style-type: none"> • Blight Removal Enforcement • Emergency/Temporary Housing and Safe Sleeping • Encampment Mgt + Biowaste • Homelessness Prevention, Outreach & Service Connection • Code Enforcement Reengineering • <i>Animal Care and Services Reengineering</i> • <i>Children and Youth Master Plan</i> 	<ul style="list-style-type: none"> • 911 Call Modernization • Real Time Crime Center Implementation • SJPD Recruiting • <i>Emergency Medical Services Management and Coordination</i> 	<ul style="list-style-type: none"> • Automated Speed Enforcement Implementation • Vehicle Concerns, Oversized Vehicles, School Setbacks • Vision Zero • <i>Air Traffic and Route Expansion</i> • <i>BART Silicon Valley Extension</i> • <i>Diridon Station Expansion</i>

City Service Area	Strategic Support	
City Manager Foundational Strategic Support Focus Areas	Outcomes	Key Priorities
<ul style="list-style-type: none"> • Delivering Excellent Customer Service • Closing Racial and Social Inequities • Structurally Balancing the General Fund • Driving Organizational Performance • Making San José a Great Place to Work 	<ul style="list-style-type: none"> • Sound Fiscal Management that Facilitates Meeting the Needs of the Community • A High Performing Workforce Committed to Exceeding Internal and External Customer Expectations • Technology and Data Tools that Enable a Collaborative, Responsive, and Productive City • Safe and Functional Public Infrastructure, Facilities, and Equipment 	<ul style="list-style-type: none"> • Customer Service Process Re-Engineering and Automation (CRM) • Advancing Racial and Social Equity Efforts • Employee Recruiting and Retention • Performance Management Modernization • Technology Systems Modernization, Data Integration, and Cybersecurity

Core Services (98) and Programs (264)

Key Priorities identify critical initiatives that support both CSA performance and City Council Focus Areas; however, the Key Priorities shown in italics identify important work addressing CSA performance that may not directly support a City Council Focus Area

Administration Perspectives/Priorities

2024-2025 Administration Priorities in Context

City Council Focus Area	Increasing Community Safety	Reducing Unsheltered Homelessness	Cleaning Up Our Neighborhoods	Attracting Investment in Jobs and Housing				
City Service Area	Community and Economic Development	Environmental and Utility Services	Neighborhood Services	Public Safety	Transportation and Aviation Services			
Outcomes	<ul style="list-style-type: none"> Thriving, inclusive, and attractive communities and vibrant public spaces Strong, Responsive, and Equitable Economy and Development Services Accessible and Diverse Range of Housing and Business Opportunities 	<ul style="list-style-type: none"> Reliable Utility Infrastructure Healthy Streams, Rivers, Marsh, and Bay Clean and Sustainable Air, Land, and Energy Safe, Reliable, and Sufficient Water Supply 	<ul style="list-style-type: none"> Safe and Clean Neighborhoods and Public Spaces Welcoming and Vibrant Neighborhoods and Public Life Equitable Access to Community Opportunities to Flourish Housing Security through Supportive Solutions 	<ul style="list-style-type: none"> Safer San Jose with Effective Emergency Response Services Resilient Communities that are Prepared for Emergencies 	<ul style="list-style-type: none"> Provide Safe and Secure Transportation Systems Provide Viable Transportation Choices that Promote a Strong Economy Travelers Have a Positive, Reliable, Efficient Experience Preserve + Improve Transportation Assets + Facilities Provide a Transportation System that Enhances Community Livability 			
Key Priorities	<ul style="list-style-type: none"> Economic Growth Positioning Incentives for AI, MFG, Downtown Leasing, and Residential High Rise World Cup + Super Bowl 2026 Downtown Vibrancy, Lighting, and Marketing Online Fee Estimator Development Fee Framework Housing NCFAs 	<ul style="list-style-type: none"> Storm Water Permit City Infrastructure Strategy Clean Energy Scaling and Programs 	<ul style="list-style-type: none"> Blight Removal Enforcement Emergency/Temporary Housing and Safe Sleeping Encampment Mgt + Biowaste Homelessness Prevention, Outreach & Service Connection Code Enforcement Reengineering Animal Care and Services Reengineering Children and Youth Master Plan 	<ul style="list-style-type: none"> 911 Call Modernization Real Time Crime Center Implementation SJPD Recruiting Emergency Medical Services Management and Coordination 	<ul style="list-style-type: none"> Automated Speed Enforcement Implementation Vehicle Concerns, Oversized Vehicles, School Setbacks Vision Zero Air Traffic and Route Expansion BART Silicon Valley Expansion Diridon Station Expansion 			
City Service Area	Strategic Support							
City Manager Foundational Strategic Support Focus Areas	<ul style="list-style-type: none"> Delivering Excellent Customer Service Closing Racial and Social Inequalities Structurally Balancing the General Fund Driving Organizational Performance Making San Jose a Great Place to Work 		Outcomes	<ul style="list-style-type: none"> Sound Fiscal Management that Facilitates Meeting the Needs of the Community A High Performing Workforce Committed to Exceeding Internal and External Customer Expectations Technology and Data Tools that Enable a Collaborative, Responsive, and Productive City Secure, Sustainable, and Resilient Infrastructure, Climate, and Equipment 		Key Priorities	<ul style="list-style-type: none"> Customer Service Process Re-Engineering and Automation (CRM) Advancing Racial and Social Equity Efforts Employee Recruiting and Retention Performance Management Modernization Technology Systems Modernization, Data Integration, and Cybersecurity 	
Core Services (98) and Programs (264)								

Priorities identify critical initiatives that support both CSA performance and City Council Focus Areas; however, the Key Priorities shown in italics identify important work addressing CSA performance that may not directly support a City Council Focus Area



CSA
Key
Priorities

Multi Year Initiatives
Requiring Significant
Leadership and/or Staff
Capacity Commitment

Core Services (98) and
Programs (264)

Administration Perspectives/Priorities

2025-2026 Administration Priorities in Context

City Council Focus Area	Increasing Community Safety	Reducing Unsheltered Homelessness	Cleaning Up Our Neighborhoods	Attracting Investment in Jobs and Housing	
City Service Area	Community and Economic Development	Environmental and Utility Services	Neighborhood Services	Public Safety	Transportation and Aviation Services
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Key Priorities*					
City Service Area	Strategic Support				
City Manager Foundational Strategic Support Focus Areas	Outcomes	Key Priorities			
<ul style="list-style-type: none"> Delivering Excellent Customer Service Closing Racial and Social Inequities Structurally Balancing the General Fund Driving Organizational Performance Making San José a Great Place to Work 	<ul style="list-style-type: none"> Sound Fiscal Management that Facilitates Meeting the Needs of the Community A High Performing Workforce Committed to Exceeding Internal and External Customer Expectations Technology and Data Tools that Enable a Collaborative, Responsive, and Productive City Safe and Functional Public Infrastructure, Facilities, and Equipment 	<ul style="list-style-type: none"> Customer Service Process Re-Engineering and Automation (CRM) Advancing Racial and Social Equity Efforts Support Inclusion and Belonging in Immigrant Communities Employee Recruiting in Key Positions Identify Revenue for Key Priorities Performance Management Technology Systems Modernization, Data Integration, and Security 			
<small>Core Services (98) and Programs (264)</small>					

CSA Key Priorities

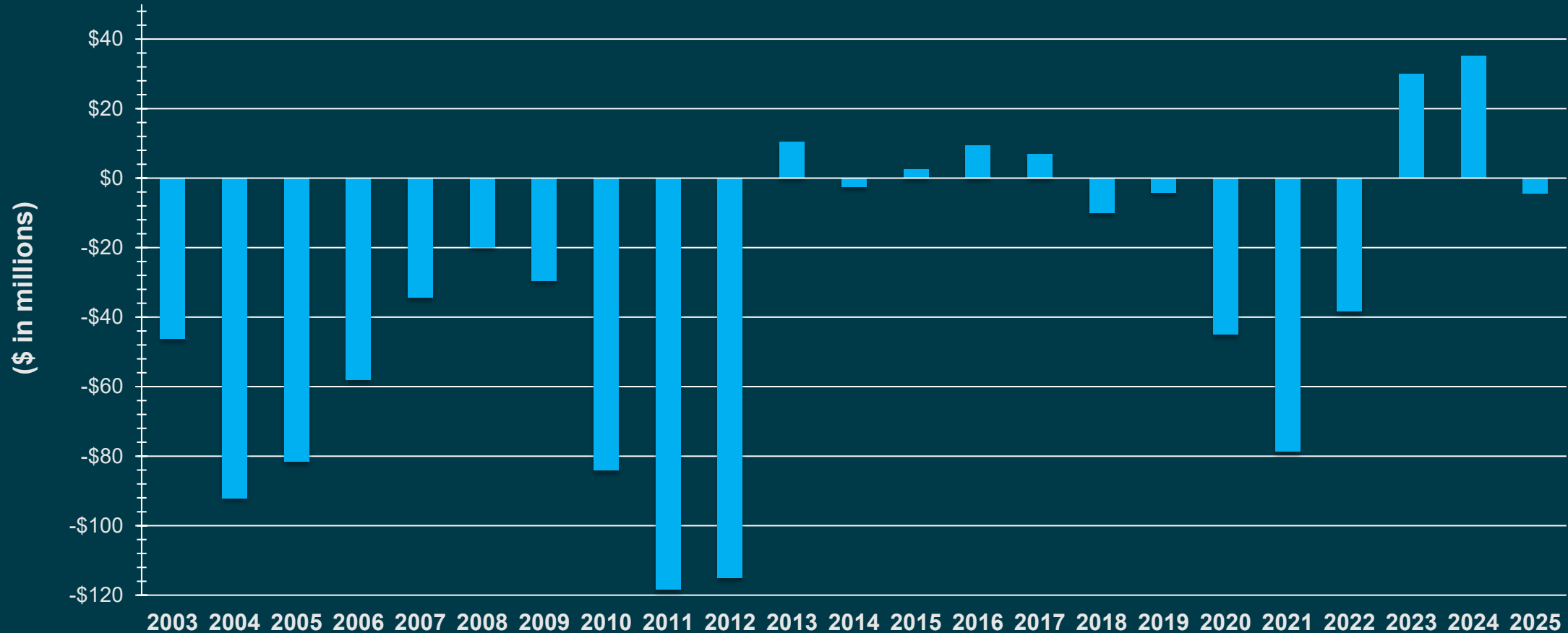
Multi Year Initiatives Requiring Significant Leadership and/or Staff Capacity Commitment

Core Services (98) and Programs (264)

Pursue budget balancing strategies that responsibly address the ongoing General Fund shortfall, work to minimize the immediate impact on vulnerable communities, and preserve capacity to make progress on Focus Areas and CSA Key Priorities

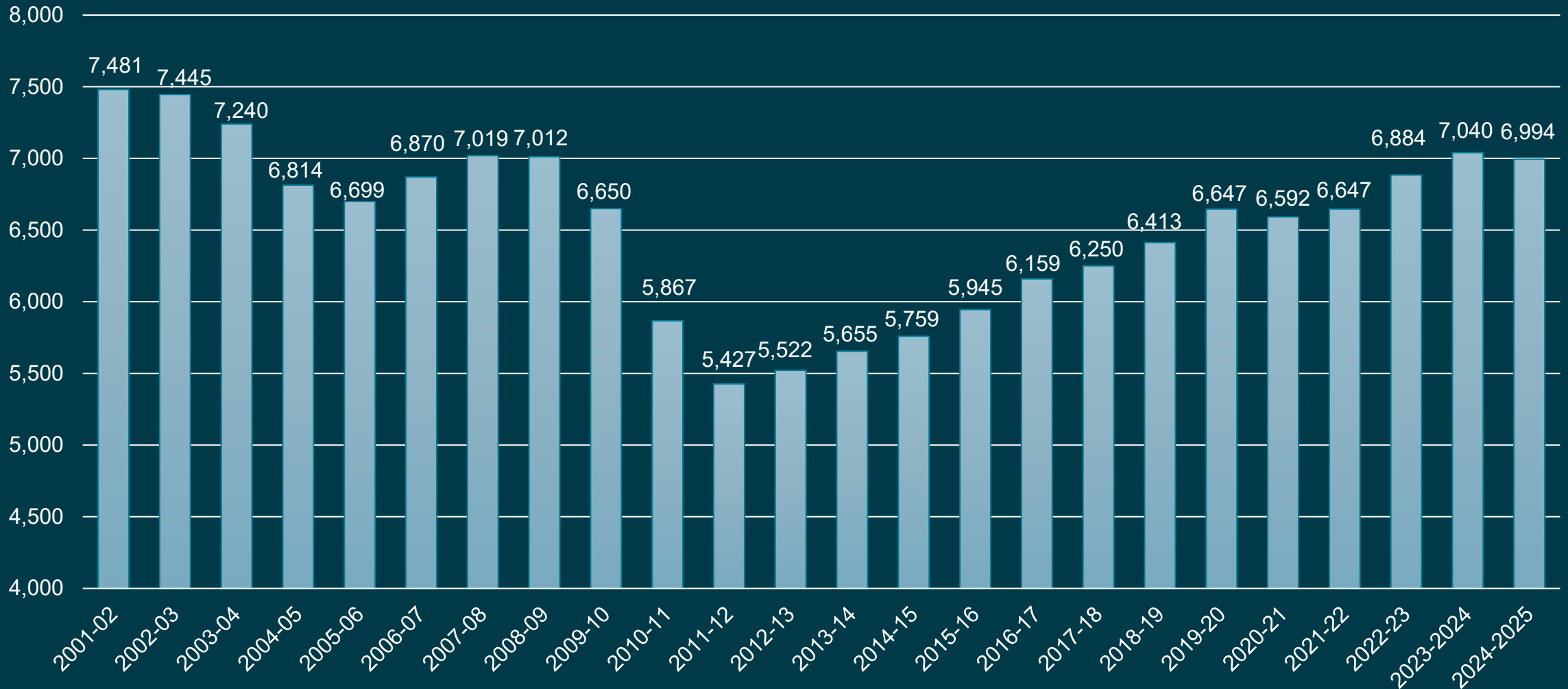
Potential Budget Balancing Strategies – Historical Context

Resolved Ongoing General Fund Shortfalls Exceeding \$760M



Potential Budget Balancing Strategies – Historical Context

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



Potential Balancing Strategies

Holistic Approach to Balance the Budget

The 2025-2026 City Manager's Budget Request will recommend a set of general budget balancing strategy guidelines for the development of the 2025-2026 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

Five key budget-balancing strategies are highlighted below for City Council discussion and feedback



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

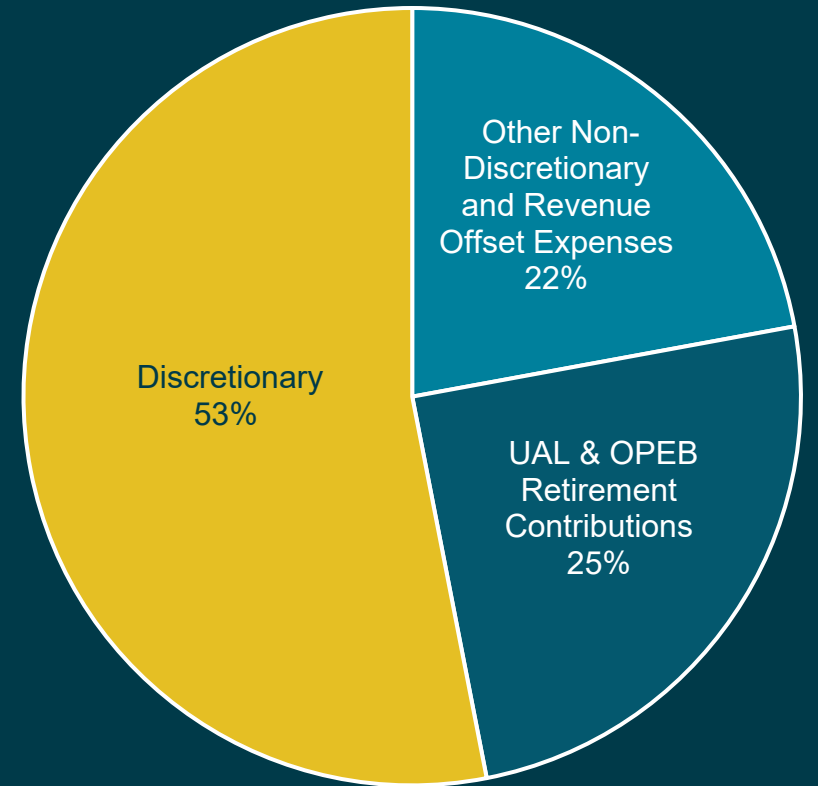
Potential Budget Balancing Strategies

#2 – Cost Reductions: Discretionary vs. Non-Discretionary

While the Administration will investigate revenue offsets (e.g. ensuring that most fees are cost recovery) and identify any cost efficiencies without service reductions, ongoing cost service reductions are necessary to address the preliminary size of the ongoing shortfall

Only 53% 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



2025-2026 General Fund Base Budget = \$1.59 billion

Potential Budget Balancing Strategies

#2 – Cost Reductions: Department Reduction Targets

2025-2026 ONGOING GENERAL FUND REDUCTION TARGETS

City Department/Offices	Amount
Economic Development and Cultural Affairs	\$870,000
Environmental Services	\$392,000
Finance	\$1,734,000
Fire	\$5,896,000
Housing	\$892,000
Human Resources	\$1,382,000
Information Technology	\$1,907,000
Library	\$4,590,000
Parks, Recreation & Neighborhood Services	\$9,536,000
Planning, Building, and Code Enforcement	\$551,000
Police	\$12,597,000
Public Works	\$5,011,000
Transportation	\$1,498,000
Mayor, City Council & Appointees	<u>\$3,144,000</u>
ONGOING TOTAL	\$50,000,000

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

#2 – Cost Reductions: Potential Cost and Service Reductions

While each budget cycle brings new opportunities to identify new revenues, as well as cost reductions and service level efficiencies with minimal to no impact, closing a shortfall of this size will require service reductions

Cost Allocation Shifts	Janitorial Services
Departmental Reorganization and Restructuring	Mayor and City Council Office Budget
Evaluation of Supplies, Materials, Contractual Services, etc.	Neighborhood Center Partner Program
Vacant Position Eliminations	Office of Equality Assurance
Contract Security Services	Park Activation and Placemaking
California Room Access	Parks Maintenance
Child and Youth Services	Police Main Lobby Weekend Closure
City Attorney Staffing	Police School Liaison Elimination
City Auditor Staffing	Police Training Center (defer opening)
City Clerk Staffing	Preventative Maintenance of City Facilities
City Manager Staffing	Project Hope
Citywide Planning	Recreation Services
Code Enforcement	Recreation of City Kids Afterschool Program
Community Forest	Regional Parks, Monday Closure
Enterprise Resource Planning Replacement	Safe School Campus Initiative
Extended Parking Stay Enforcement	San José Works
Finance Recovery Division	School Crossing Guard Program
Library Hours	SJ Learns
Fire Station 32 (deferral of truck staffing)	Traffic Enforcement Unit
Firefighter Recruit Academy	Tree and Sidewalk Hardship Program
Fire Communications Staffing	Vehicle Replacement
Information Technology Infrastructure and Support	Workforce Pipeline Development

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

Though the Administration will work to minimize any employee impacts, **up to 180 positions could be impacted**

Potential Budget Balancing Strategies

#3 – Budget Stabilization Reserve (Limited Use)

The City has a Budget Stabilization Reserve consisting of one-time funds of \$53.0 million

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

While \$53.0 million is a large figure, it is very small for a City of our size

This resources must be carefully managed to:

- at least partially address the one-time lack of ending fund balance in 2024-2025
- provide some limited one-time funding for critical needs in 2025-2026
- provide an additional buffer if conditions worsen further in 2025-2026
- potentially help mitigate the additional shortfall preliminarily forecasted for 2026-2027

Potential Budget Balancing Strategies

#3 – Budget Stabilization Reserve (Limited Use)

We are already using it

Expenditure Category	Amount (Millions)
2024-2025 Adopted Budget	\$61
Actions in the 2024-2025 Mid-Year Budget Review	(\$8)
Estimated Offset to One-Time Shortfall of 2024-2025 Ending Fund Balance/ 2025-2026 Beginning Fund Balance	(\$25)
Remaining Available for 2025-2026 and 2026-2027	\$28

The City typically assumes an ongoing Ending Fund Balance of \$25 - \$30 million that is used as an ongoing source of revenue in the following year of the forecast model

Due to the unexpected drop in Sales Tax revenues in 2024-2025, very little, if any, ending fund balance is expected

The Budget Stabilization Reserve will likely be needed to offset this one-time fund balance shortfall

It is likely that only half of the existing Adopted Budget amount will remain available for use in the 2025-2026 Proposed Operating Budget

Potential Budget Balancing Strategies

#3 – Budget Stabilization Reserve (Limited Use)

Strategically leverage the Budget Stabilization Reserve to:

- Offset, as needed, the one-time shortfall of 2024-2025 Ending Fund Balance/2025-2026 Beginning Fund Balance
- Provide a funding source for a very limited amount of strategic one-time investments
- Ensure that a reasonable balance remains to address future uncertainty

Potential Budget Balancing Strategies

#4 – Preserve Gains from Recent Budget Cycles (Where Possible)

City Council Focus Areas:

- Reducing Unsheltered Homelessness
- Increasing Community Safety
- Cleaning Up Our Neighborhoods
- Attracting Investment in Jobs and Housing

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

#5 – Extremely Limited and Targeted New Investments

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

- Critical unmet or deferred infrastructure/maintenance needs
- Furniture, fixtures, and equipment associated with the opening of Measure T facilities (non-bond eligible)
- Address the most urgent service deficiencies
- Allow for the safe and successful facilitation of 2026 sporting events
- Identify targeted investments that could generate future savings or opportunities

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

2025-2026 Preliminary General Fund Forecast

Next Steps in the Budget Process

2025-2026 City Manager's Budget Request / 2026-2030 Five-Year Forecast and Revenue Projections (February 28)

Public Hearing and City Council review and approval of the Mayor's March Budget Message for Fiscal Year 2025-2026 (March 18)

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

City Council Budget Study Sessions on the Proposed Budget (May 7 -15)

Initial Public Hearing on the Proposed Budget (May 13)

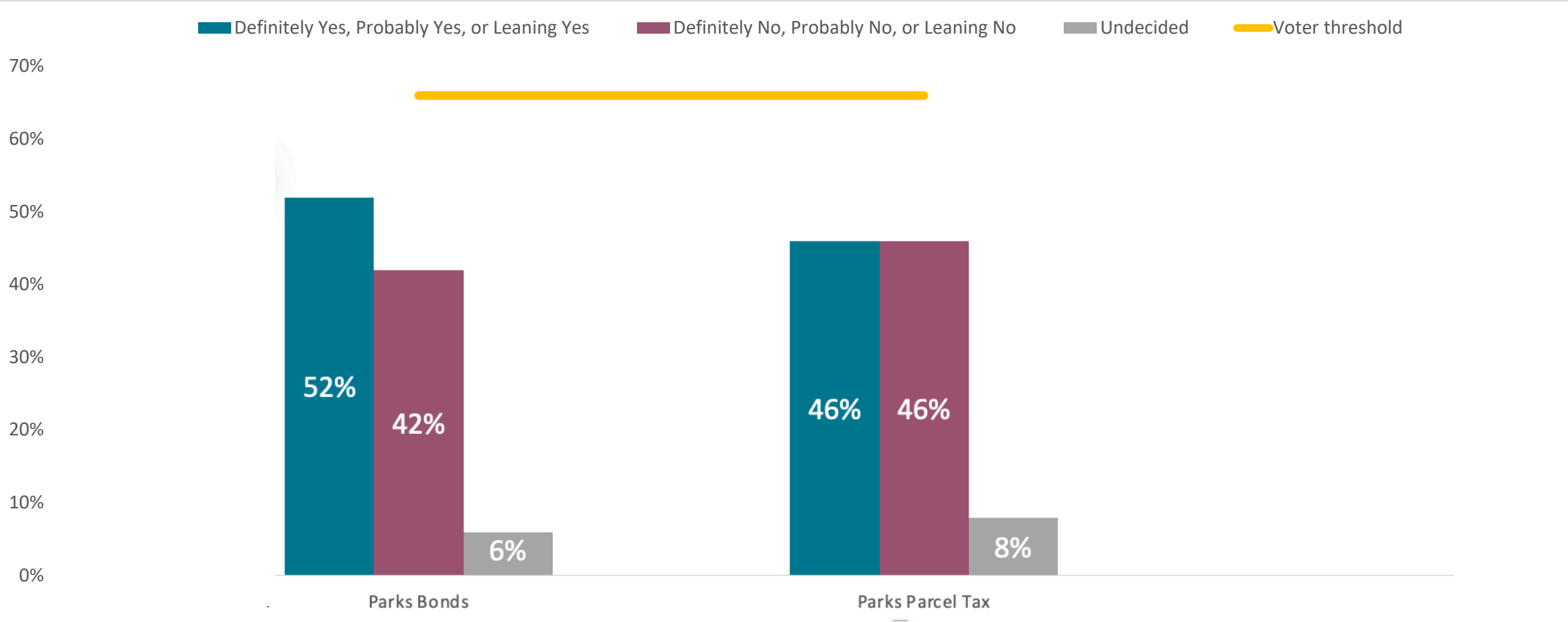
Community Budget Meetings (TBD throughout May)

Final Public Hearing and review/approval of the Mayor's June Budget Message and Proposed Budget (June 18)

Looking Ahead

Potential Future Revenue Measures – An Early Perspective

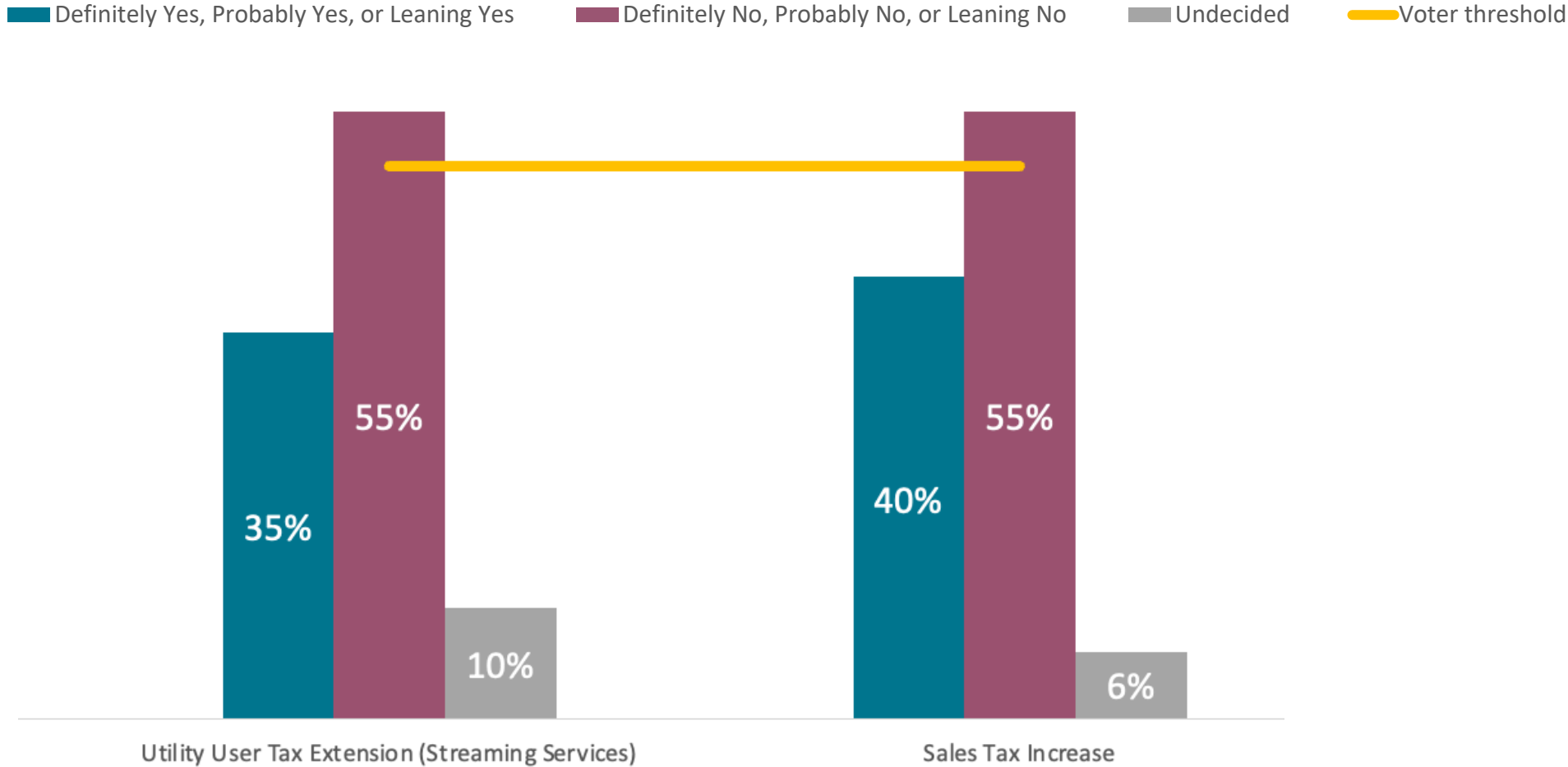
Gauging Support for Revenue Concepts. "... as one part of its long-term budget planning process, the City of San Jose is looking at the possibility of placing a revenue measure on a future ballot. Keeping in mind that these discussions are preliminary, please consider the following potential measures the City is exploring. After each short summary, please indicate whether you would vote yes or no on each measure."



(Source: City of San José Revenue Concepts Poll, Jan. 2025)

Potential Future Revenue Measures – An Early Perspective

Gauging Support for Revenue Concepts. "... as one part of its long-term budget planning process, the City of San Jose is looking at the possibility of placing a revenue measure on a future ballot. Keeping in mind that these discussions are preliminary, please consider the following potential measures the City is exploring. After each short summary, please indicate whether you would vote yes or no on each measure."



(Source: City of San José Revenue Concepts Poll, Jan. 2025)

City Council Discussion

Questions, comments and reaction:

Preliminary General Fund Forecast

Resident Priorities and Administration Perspectives

Potential Budget Balancing Strategies

Given budget constraints and the continued need to progress on City Council Focus Areas...

What do we need to:

- ✓ **Prioritize** our limited resources toward?
- ✓ **Protect** from budget reductions where possible?
- ✓ **Pause or stop**, to free up resources for higher priority efforts?


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

Budget Priorities Study Session

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Erik L. Soliván Director, Housing Department

Banu San Deputy Director, Housing Department

Cupid Alexander Deputy Director, Housing Department





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.

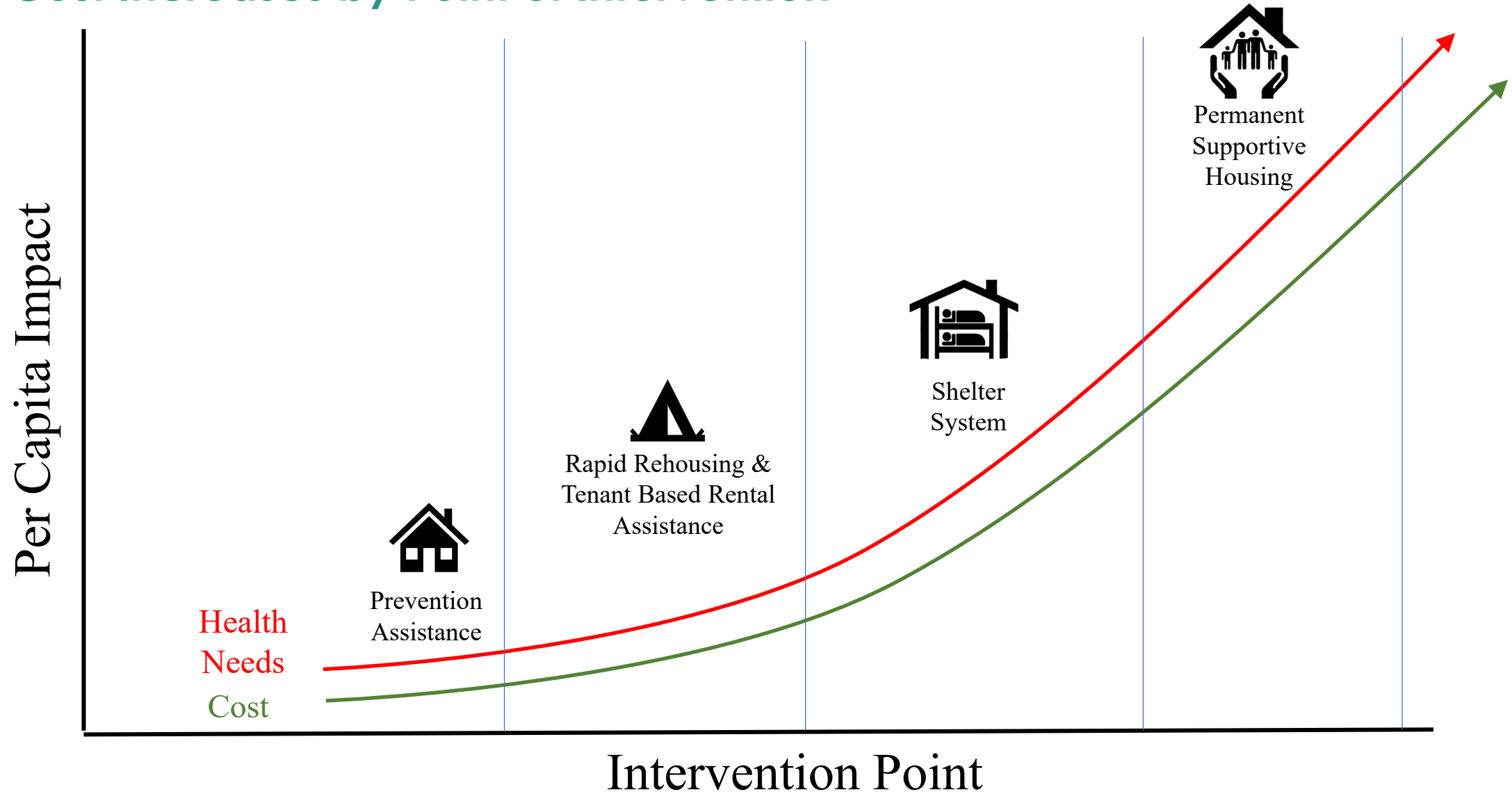
FY 2025-2026 Budget Priority Setting

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

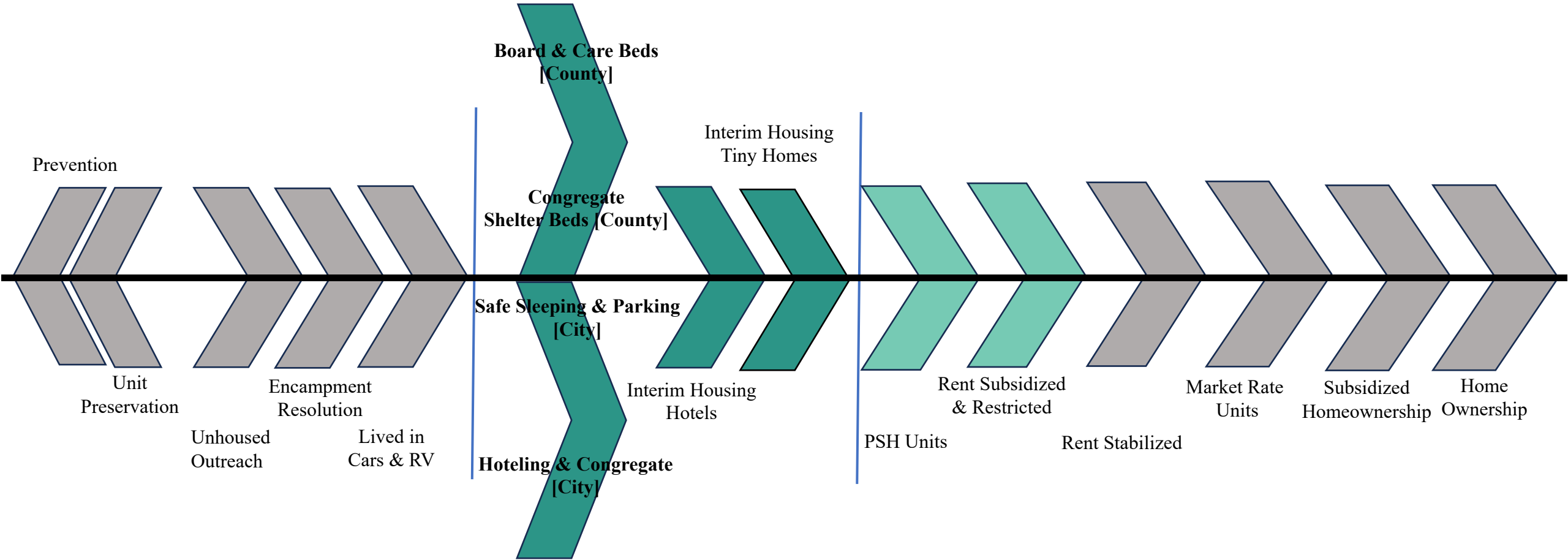
FY 2025-2026 Budget Priority Session

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



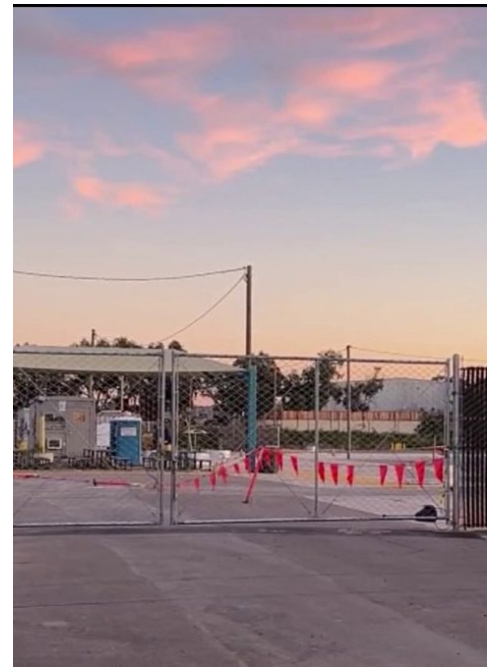
Tiny Homes



Congregate Shelter



Safe Sleeping Sites



Safe Parking

Variety of Shelter Types

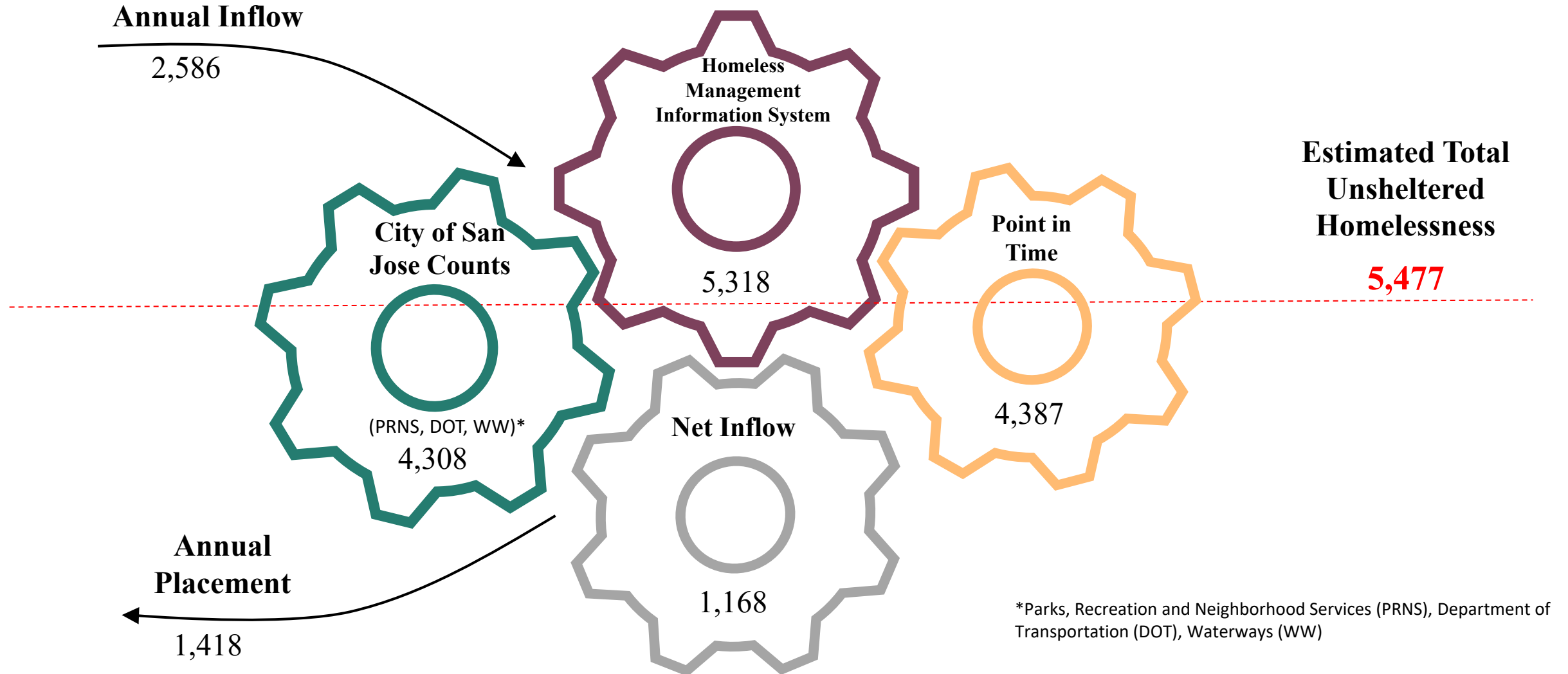
FY 2025-2026 Budget Priority Setting

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

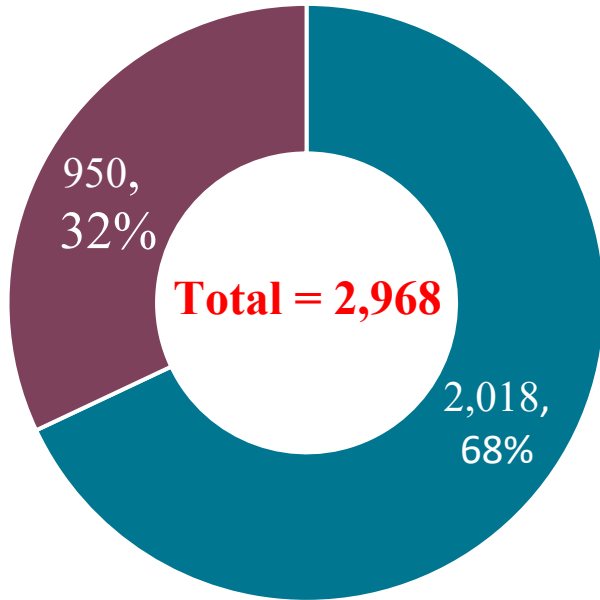
Scale of the Problem: Calculating Unsheltered Homeless



FY 2025-2026 Budget Priority Session

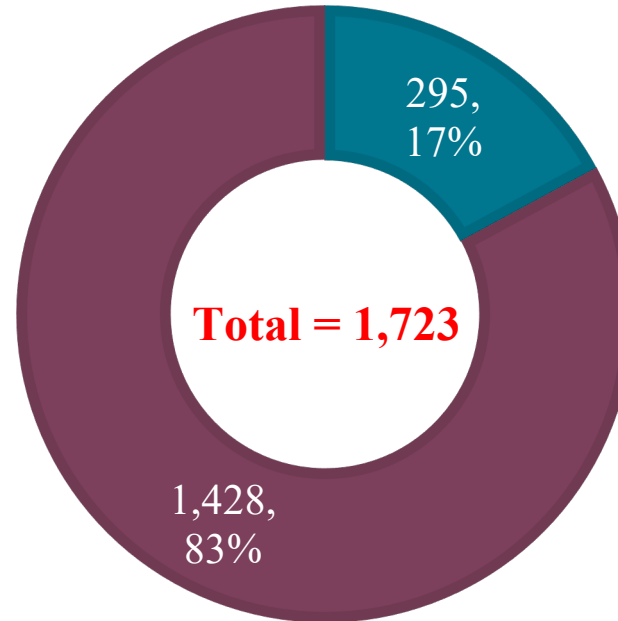
Scale of the Problem: City and County Shelter Units in San José

Current Supply



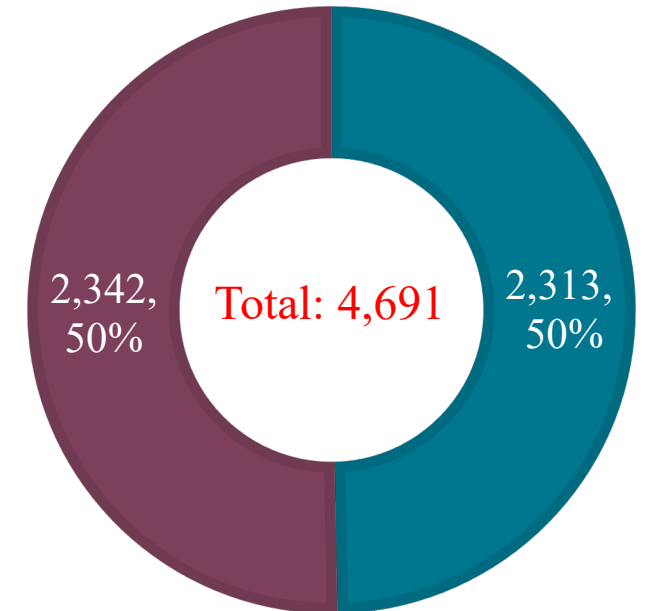
■ County Total ■ City Total

Current Production



■ County Total ■ City Total

Supply + Production



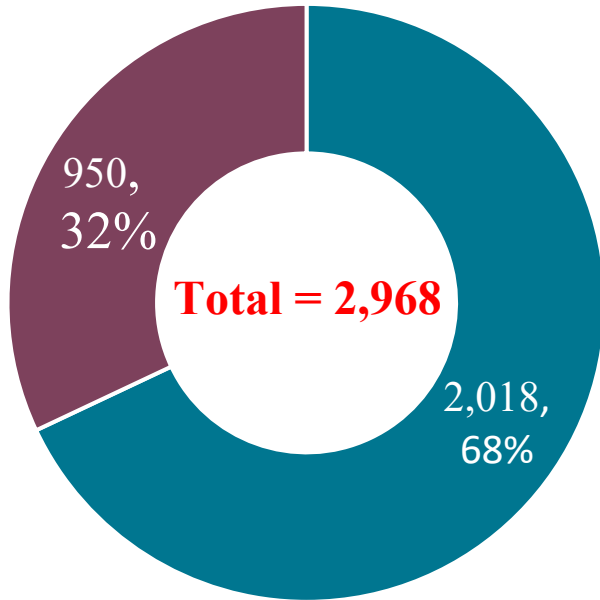
■ County Total ■ City Total

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

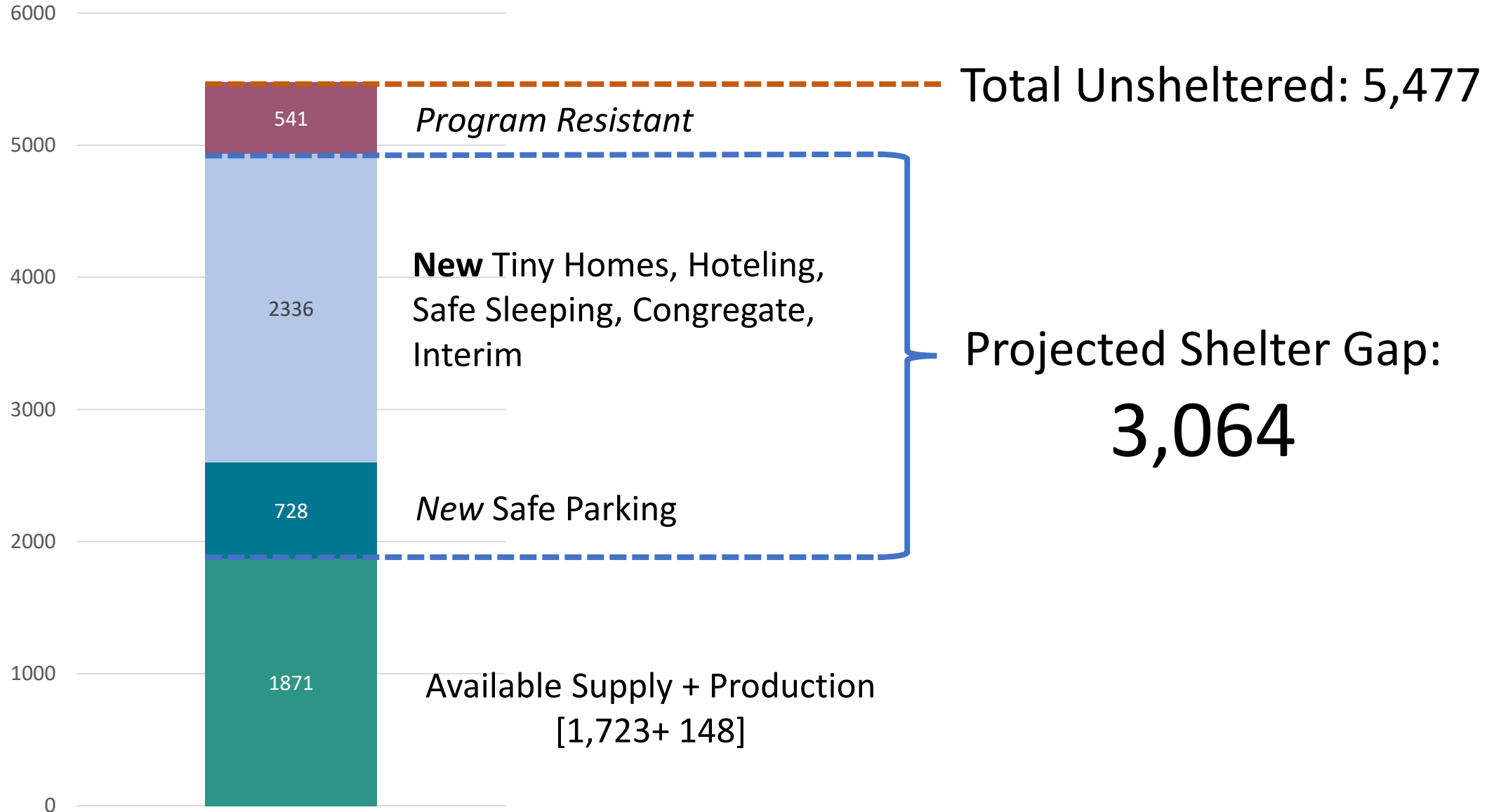


■ County Total ■ City Total

- 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

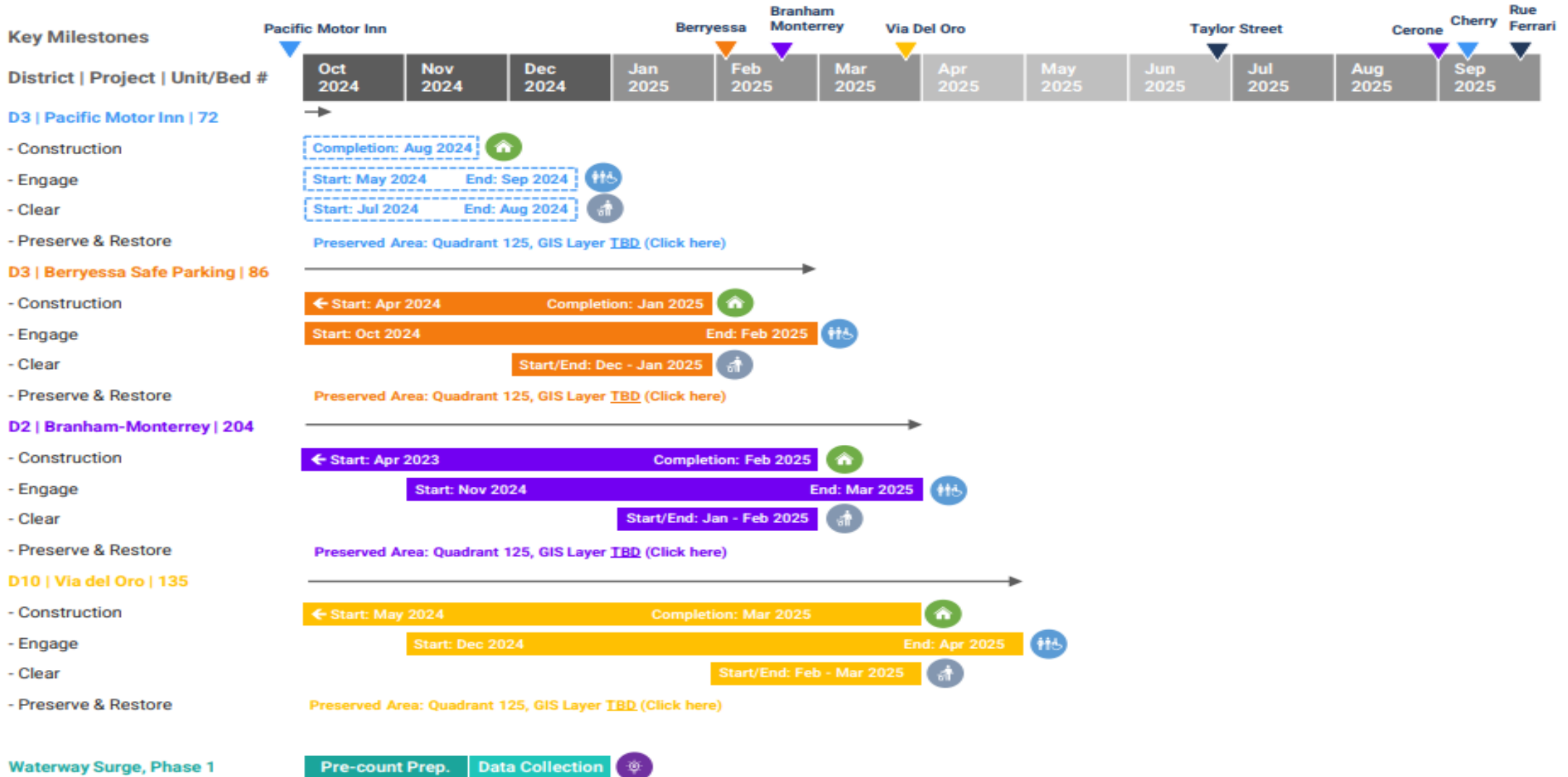
The City's Current Shelter Portfolio

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

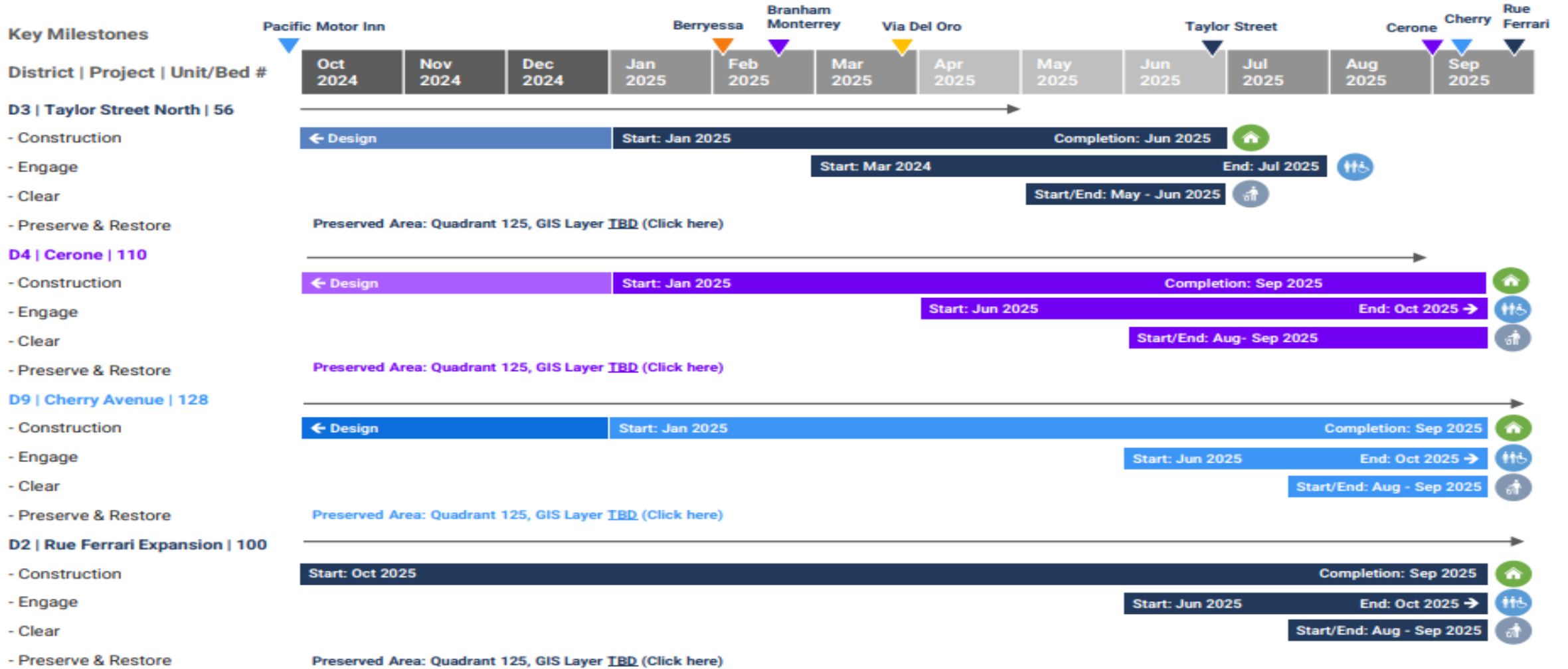
FY 2025-2026 Budget Study Session

Current Supply Pipeline (Existing City Council Direction)



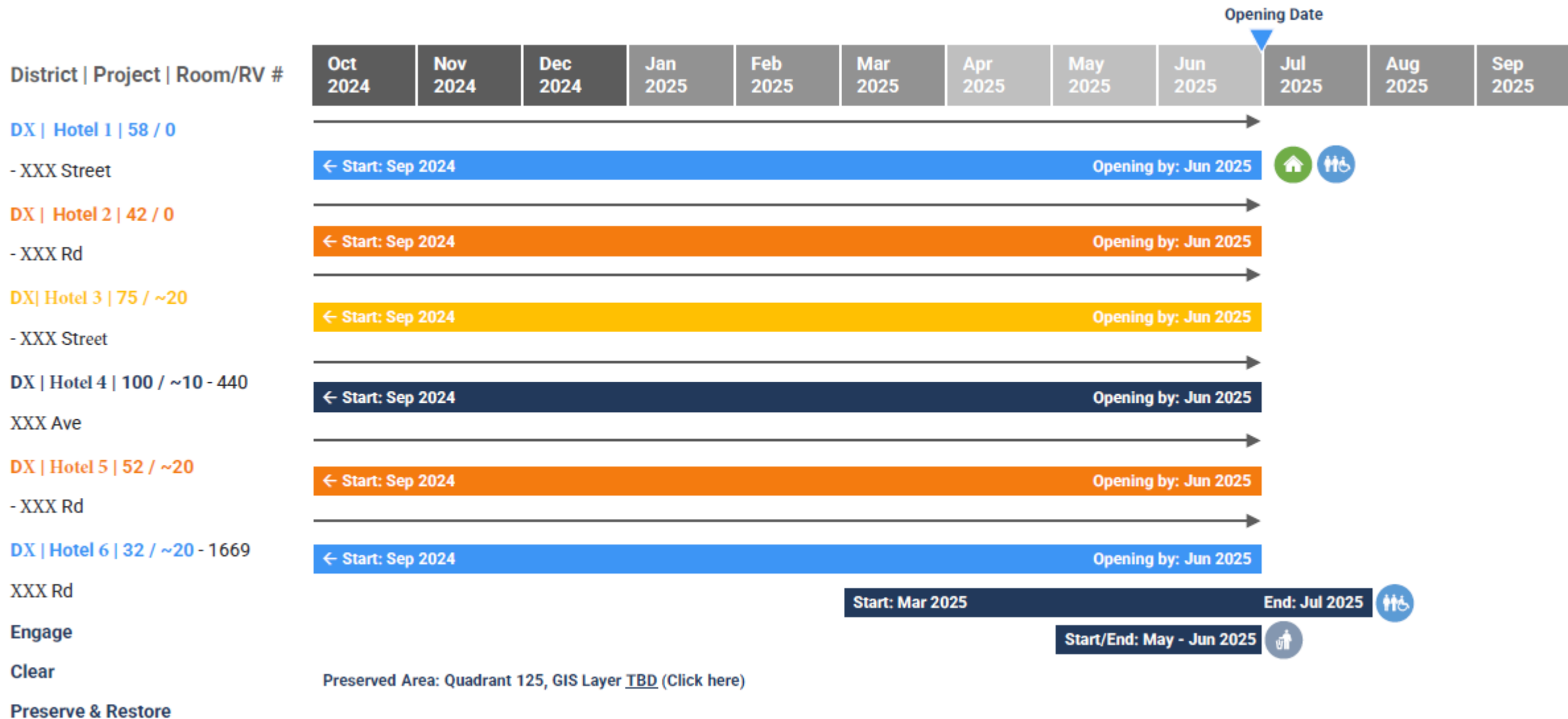
FY 2025-2026 Budget Study Session

Current Supply Pipeline Continued (Existing City Council Direction)



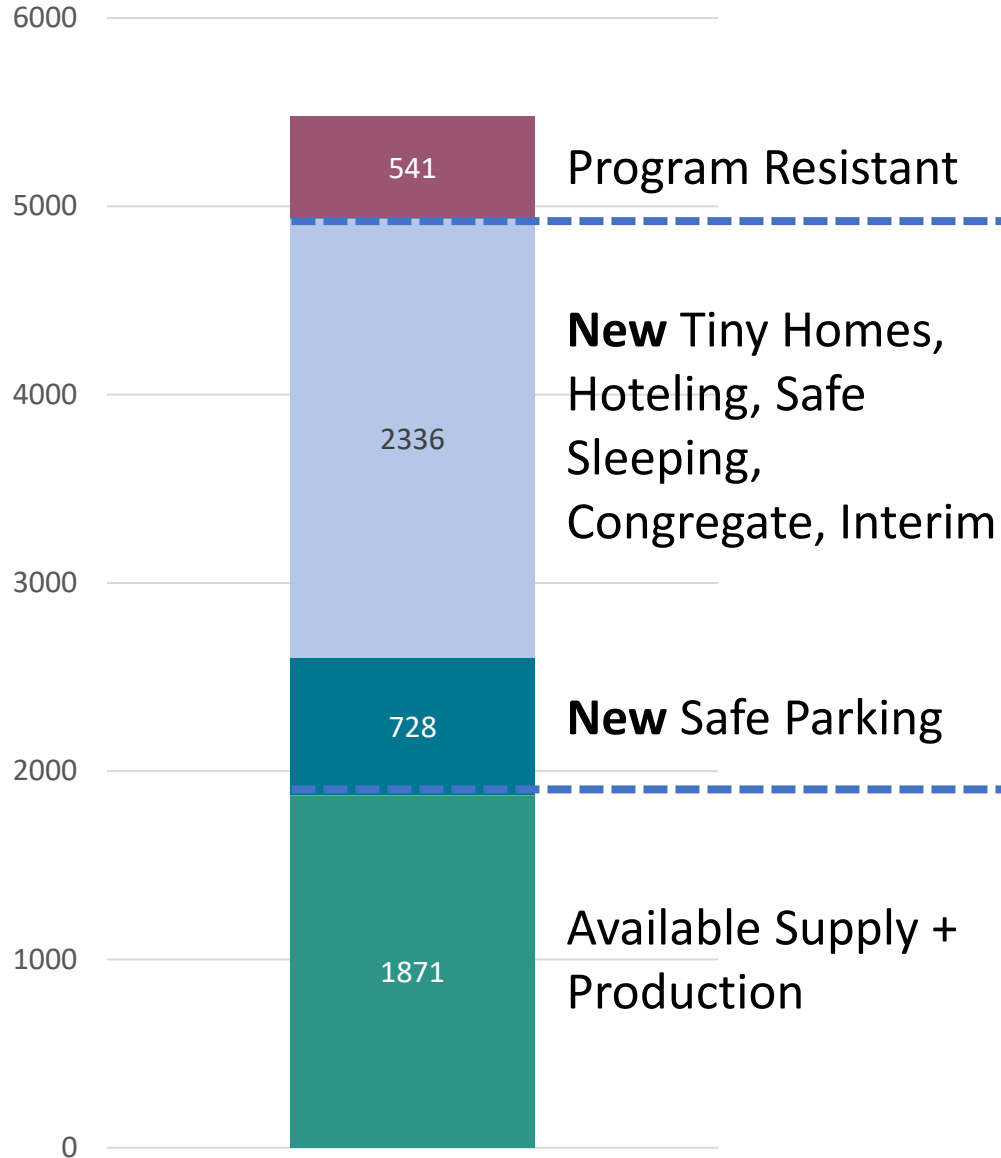
FY 2025-2026 Budget Study Session

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

+

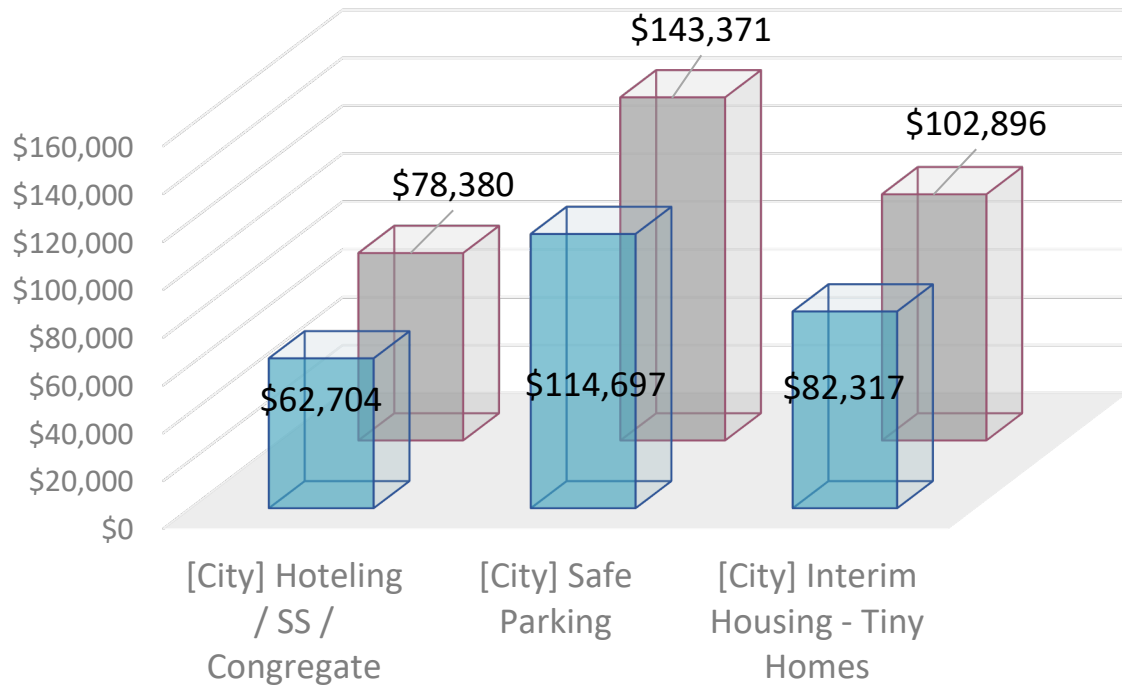
Total Annual Operating Costs for City Shelter System:

\$234 million

FY 2025-2026 Budget Priority Setting

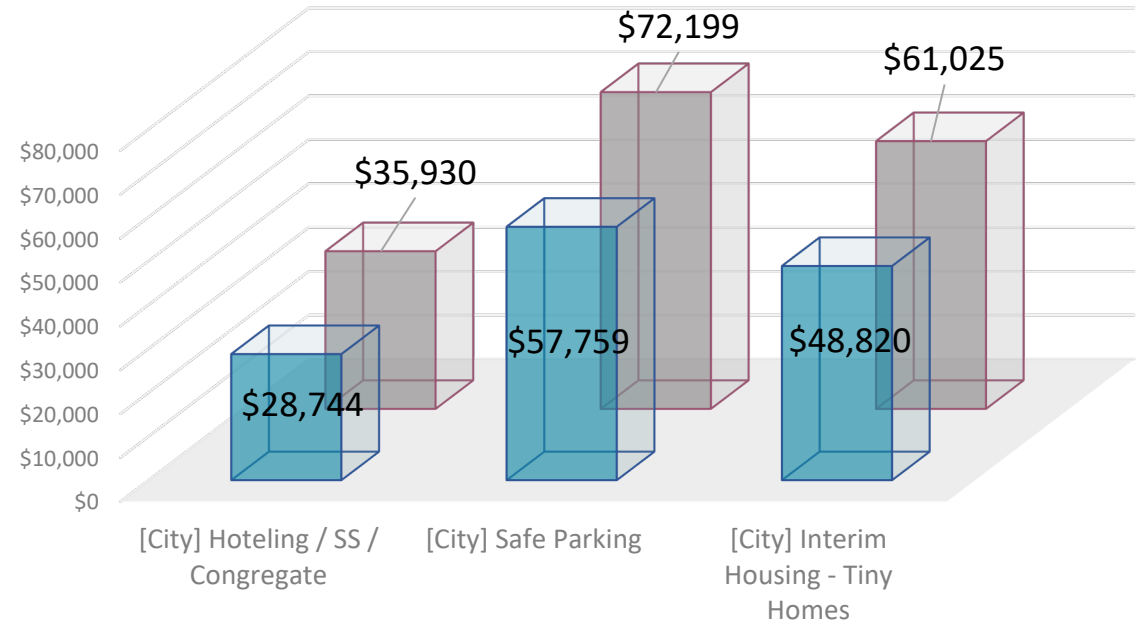
Historical and Projected Costs & Savings to Produce & Operate Units

Production Per Unit Costs



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

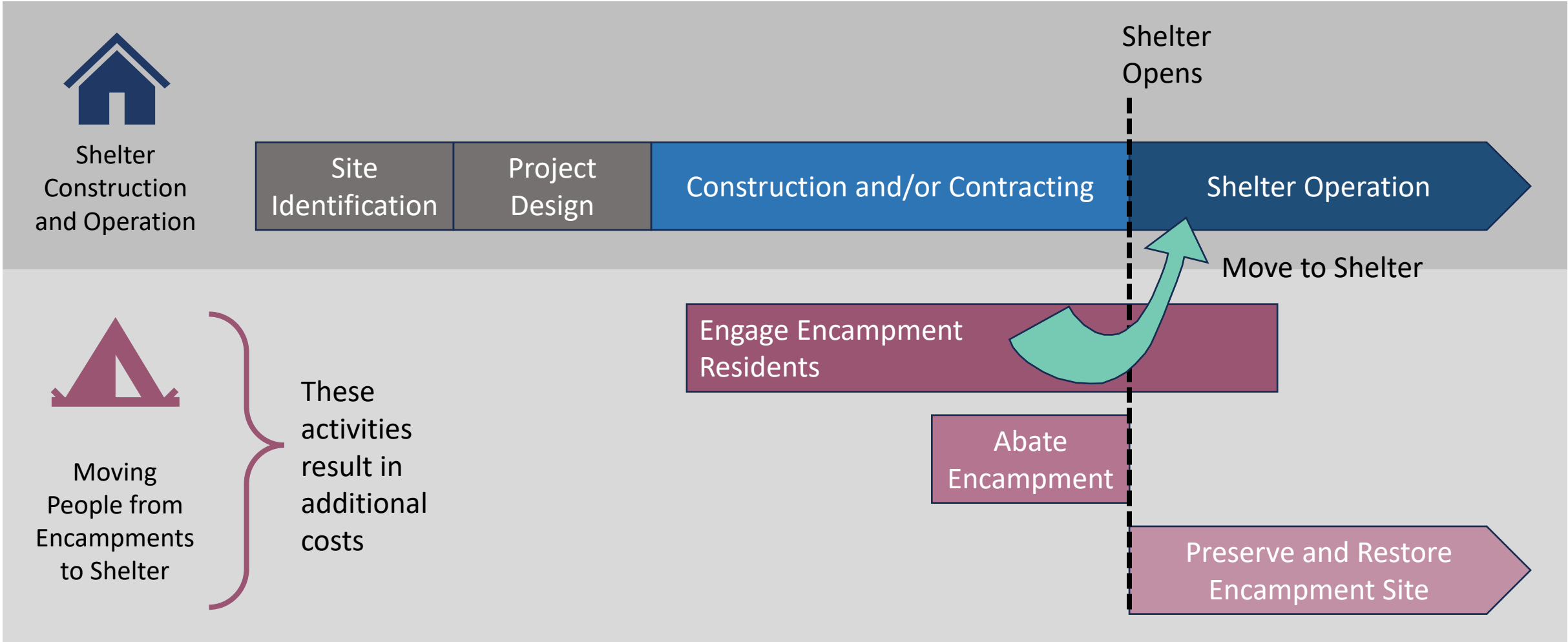
Operating Per Unit Costs



■ Operating PUC 20% Reduction ■ Operating PUC

FY 2025-2026 Budget Study Session

Shelter Construction and Clearing Encampment Process



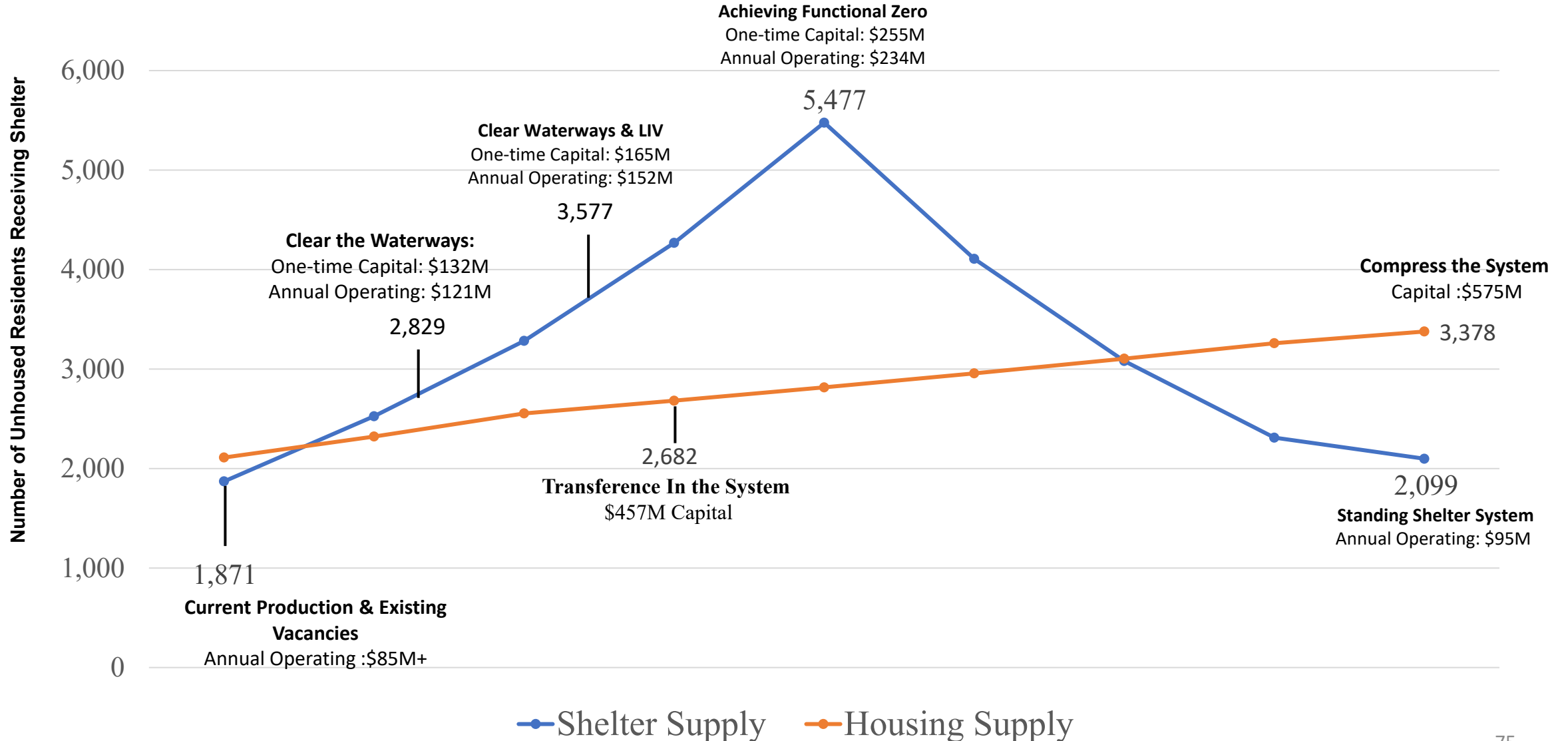
FY 2025-2026 Budget Study Session

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



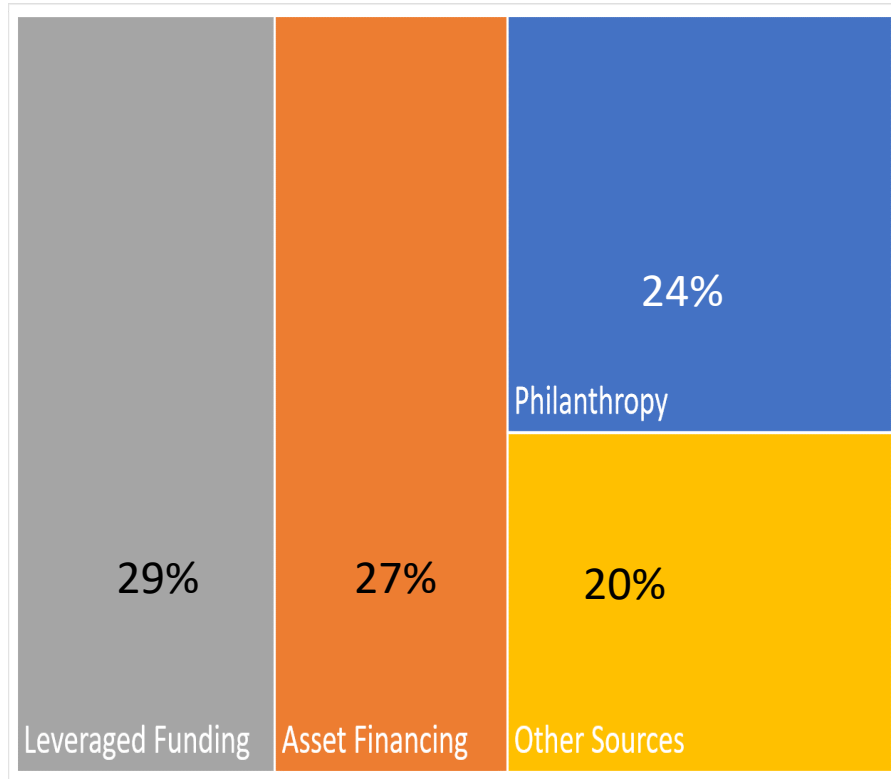
State and Federal

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

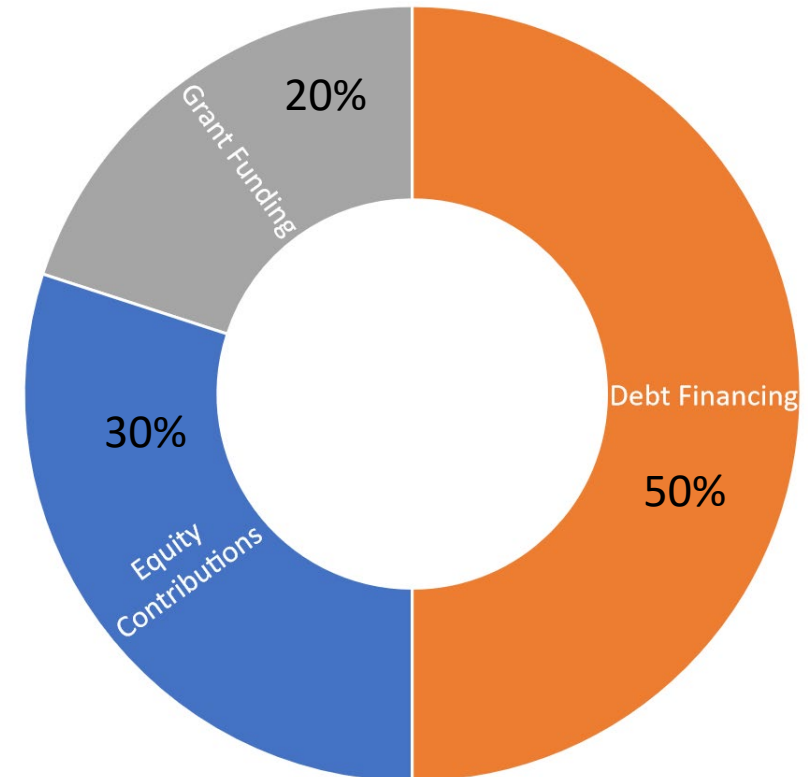
Budget Study Session

Alternative Revenue Options: Public-Private Partnerships

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



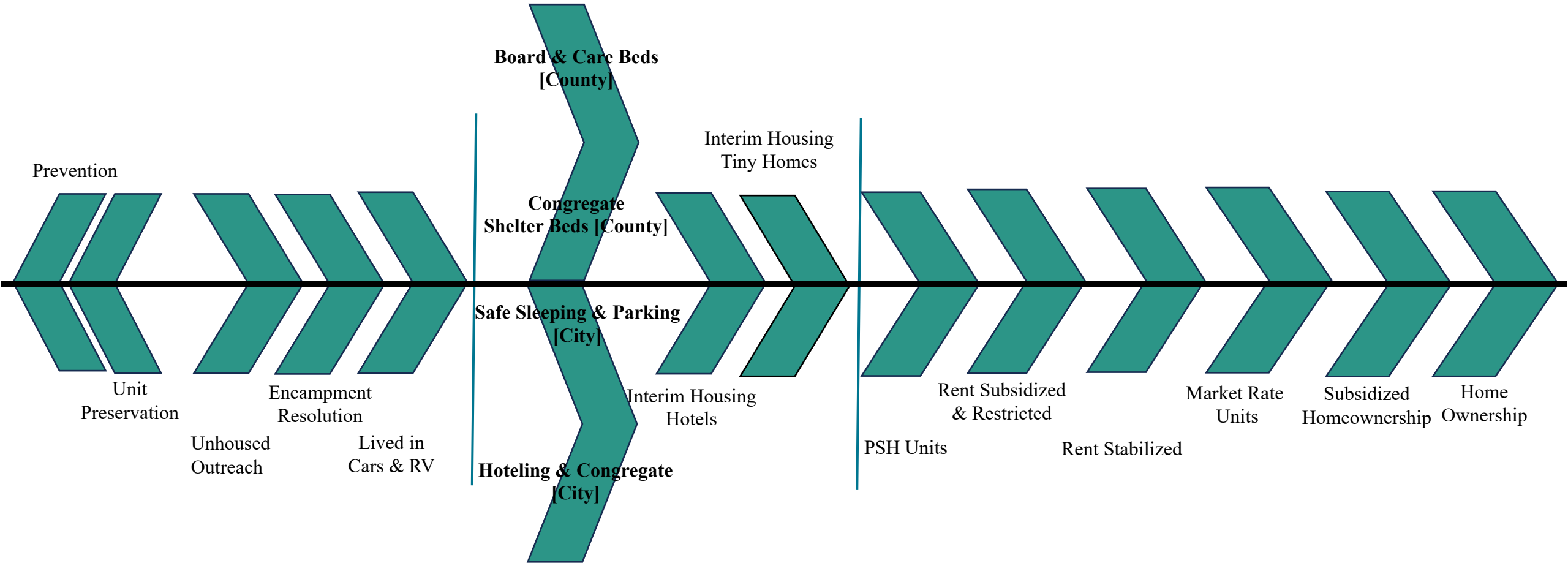
\$255M In Capital Funding – Shelter System



\$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

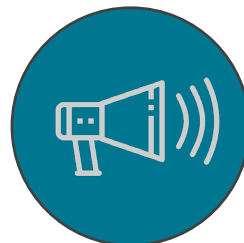


Alternative Revenue Options



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**


Budget Priorities Study Session

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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