



Memorandum

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

FROM: Mayor Matt Mahan
DATE: March 12, 2025

APPROVED:

RECOMMENDATION

Direct the City Manager to submit a balanced budget for Fiscal Year 2025-2026, guided by the policy direction and framework of priorities outlined in this March Budget Message.

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In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2025-2026 March Budget Message for consideration by the City Council and the residents of San José. With Council approval, this initial framework provides the City Manager with direction to prepare proposals for the Council's budget deliberations in May and to formulate the Fiscal Year 2025-2026 Proposed Budget.

OVERVIEW

I. Following Through on Focus

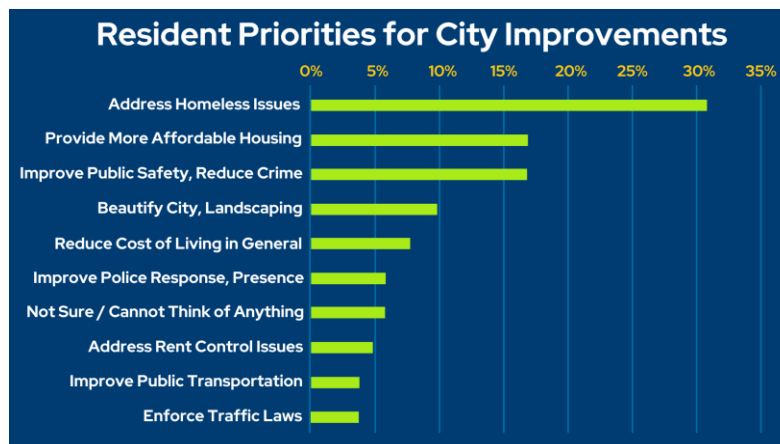
Since taking office in 2023, I have advocated for increased focus to help us better prioritize our goals and align resources, effectively track progress, and ultimately deliver better outcomes for our community on the most dire challenges we face as a city. The previous City Council adopted four key Focus Areas – Reducing Unsheltered Homelessness, Increasing Community Safety, Cleaning Up Our Neighborhoods, and Attracting Investment in Jobs and Housing. These Focus Areas put us on a path toward greater accountability and results. We will increase residents' trust in local government by working together to produce tangible improvements that our residents can see and feel in their daily lives.

We can achieve this mission if we remain focused, embrace pragmatic solutions, and make operations more efficient. Since the beginning of the current fiscal year, we've opened 417 placements for homeless neighbors by adding emergency interim housing (EIH) beds, converted motel rooms, and safe parking spaces with 1,044 net new placements expected to open by the end of 2025. In parallel, we've opened 298 new affordable housing units and we're issuing a Notice of Funding Availability (NOFA) allocating at least \$50 million for new construction of affordable homes. To speed up police hiring, we've invested in streamlining background checks. We've completed deployment of a network of 474 automatic license plate readers (ALPRs) and secured funding for an automated speed enforcement pilot to supplement our officers. To achieve

and maintain a cleaner city, we've expanded BeautifySJ's capacity to abate encampments and clean up graffiti and illegal dumping.

Additionally, this past fiscal year we made a historic \$27 million investment toward our efforts to address the impacts to our environment created by homelessness along the City's waterways and comply with our Stormwater Permit. Council's adopted Stormwater Permit Implementation plan outlined three primary obligations the City must meet for final approval, including the development of safe or alternative sleeping sites that allow us to move encampments out of these areas, ongoing outreach and sanitation services, and services for preventing the flow of human waste into the waterways.

The Focus Areas we've seen progress in over the last year align with our residents' priorities, which have been incredibly consistent across polling and surveys in recent years. Residents made clear in the 2023-2024 Annual Report on City Services once again that they want City Hall to end unsheltered homelessness, make housing more affordable, improve public safety, and address blight. In addition to these priorities, past Councils have wisely recognized that economic development underpins our ability to expand housing supply, create economic opportunity, staff public safety, and provide vital services to our residents. Attracting investment must continue to be a priority.



Given our current budget outlook, we will have to prioritize efficiency and make targeted tradeoffs in order to deliver better outcomes in these Focus Areas. According to the City Manager's 2026-2030 Five-Year Forecast and Revenue Projections, and in line with trends we see in many other California big cities, San José faces projected budget deficits this year and in each of the next two fiscal years. The City Manager's Budget Office projects a shortfall of \$46 million in FY 25-26 and, if fully resolved with ongoing solutions, we would still face an additional ongoing deficit of \$53 million in FY 26-27.

These projected deficits are due to slowing revenue growth coupled with continued cost increases to deliver essential city services. For example, shortly following the pandemic, revenues from property tax and sales tax – the City's two largest revenue sources – experienced combined annual growth of 7.5% and 9%. But that revenue growth has cooled along with the local economy – starting last year and continuing into 2025-2026, growth in these categories is forecasted to range from 2% to 4% annually. Meanwhile, cost pressures continue, led by growth

in salary and benefit costs in 2025-2026, followed in 2026-2027 by the full annualization of temporary housing costs to move people off of our streets in accordance with prior City Council direction and the costs to operate new Police and Fire facilities constructed by Measure T.

| 2026 – 2030 General Fund Forecast Incremental Surplus/(Shortfall) | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|-----------------------------|
| | 2025 - 2026 | 2026 - 2027 | 2027 - 2028 | 2028 - 2029 | 2029 - 2030 | Five Year (Shortfall) |
| Incremental Surplus (Shortage) | (\$45.7M) | (\$52.9M) | (\$3.7M) | \$4.0M | \$1.2M | (\$97.1M) |
| % of Budget (Based on Expenditures) | 2.9% | 3.1% | 0.2% | 0.2% | 0.1% | |

Importantly, our FY 25-26 projected shortfall also does not include \$8.5 million in previously one-time funded programs. These one-time funded programs include the San José Police Department (SJPd) sworn backfill program, lateral hiring incentives for officers, staffing related to disaster recovery and grants management, the Trusted Response Urgent Support Team (TRUST), 2026 special events preparations, BeautifySJ initiatives, and equity through data staffing. Additionally, the shortfall does not include any investments to address the City's significant unmet/deferred infrastructure and maintenance needs of City-owned infrastructure. This includes \$151 million to address the backlog of repairs to facilities funded by the General Fund and \$27 million of ongoing maintenance.

I want to thank City Manager Jennifer Maguire for responding quickly and prudently to recent revenue trends by enacting a hiring freeze, restricting overtime, and limiting consultant services for the remainder of FY 24-25. Since then, the City Manager has worked with departments to prepare potential FY 25-26 spending reductions in advance of our budget deliberations in order to give the Council clear budget options and tradeoffs. Last year, the Council and City Manager worked together to resolve a projected \$53 million service level shortfall without layoffs through the elimination of long vacant roles, strategic cost and service level reductions, and using our Measure E funds flexibly. We are once again committed to balancing our budget in a way that minimizes impacts to our workforce and their ability to deliver results for our residents, especially within our Focus Areas.

That said, this year's budget outlook will require more difficult tradeoffs than last year, as costs continue to rise and low-hanging opportunities for savings have been realized.

II. Balancing the Budget and Prioritizing Our Work

Achieving an overall balanced budget across the next two years requires a multi-year strategy. This strategy must not only reduce ongoing costs in FY 25-26, but also take steps to preemptively plan cost reductions in FY 26-27. Taking a two-year approach will greatly reduce the administrative burden on City staff as well as Council, while also providing greater advanced notice to employees whose roles are limit-dated or impacted by shortfalls in FY 26-27.

In order to fully resolve the \$46 million shortfall on an ongoing basis in 2025-2026, make a meaningful dent in the following year's additional \$53 million shortfall, minimize the impact to existing services, and enable us to allocate a modest amount of new funding targeted at the City Council's most urgent priorities, the City Manager is directed to bring forward a Proposed Budget that includes:

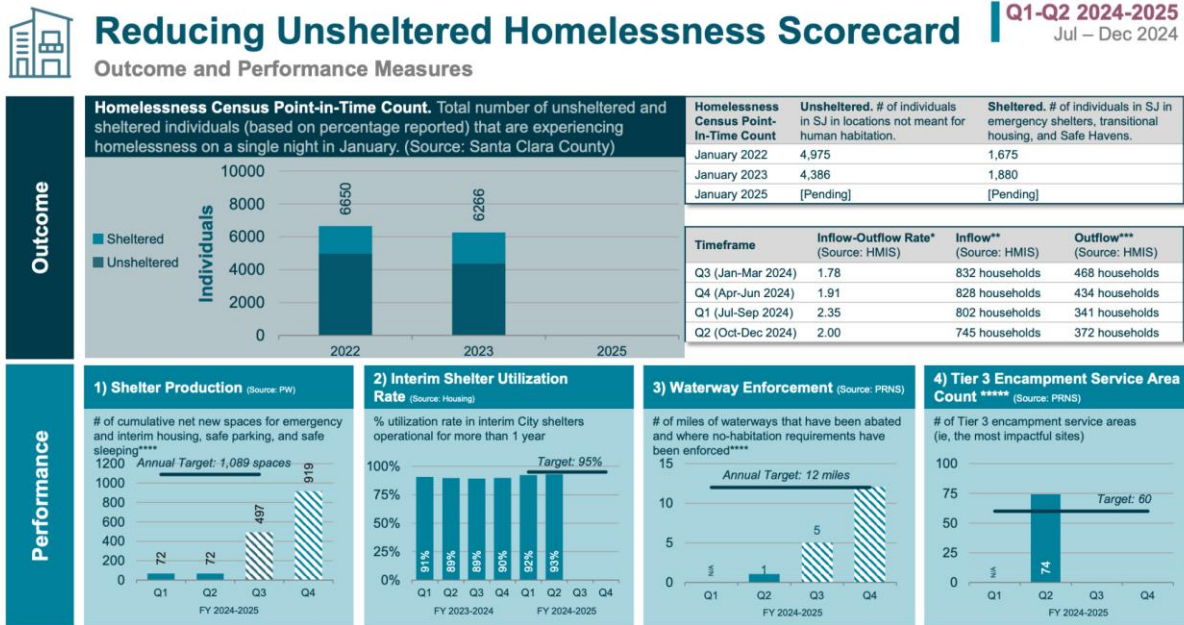
- 1) Modifying City Council Policy 1-18, Section 22, on an ongoing basis, to minimize the need to cut community services previously authorized by the City Council, by preserving the existing 5% allocation of Measure E revenues for program administration, with the remaining revenue allocated in the following ways:
 - a) Preserve the existing 10% allocation for homelessness prevention.
 - b) On a sliding scale as determined in the annual budget process, increase from 15% to up to 90% the amount for homeless support programs that may include, but are not limited to, case management, outreach teams, encampment services, safe parking, homeless shelters and interim housing construction and operations.
 - c) Any remaining funds will be used to fund new affordable housing development.
- 2) Identifying areas for efficiencies that have minimal impacts on service delivery, including a thorough analysis of existing consulting services and other contracts that might be candidates for renegotiation, re-bidding, consolidation, or elimination.
- 3) Cutting costs through the targeted reduction and elimination of services that – while likely important and impactful to some – may no longer represent the highest and best use of our limited resources.
- 4) Minimizing use of the Budget Stabilization Reserve – which is already extremely limited and well below the minimum levels set by existing City Council policy – to offset any remaining shortfall in 2024-2025, as needed, and allow for a very limited amount of strategic one-time investments.

While difficult, the actions laid out above establish a stable financial foundation for the years ahead as we make tangible progress in our Focus Areas – Reducing Homelessness, Increasing Community Safety, Cleaning Up our Neighborhoods, and Attracting Investments in Jobs and Housing. In recognition of the complexity associated with an economic development plan that drives jobs and housing production, I am proposing bifurcating the fourth category, thus creating five focus areas:



The General Fund shortfall significantly limits the amount of new resources we can bring to bear to address our community's concerns. While I believe a modest amount of new funding allocations are necessary, much of the work ahead requires the prioritization of our existing resources toward the most impactful outcomes. Accordingly, the City Manager is directed to bring forward a Manager's Budget Addendum (MBA) that identifies current work efforts or previous City Council direction and referrals that will be dropped or deferred to enable the timely completion of the direction detailed throughout the remainder of this document. City Council's approval of this MBA ensures that the City's work and leadership capacity is appropriately aligned with Council's expectations of results.

III. Reducing Unsheltered Homelessness



Over 4,000 people live in unmanaged, unsafe conditions on our streets and along our creeks. In survey after survey, residents rank homelessness as their top priority for City Hall by a two-to-one margin. They also rate City’s efforts to address homelessness as the single lowest-performing city service.

Over the past two years, the Council has committed significant resources to reducing unsheltered homelessness with a recent focus on our waterways to comply with our Stormwater Permit. Thanks to these historic investments and the work of City staff across multiple departments, San José will double our shelter capacity, bringing more than 1,000 net new placements – including EIH, hotel/motel conversions, and safe sleeping sites – online by the end of 2025. While San José is proud to open more safe, managed placements than any other large city on the West Coast, we cannot end unsheltered homelessness on our own. The County, State, and surrounding cities must similarly step up their efforts to ensure every human being on our streets has a safe place to be. To ensure that our solutions achieve the scale required to address this crisis, we must prioritize greater efficiency within our shelter system and look to new partnerships with public and private actors who can support our work. And, as beds come online, we must hold people accountable for accepting shelter when offered.

Unsheltered homelessness in California is a complex, statewide crisis that requires coordination and shared accountability among the State, counties, cities and other governing bodies. No single city has the resources or jurisdiction to tackle the systemic issues driving homelessness, such as the shortage of affordable housing, economic disparities, lack of mental health and addiction services, and legal framework for requiring people to come indoors. Counties are responsible for delivering social services, while the State must provide the funding, legal framework, and policy tools to deliver results. Our surrounding cities must also collaborate to ensure that we are not simply shifting the crisis from one jurisdiction to another. Sustainable solutions demand a unified approach, with all levels of government working together to create policies, allocate resources,

and implement strategies that effectively address the root causes of homelessness rather than merely managing its symptoms – and visible results for communities.

Increasing Shelter Supply

Thanks to the hard work of our City Manager’s Office and Housing Department, we now have a mathematical model and program framework that maps the investments the City, County, and other partners would need to make in order to effectively end unsheltered homelessness in our community. This new framework uses data from city programs serving unsheltered residents, the County’s Homeless Management Information System (HMIS), the biennial homeless census, and other key metrics to identify a target for building and operating enough safe, dignified solutions to achieve “functional zero” – a milestone realized when more people are leaving homelessness than entering, a newly unsheltered individual’s experience lasts fewer than 30 days on average, and the overall unsheltered count drops toward and remains near zero. Staff’s analysis estimates that under current conditions we would need to fund approximately \$225 million in one-time capital investments and \$234 million in annual operating expenses to make San José the first major West Coast city to end unsheltered homelessness.

While these are significant sums, they are on an order of magnitude that is achievable over multiple years with support from other levels of government as well as philanthropic and corporate partners. In addition to the potential for inflow and outflow rates to change over time, the primary limiting factor on achieving functional zero is annual operating costs, which outstrip annual revenue from Measure E (which itself is a volatile source). To move toward our goal, the City must maintain investments in homelessness prevention to reduce inflow, bring down per capita operating costs within the shelter and interim housing system, ensure the County and State appropriately share in the cost of supporting our most vulnerable residents, and continue to be a pro-housing city that welcomes investment in housing at all income levels.

To ensure that the City, County, and our partners act in coordination and leverage each other’s strengths, the City Manager is directed to engage all relevant stakeholders to align the Community Plan to End Homelessness for 2025-2030 with the City’s framework for achieving functional zero. Further, the City Manager is directed to explore updating the outcome section of our Reducing Unsheltered Homelessness Scorecard by aggregating HMIS data, city staff counts, and the biennial homeless census to provide more regular updates on the estimated number of people experiencing unsheltered homelessness in San José.

As we scale solutions, we are fortunate to have generous philanthropists and foundations here in our Valley that have already expressed interest in our model, and more specifically, in establishing a campus like Haven for Hope, an initiative in San Antonio which hosts the full continuum of shelter, housing, and supportive services – from cots for safe sleeping to permanent affordable housing, with onsite child and health care. The City Manager is directed to organize a study mission to San Antonio with city staff, county counterparts, philanthropists, faith leaders, and other relevant partners to better understand the Haven for Hope model and how it might be adapted to San José. The City Manager and City Attorney are further directed to identify potential sites that the City might use for such a campus, including but not limited to the former Agnews site, the County Fairgrounds, and underutilized land near the 237 corridor.

The Housing Department has identified other preliminary ideas for creative public-private partnerships that can help us deliver the next phase of supply along the full spectrum of shelter and housing solutions. The City Manager is directed to further explore these opportunities for private partners to purchase land and property that the City can lease at below-market rate values for interim housing, with a commitment to redevelop the site for permanent affordable housing in the future.

We must also reduce the development costs of interim solutions altogether. The Interim Housing Act (SB 1395) authored by Senator Josh Becker and inspired by the work San José has done to expand our shelter system passed last session. It encourages local governments to address homelessness with urgency by eliminating red tape and extending zoning and building code flexibilities for interim housing. The City Manager is directed to research methods for reducing the average per unit development costs by at least 20% for new interim solutions. The report back should outline how other cities are developing new sites cost-effectively, explore the use of low-cost mobile units permitted under state law, and reassess whether there is additional city-owned land that can be used for interim solutions. Consistent with [Council direction from June 2024](#), the City Manager should advance additional sites for interim shelter, as funding is available, to meet the requirements of our Stormwater Permit.

It is vital that none of the aforementioned work divert focus from opening the over 1,000 net new placements by the end of 2025 and sustaining a 95% utilization rate as outlined in the Reducing Unsheltered Homelessness Scorecard.

Reducing Operating Costs

Delivering the next phase of supply across the continuum of shelter solutions hinges on our ability to reduce operating costs without compromising the quality of onsite security and supportive services. The City currently operates 1,214 safe, dignified placements that will grow to 2,258 by the end of the year. The costs to provide services at our existing sites varies significantly, from \$85 to \$146 per bed per day. This indicates that there are significant opportunities to standardize service delivery and leverage economies of scale. Therefore, the City Manager is directed to continue work already underway in the Housing Department to separately bid and award competitive contracts for security, food, and property management, with the goal of reducing net operating costs by at least 20%. This work should allow our onsite providers to focus on what they do best: delivering case management and other supportive services to clients. To track our progress, the City Manager is directed to include an operating cost per bed performance metric with a reduction target in the Reducing Unsheltered Homelessness Scorecard.

We must also expand partnerships to drive down costs and expand the number of people we can move indoors. We appreciate the County's and Housing Authority's collaboration on interim housing at Pacific Motor Inn, Sunrise Pavilion, and Branham-Monterey, and recognize the ongoing work to strengthen and expand our partnership to improve service delivery, particularly for residents with acute medical and behavioral health needs. The City Manager is directed to continue collaboration with our system partners and return to Council by the end of the calendar year with a report on leveraging reimbursements under the County's Medi-Cal program, opportunities for the County to provide on-site medical and behavioral health services, and

potential cost-share agreements for case management services and other operational costs. Further, the City Manager is directed to work with the Housing Authority on a plan for applying housing-choice vouchers to interim housing units as part of the next iteration of the Moving to Work Plan.

Unless there are cost-sharing agreements with our partners that dictate otherwise, the City Manager is directed to ensure that our portfolio of safe placements will continue following local preference during the 90 days before and 30 days after a site opens, and prioritizing direct referrals from the City's proactive outreach team, which includes our work along the waterways.

We also must find efficiencies in our targeted outreach to our homeless neighbors as we prepare to open over 1,000 new placements this year. Therefore, the City Manager is directed to strategically align and deploy proactive outreach workers as new sites open, with the goal of maximizing the Housing Department's outreach capacity by transitioning to a primarily in-house staffing model and compressing contracted services to realize cost-savings. Further, [consistent with Council direction in March 2024](#), the City Manager is directed to provide weekly updates on outreach outcomes as new sites open, including: a count of all individuals residing in the targeted outreach area, acceptance of Homeward Bound or other shelter and housing placement, CARE Court and conservatorship referrals, reasons for why people did not successfully transition into shelter or housing, and waitlists for city-operated sites.

Expanding and Sustaining Safe Parking

With an estimated 960 lived-in vehicles parked on public streets, we must improve our approach to safe parking programs. Data from the City's Santa Teresa Safe Parking site indicates that many people living in RVs prefer to reside in their vehicles long-term and are reluctant to relinquish their vehicle even when offered interim or permanent housing. Based on these insights, the City Manager is directed to explore long-term solutions for our safe parking program, such as understanding how other cities are achieving successful transitions to housing or charging appropriate fees for utilities to help offset operating costs. Furthermore, the City Manager is directed to identify quick-turn lots with low upfront capital costs within or outside of San José; explore partnerships with churches, schools, or other nontraditional partners; and engage our County partners to explore using the old RV park located at the fairgrounds or other County land for short and long-term RV parks.

Homelessness Prevention, Intervention, and Bridge Employment

Consistent with the strategies outlined in the [Community Plan to End Homelessness](#), San José is doing its part to end homelessness by consistently saying "yes" to new affordable housing developments and significantly expanding interim housing and shelter capacity, among other investments. However, we will not be able to end unsheltered homelessness without meaningfully reducing the rate at which people become homeless. While the City will continue to do its part to prevent homelessness, our partners at the State and County must increase investment in and improve the most foundational social safety nets that are within their jurisdictional responsibility. They must modernize safety net services to better meet the needs of our most vulnerable residents with efficiency, accessibility, and impact, especially by removing

barriers to essential services such as housing assistance, mental health support, drug treatment, and job training.

As for the City's role in upstream prevention, the City Manager is directed to preserve 10% of Measure E revenues for homelessness prevention and explore potential local, state, federal, and philanthropic sources of additional prevention dollars that we can leverage to increase local impact. Additionally, I encourage my colleagues to directly engage with County and State leaders to advocate for increased upstream investments to break cycles of homelessness before they begin.

Last year, we established the Homeward Bound program to provide outreach workers with tools to reunite people living on our streets with their loved ones within or outside of San José. This short-term financial support covers transportation costs, rental deposits, utilities, and other expenses associated with relocation and family reunification. The City Manager is directed to explore integrating Homeward Bound as an ongoing, immediate offering to people in need of shelter and, at minimum, continue the program for another year as we collect and assess performance data.

In the same vein, we must also continue to uplift formerly homeless residents on their path to self-sufficiency. Since its inception in 2022, San José Bridge (SJ Bridge) has provided job training to 357 individuals, with 125 securing full-time or part-time jobs after graduating from the program. We should build on these programs by providing training in the skill sets needed to maintain and upkeep our housing solutions. The City Manager is directed to evaluate incrementally increasing existing budgeted resources to expand job training programs for clients in all of our existing and planned shelter communities, with particular focus on training related to site management and building maintenance.

Reducing the Impacts of Homelessness

As we work to provide more shelter and housing, we must simultaneously step up our efforts to better manage conditions on our streets, particularly at a time when resident surveys consistently tell us homelessness is a primary driver of concerns about blight and public safety. Sprawling, unsanitary and unsafe encampments implicitly signal that we are comfortable with semi-permanent encampments in a way that most neighboring cities are not. Behaviors such as lighting uncontrolled fires, cutting down trees, tapping into electrical infrastructure, damaging public property, and accumulating items such as stolen shopping carts, bicycles, or flammable propane tanks create visible disorder and risk the safety and quality of life for everyone in our community.

We must consistently set and enforce clear expectations for behaviors we will not tolerate by any member of our community. This includes our homeless neighbors in homeless encampments, lived-in vehicles, on city streets, public rights of way, and private property. Whether you're homeless or housed, you should be accountable for being a good neighbor and complying with the law.

In recent years, escalated clean-ups and abatements have served as the primary response to addressing encampment impacts. Through last year's budget, the Council provided enough

resources to more than double BeautifySJ's abatement capacity to comply with our Stormwater Permit. Enhanced abatement capacity has also allowed BeautifySJ to more regularly respond to "Code of Conduct" violations at encampments. The City Manager is directed to maintain these investments in BeautifySJ and adjust the Reducing Unsheltered Homelessness Scorecard to reflect updated performance goals for miles of waterways cleared and protected as well as reductions in Tier 3 encampments citywide in the coming fiscal year.

While our abatement resources focus on land within the City's jurisdiction, we shouldn't ignore encampments that cross jurisdictional lines. Some of the most impactful and unsafe encampments in San José are located along freeways, where trash, fires, and other impacts accumulate while we wait for Caltrans to respond. In partnership with Senator Blakespear, we are pursuing legislation that could help resolve these encampments quickly. SB 569 would require Caltrans to develop a joint action plan with local governments to appropriately address encampment abatements. By giving cities flexibility to enter Caltrans jurisdiction, offer resources, and conduct abatements with State reimbursement, we can significantly reduce blight and public safety risks. If SB 569 passes, the City Manager is directed to immediately negotiate a Delegated Maintenance Agreement in which Caltrans reimburses the City for abatement costs along State right-of-way. In parallel, the Mayor's Office is working with Senator Cortese and Caltrans on a potential pilot of this concept, which the City Manager is directed to pursue should SB 569 fail to pass this year.

Outreach and abatements do not always curb activities that jeopardize the health and safety of homeless residents, the broader community, and the environment. San José's Municipal Code already prescribes a number of laws that are intended to protect everyone's quality of life. However, our current codes contain gaps that do not adequately address some of the behaviors we witness every day in our neighborhoods, in front of businesses, and along our waterways. Our lack of consistent enforcement has led to a lawlessness that harms everyone.

For example, Titles 10 and 13 of the Municipal Code prohibit damage to park property; driving in parks or on trails; public urination or defecation; smoking, drinking, and fires in parks or on trails; and water pollution. We witness many of these behaviors on a daily basis without consistent enforcement or consequences. Getting San José back on track requires the consistent application of basic laws that serve to enhance safety and quality of life for everyone in our community, both housed and homeless.

We also need to clearly set the expectation that people should not have the choice to live in unsafe, unmanaged conditions when they're offered a better alternative, particularly after multiple offers and efforts to remove barriers for accepting help. When the Monterey/Branham EIH opened last month, one in three homeless residents encamped nearby rejected placement even though they were offered a private unit with en-suite bathrooms and kitchenettes. If an individual is repeatedly unable or unwilling to accept a safe space with supportive services, the City has used all the tools we have available to help them. At this stage, we have a responsibility to get people into the care of the County. There the magistrates who oversee our behavioral health courts can determine, and mandate if need be, a better path forward interrupting the unhealthy cycles that are keeping people on the streets.

Therefore, the City Attorney is directed to work with the City Manager to return to Council by June 2025 with:

- 1) Changes to existing ordinances to enable efficient and effective enforcement of behaviors frequently witnessed on city streets that are already prohibited in the Municipal Code.
- 2) New or amended ordinances to address gaps within our existing Municipal Code by adding other behaviors frequently witnessed on our streets, such as harassment, trespassing, management of biowaste, damage to any city-owned property (including electrical infrastructure and vegetation), and accumulating materials outside of a 12' x 12' footprint.
- 3) A Council "Responsibility to Shelter" policy to be reflected in departmental procedures that imposes misdemeanor charges for trespassing or other relevant code violations after three documented refusals to accept shelter or housing within an 18-month period.

To enable effective enforcement of existing and expanded ordinances, the City Manager is directed to dedicate staff within SJPd, looking to [San Diego's Neighborhood Policing Division](#) as a model. Preliminary ideas for how a "Responsibility to Shelter" policy will be structured and adequately resourced for implementation should be brought to Council for review and discussion through the Budget Study Sessions in May 2025.

We've already seen that enforcement of our Municipal Code can lead to visible improvement in our downtown. In response to budget direction last year and for the first time in years, SJPd is enforcing the Downtown Pedestrian Facilitation Zone, which is prescribed in our Municipal Code. It prohibits individuals from obstructing sidewalks between 10:00 a.m. and 12:00 a.m. within certain areas of the downtown. Since the start of enforcement, survey data indicates that public perception of safety has improved quarter over quarter downtown. We've also received positive feedback from numerous downtown residents and businesses. To build on this success, the City Manager is directed to strategically expand the physical geography of the pilot program and identify one-time funding to install associated signage.

Finally, the City Attorney is directed to analyze and advise on options to pursue legal action against or financial restitution from neighboring cities that effectively encourage the relocation of their homeless population to the City of San José through their laws, ordinances, or abatement practices. Every city must take responsibility for its fair share in addressing homelessness rather than merely sending homeless residents to San José.

Lived-In Vehicles

In response to increased frustration with lived-in vehicles and RVs on city streets, Council allocated \$1.5 million last year to establish the Oversized and Lived-In Vehicle Enforcement (OLIVE) pilot program. Since OLIVE's launch in January, our hard working Department of Transportation (DOT) teams have decommissioned eight vehicle encampments from our most impacted neighborhoods. While successful in encouraging circulation and providing relief to neighbors and small businesses who have experienced a seemingly permanent vehicle encampment for months, if not years, OLIVE alone does not allow us to nimbly address the serious health and safety concerns posed by lived-in vehicles on public streets.

To augment the OLIVE program, the City Manager is directed to prepare an MBA that provides options for shifting resources towards enhanced coordination between DOT and SJPD for more frequent enforcement of regulations related to inoperable vehicles, vehicles parked longer than 72 hours, and vehicles with an expired registration beyond 6 months. The MBA should also assess the cost of installing permanent tow-away signs to facilitate regular street sweeping and delegating authority to the Director of DOT to install permanent signs prohibiting oversized vehicle parking without the need for formal engineering studies. In addition, the City Attorney is directed to work with the City Manager to identify gaps in the California Vehicle Code to allow new ordinances and improved enforcement provisions to address the quality-of-life impacts from lived-in vehicles and increase circulation. Specifically, the City Attorney should explore an ordinance that would require vehicles to move at least 1,000 feet away from their current location every 72 hours, akin to [Fremont's Enhanced Parking Ordinance](#). Finally, the City Manager is directed to prioritize enforcing parking restrictions within No Return Zones.

Beyond enforcement, we can and should use additional tools to compel people to relinquish their vehicle when offered shelter or housing, then ensure that those towed vehicles do not re-enter circulation. In the aforementioned MBA, the City Manager should evaluate options for a vehicle buy-back program and lien purchase program with the goal of removing towed vehicles from circulation. Considering past vehicle buy-back programs capped the total amount the City could pay for a vehicle at \$500, the City Manager should explore increasing the payout amount.

Shifting our approach for the RV Pollution Prevention Program (RVP3) may help us realize cost-savings that could be applied towards enhanced enforcement or a vehicle buy-back program. Nearly half of the vehicles serviced through RVP3 have moved from current trash routes due to implementation of the OLIVE program, leaving few RVs to benefit from our sanitary services and straining staff time to re-establish outreach. Instead of requiring staff to drive around looking for RVP3 participants, the City Manager is directed to explore establishing one or more dedicated drop stations for waste disposal, clearer communication of existing rules regarding dumping, and enforcement of those rules.

Improving Transparency

Investments aimed at reducing the impacts of homelessness must come with improved transparency for the public. Our residents deserve honest answers when they're understandably frustrated with encampments and lived-in vehicles that have impacted their neighborhoods and businesses for months, if not years. The City Manager is directed to explore integrating the Encampment Reporting Tool into SJ311 and providing associated data reporting and customer satisfaction ratings, similar to [Portland's Impact Reduction Program Dashboard](#).

At a minimum, the SJ311 feature should provide residents with insights into the expected outcome of each service request, such as trash pick-up, escalated clean-up, abatement, vehicle tow, or an explanation if no response is warranted; and when applicable, before and after pictures if a service is provided. Additionally, just as we provide for other SJ311 services, the City Manager is directed to produce an associated public-facing performance dashboard that tracks: 1) Number of service requests, categorized by open, in progress, and closed; 2) Average response time and response time per service request; and 3) Overall customer satisfaction score ranked against a target.

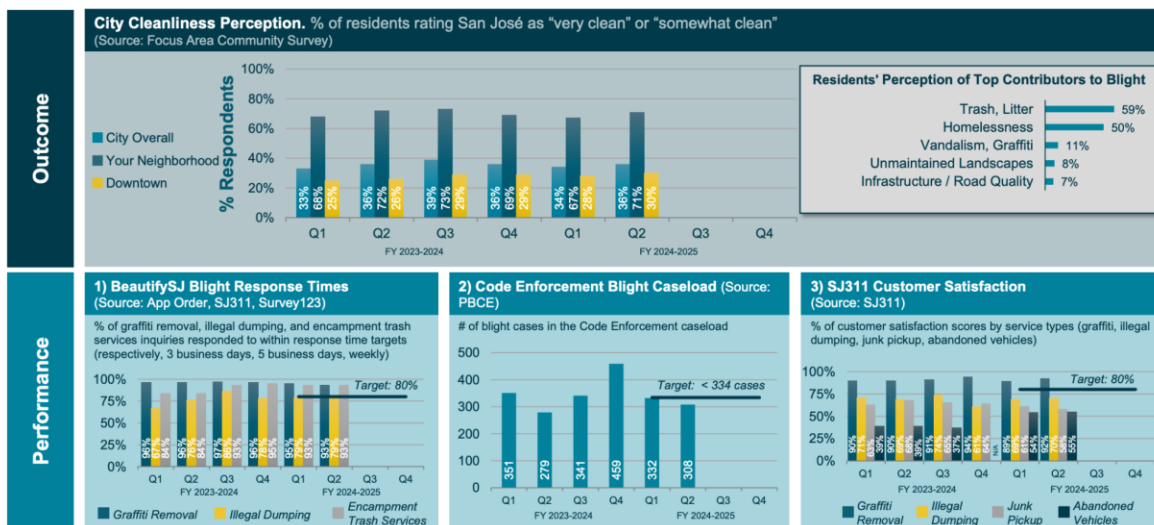
IV. Cleaning Up Our Neighborhoods



Cleaning Up Our Neighborhoods

Outcome and Performance Measures

Q1-Q2 2024-2025
 Jul – Dec 2024



As with encampments, our approach to addressing other forms of visible blight have been insufficient in recent years. We've been too slow to enforce blatant code violations when negligent property owners let their properties fall into disarray. Each year, we invest more and more of our residents' hard-earned tax dollars into blight eradication, while putting far too little effort into enforcement of our existing laws to prevent blight in the first place. Tolerance of persistent blight and a lack of accountability for perpetrators doesn't just make our city unsightly – it erodes public perception of safety, civic pride, and government legitimacy.

Blighted and Nuisance Properties

Dilapidated buildings drag an entire community down by deterring investment and discouraging foot traffic, therefore attracting crime, graffiti, and illegal dumping. When property owners aren't held accountable for addressing code violations that contribute to visible blight and disorder, it sends a resounding message that the City tolerates neglect. The City Manager is directed to continue the Enhanced Vacant Building and Storefronts position for another year, expand the position to address visible code violations at occupied buildings downtown, and explore assessing a programmatic fee that would improve cost-recovery for the position.

In suburban neighborhoods, blighted and nuisance properties can have a significant impact on quality-of-life. The Responsible Landlord Engagement Initiative (RLEI) provides a forum for peer accountability between negligent property owners and aggrieved neighbors by notifying landlords of necessary improvements and, in extreme cases, pursuing legal remedies in small claims court. The City Manager is directed to develop an MBA that explores the use of Community Development Block Grant (CDBG) dollars to provide one-time funding for RLEI and proposes metrics to assess the program's return on investment.

Enforcement of Graffiti and Illegal Dumping

Everyday, our BeautifySJ teams work tirelessly to eradicate blight across our city, but they simply can't keep up with ever-increasing graffiti and illegal dumping. Just last year, the Removing and Preventing Illegal Dumping (RAPID) program collected over 9.5 million pounds of trash, representing a startling 33% increase in the amount of debris collected from the prior year. BeautifySJ and contractors also eradicated almost three million square feet of graffiti, representing a 17% increase over the last three years. These unsustainable trends will continue unless we get serious about enforcement and deterrence measures.

Through last year's budget and [again in October 2024](#), Council directed staff to return with new or enhanced strategies to enforce and deter illegal dumping and graffiti. Staff responded with an [assessment in March 2025](#) that includes recommendations to coordinate efforts between SJPd, Code Enforcement, and BeautifySJ teams to conduct sting operations and issue citations. In addition, staff also included strategies to establish fixed sites for dumpster days in key areas where illegal dumping is more prevalent. The City Manager is directed to allocate the resources required for stronger graffiti and illegal dumping enforcement and deterrents, and incorporate outcomes into the annual BeautifySJ Neighborhood Blight Reduction Status Report. To enable more effective enforcement, the City Attorney should explore amending the Municipal Code to allow for vehicle seizure in illegal dumping cases. The City Manager should also add a performance metric to the Cleaning Up Our Neighborhoods Scorecard related to expanding enforcement actions against graffiti and illegal dumping.

Detering graffiti and illegal dumping also requires ongoing coordination with our jurisdictional partners. Over the last year, my office has convened partners from Caltrans, the District Attorney's Office, and SJPd to work collaboratively on enforcement to counter graffiti on our streets and freeways. Thanks to investigative work by SJPd detectives, we recently identified a prolific tagger responsible for felony-level damages to Caltrans property. I also want to thank District Attorney Jeff Rosen for his team's partnership and willingness to bring accountability back to our toolkit. The City Manager is directed to establish a comprehensive enforcement strategy between Caltrans, SJPd, California Highway Patrol, and the District Attorney's office that reduces access to and increases monitoring of hotspot areas in order to hold repeat offenders accountable.

Clean Gateways

Ongoing efforts to enhance 11 of the most heavily-trafficked gateways across Districts 3, 5, 6, and 7 have reduced weeds, debris, and graffiti at key entry points to our shared Downtown. By June, staff expects to complete the second phase of beautification work funded in last year's budget, which will add enhanced landscaping, deterrents, and limited artwork. To ensure continued upkeep of the gateways, the City Manager is directed to identify private companies or community groups willing to sponsor a gateway or contribute to maintenance costs. If additional resources are required to sustain gateway improvements, the City Manager is directed to identify one-time funding for maintenance or explore leveraging current resources, like DOT's in-house maintenance team. Pending the availability of additional resources in future years, we should also consider expanding the Gateways program to other parts of the city, particularly in high-traffic areas and those near commercial districts.

Increasing Engagement

Cleaning up and beautifying San José requires everyone to step up and do their part. Over the last year, the BeautifySJ Grant program provided \$250,000 to support 365 neighborhood beautification projects across every Council district. The City Manager is directed to allocate one-time funding to maintain the BeautifySJ Grant Program at FY 2024-2025 funding levels. Further, the City Manager is directed to evaluate expanded funding for the City's nonprofit creek clean-up partners to complement our efforts to clean up waterways.

County Expressways

Every day, thousands of residents and visitors drive along freeways and expressways that are often neglected, overgrown with weeds, barren, or littered with trash. Just as we pursue opportunities to help Caltrans better maintain the State right-of-way through a potential Delegated Maintenance Agreement, we should pursue a partnership with the County to enhance blight eradication and beautification efforts along expressways. The City Manager is directed to explore a potential reimbursement or cooperative agreement with the County that could result in DOT providing more regular weed abatement, litter removal, and tree or vegetation planting along expressways within San José.

SJ 311 Service Enhancement

San José 311 receives about 300,000 requests per year for services including graffiti, abandoned vehicles, potholes, streetlight outages, Free Junk Pickup, and other key quality-of-life issues. As the City's needs evolve, so must the primary tool residents rely on to request basic city services. Last year, SJ311 enhancements improved our vehicle concerns response system and added guidance for how to report sewer/water complaints. In order to make SJ311 an even more useful and widely adopted tool, we must accomplish the following objectives:

- 1) Fully transfer ownership of the technology stack to our IT Department and reduce our reliance on external vendors to provide service upgrades;
- 2) Ensure full integration of the SJ311 program in the City Manager's customer service improvement initiative;
- 3) Deliver a first-in-class user interface and experience that allows for seamless reporting, promotes public engagement, and facilitates frequent feedback loops; and
- 4) Integrate new high-value features, including:
 - a) Enhanced geotagging by address, approximate location, and adding a pin on a map
 - b) Expanding size limits on photos
 - c) Integrating push notifications or SMS updates on the status of tickets
 - d) Information about community events and city proceedings
 - e) Photo confirmation of services rendered where appropriate and other loop-closing mechanisms
 - f) Investigate opportunities to use advanced technologies, including AI, to proactively detect and address SJ311 related services.
 - g) Investigate collaboration opportunities with the Groundwerx clean and safe program to leverage additional resources to support City staff.

The City Manager is directed to explore ways to dedicate technical resources to oversee the development of SJ311 under the operation and control of the Information Technology Department to enable faster service enhancements and a best-in-class SJ311 resident experience. The City Manager is also directed to allocate sufficient funding to implement the service enhancements outlined above.

V. Increasing Community Safety



Year after year, San Joséans have made it clear that reducing crime, improving police response times, and increasing police presence are top priorities. However, like many law enforcement agencies across the country, SJPD continues to grapple with a high vacancy rate that has strained the department. Currently, we have only 971 street-ready officers working to protect our community. Over the last two fiscal years, we have invested in new recruitment and retention efforts to combat hiring challenges. And while we have begun to see a positive trend in Academy applicants and class sizes, we haven't yet reached our goal of a fully staffed police force.

Staffing shortages force us to reevaluate how we allocate our resources. While we shouldn't lose sight of the importance of recruitment and retention, we must also continue to prioritize technology that assists us in deploying our sworn officers to maximize public safety outcomes for our community. Strategic adjustments allow us to operate within our budget while keeping San José safe, even in the face of staffing challenges.

Police Recruitment and Retention

Our three Police Academy classes in 2024 – SJ47, SJ48, and SJ49 – graduated a combined 67 officers to patrol. Despite these gains, we continue to face challenges in keeping up with attrition, as we lost 77 sworn officers over the same period. We need to maximize our academy's capacity and increase the number of graduates per class while maintaining the hiring standards that sets SJPD apart from other departments. The City Manager is therefore directed to continue investments in marketing, recruitment, and backgrounding approved in last year's budget. To

measure the impact of these investments, the City Manager is directed to include an associated performance metric in the Increasing Community Safety Focus Area Scorecard that reflects the goal of increasing Academy class sizes from 30 to 40.

Hiring incentives have proven to be effective in attracting new talent to SJPD from other jurisdictions. Last year, we added nine seasoned officers to SJPD by leveraging our lateral hiring bonus. The City Manager is directed to continue and explore increasing the lateral hiring bonus to encourage recruitment of qualified talent.

To attract the next generation of SJPD officers, last year's budget message allocated stipends for SJPD cadets aged 18-21 to maintain engagement and interest until they are eligible to apply for the Academy at age 21. We have since learned that drop-off in applications to our academy is largely attributable to the time and cost associated with fulfilling SJPD's education requirement. Therefore, the City Manager is directed to work with the department to explore optimizing the cadet stipend, perhaps by allocating a portion of the stipend towards college tuition assistance on the condition of application to the Academy.

Finally, to help our thinly-staffed department meet growing service demands and focus on high-priority issues, the City Manager is directed to consider eliminating less impactful units to allow the redeployment of officers toward more urgent needs, explore new or expanded classifications, and other actions to help us optimize service delivery, such as:

- **Detention Service Officers:** SJPD officers frequently support the County Sheriff's Department by transporting arrested individuals to jail or supervising them during a hospital stay. While necessary, this process significantly burdens our officers who spend upwards of three hours away from patrol duties, often working overtime to complete their duties and reports. Our Chief of Police and City Manager have identified a potential fix that can alleviate this strain and keep more officers on patrol. The City Manager is directed to establish a new classification for detention service officers who will respond to the scene of arrest and transport individuals to jail or supervise them in the hospital.
- **Reserve Unit:** Reserve officers have the same talent and training as sworn officers, and can exercise the same duties under law, making them ideal to further expand patrol capacity by working their own beat or post. When there is limited sworn officer capacity to cover a full district, reserve officers should have the ability to fill this role. The City Manager is directed to evaluate allowing reserve officers to patrol their own beat.
- **Rehired Retirees:** Many of our retirees bring valuable institutional knowledge, mentorship, and connections within the law enforcement community. The City Manager is directed to evaluate how rehired retirees are currently utilized within the department and identify areas where their contributions can be expanded to enhance operational effectiveness, cost savings, and overall efficiency. Specifically, the City Manager should explore leveraging rehired retirees to provide visible police presence and respond to lower priority calls in designated neighborhoods, looking to the [San Francisco Police Department's Community Ambassador Program](#) as an example.

Leveraging Technology

While we continue to increase staffing, we should also adopt technology solutions designed to make everyday operations more efficient and effective for our existing officers. Our ALPR network has grown to 474 cameras – enhancing enforcement capacity and leading to numerous apprehensions of suspects accused of committing a range of crimes. Building on our success with the ALPR system, we can introduce more tools to supplement our officers.

Last year, we allocated funding to build a foundation for the Real Time Intelligence Center (RTIC), a physical space where SJPd can aggregate data from arrest records, calls for service, digital evidence, digital forensics, crime bulletins, and camera footage from our ALPR and DOT networks to give first-responders greater intelligence to investigate and react in real-time, and reduce back-end detective work. Early examples show RTIC's impact – digital forensics analysis has expedited critical case information from one week to two hours and officers can quickly learn a person's history of altercations before arriving at the scene. The City Manager is directed to continue funding for the Real Time Intelligence Center and evaluate additional funding that could enhance this cost-effective policing.

Our officers spend an extensive amount of time generating police reports, diverting personnel from critical field operations and investigations. This year, we will pilot an AI-assisted transcription service for body-worn cameras to assess if this technology can reduce the time required to generate reports by hand. The City Manager is directed to evaluate the pilot's outcomes and determine whether to continue to pursue AI-assisted transcription.

Copper Wire Theft

Organized crime rings have stolen copper wire from more than 1,000 streetlights in San José over the last nine months, leaving entire neighborhoods in the dark, damaging utility boxes, and causing over half a million dollars in damages. SJPd and DOT have made progress tracking theft patterns, identifying hotspots, and educating recyclers on responsible wire purchases. However, enforcing theft is difficult without catching suspects in the act or proving ownership of the wire itself. The City is co-sponsoring AB 476 this legislative session. If enacted by the Legislature, it will require recyclers to verify proof of ownership for copper wire and seller licensing. While waiting for this bill to pass, the City Manager is directed to advance solutions that clearly identify copper wire as city property, such as coating wire to stamp ownership. Further, the City Attorney is directed to work with the City Manager to develop an ordinance that makes it illegal to possess copper wire without credible proof of ownership.

Alternative Call Response Strategies

Last year, the Council allocated \$450,000 for a San José-focused TRUST team. The City's ongoing investment in TRUST must be predicated on performance measures that demonstrate a clear return on investment for San José taxpayers. Successful outcomes need to include connecting people with severe behavioral health issues on our streets to the care they need. As the Council awaits initial outcomes in May from the first quarter of the San José TRUST team, the City Manager is directed to continue to engage Santa Clara County on 988 call transfers and reiterate our request to embed a trained behavioral health professional in 911 dispatch centers.

Strengthening this coordination could provide a seamless diversion of relevant 911 calls to 988, reducing the burden of sworn-officers and ensuring individuals in crisis receive the appropriate response from the start.

Wildfire Prevention and Preparedness

Earlier this year our fellow Californians in Los Angeles faced deadly and destructive fires that claimed 29 lives, forced thousands from their homes, and burned nearly 17,000 structures. This disaster raised concerns, rightfully so, about our own capacity and preparedness to address a similar catastrophe. In response, the City Manager released a [Wildfire Preparedness Information Memo](#) describing our current strategies and response models. However, it is apparent that we can do more, particularly around fuel reduction.

San José's wildfire risk extends beyond land within the City's control. While the City Manager's Information Memo provided a helpful assessment of fuel reduction efforts in City-owned parkland, we rely on information from the County, CalFire, and private property owners to quantify the full scope of fuel reduction responsibilities and efforts across all land in the Wildland-Urban Interface (WUI). The City Manager is directed to solicit information from these partners to devise a comprehensive assessment of vegetation management activities within high-risk WUI lands, quantifying high-risk acreage, monitoring capacity, and annual fuel reduction actions by responsible jurisdiction (e.g. city, county, state, private property owner).

New tools and approaches can help us reduce fire risk and improve evacuation plans. The East Bay Regional Park District recently conducted a large-scale [aerial assessment project](#) for 125,000 acres of parkland that informed where thinning might best prevent wildfire risk. San José State University (SJSU) is home to the [Wildfire Interdisciplinary Research Center](#), which could provide the expertise needed to conduct similar work using emerging AI-powered tools. The City Manager is directed to engage SJSU and other public and private technical partners to explore partnerships to improve the City's prevention and response efforts.

Beyond prevention, effective emergency response requires real time alerts and coordination. San José currently operates an emergency evacuation software that uses data-driven intelligence from critical facilities and traffic patterns to determine zone-based evacuations and to communicate appropriate responses through AlertSCC. To date, the City has established evacuation zones in this software which will improve response coordination across jurisdictions. However, this effort was implemented with one-time funding from a State grant and will sunset on August 31, 2025. The City Manager is directed to identify resources to continue use of a similar community evacuation notification software.

Above all, our ability to protect San José against wildfires, structural fires, and other emergencies depends on our excellent Fire Department's swift and effective response. With three new fire stations – Fire Station 8, Fire Station 32, and Fire Station 36 – coming online this year, we must ensure adequate staffing levels within our Fire Department. The City Manager is directed to maintain existing recruitment, hiring, and training resources for Fire Academy classes.

Partnerships to Improve Public Safety Outcomes

Many repeat offenders struggle with addiction and mental illness. To improve their lives and increase public safety, we need to break the cycle of reoffending through effective implementation of reforms to California's behavioral health and justice systems. As new tools like CARE Court, Prop 1, Prop 36, and SB 43 expand access to mandated treatment and interventions for those suffering on our streets, we must actively engage the County as the primary provider of public health services. The City Manager is directed to partner with the County to establish clear strategies to address repeat offenders and those with untreated behavioral health issues, such as funding CARE Court referral training for outreach workers, first responders, and law enforcement. To ensure accountability and public confidence in these reforms, the City Manager is directed to collaborate with SJPd and the District Attorney's Office to establish a data sharing agreement for tracking and publicly reporting Prop 36 sentencing outcomes, net new treatment beds added through Prop 1, CARE Court utilization, and repeat offender releases.

Dispatcher Infrastructure Support

As the first link in our emergency response chain, San José's public safety dispatchers field over 1 million calls for service and police events every year and regularly work 8 to 12 hour emotionally intense shifts. They deserve to work in an environment that reflects the care and dedication that their job demands. Two years ago, the Council funded a renovation project to expand the 9-1-1 Call Center into the space previously occupied by the Emergency Operations Center. While the expansion will bring natural light into the center, refreshing essential features sooner can help improve the space and boost morale before the larger project commences. The City Manager is directed to accelerate previously allocated funding as appropriate to replace the 9-1-1 Call Center carpets, office chairs, and other equipment as necessary.

Vision Zero

In 2015, San José adopted the Vision Zero initiative to eliminate fatal and severe traffic injuries. The City Council's updated 2025 Vision Zero Action Plan sets a goal to reduce fatalities and severe injuries by 30% by 2030 and eliminate them by 2040 by focusing on evidence-based solutions and accountability metrics. In order to meet these ambitious goals, the City Manager is directed to explore opportunities to maximize available funding for the Vision Zero program, including the leveraging of external resources and continuing to deploy low-cost, high-yield, quick-build traffic safety infrastructure on Priority Safety Corridors. The City Manager is also directed to minimize any impacts to the crossing guard program to ensure the safety of schoolchildren.

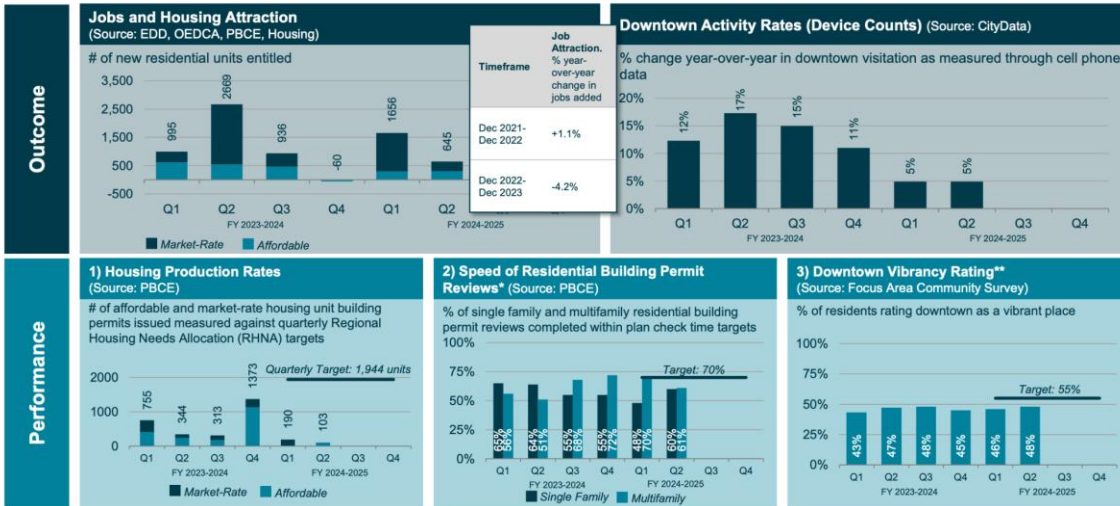
VI. Growing Our Economy



Attracting Investment in Jobs and Housing

Outcome and Performance Measures

Q1-Q2 2024-2025
Jul – Dec 2024



In difficult budget years, our first instinct is often to cut back on services or pursue new revenue measures – both of which balance a budget in the short term, but negatively impact our hard-working residents. While both strategies will play a role in this and future budgets, they remain insufficient. Our already thinly-staffed departments can only reduce costs so much without painful impacts to our community. Those cuts then risk eroding our tax base as a diminished quality-of-life results in the loss of employers, tourism, and other economic activity. As for new revenue, voters in our heavily-taxed community have made clear in recent polling they oppose new revenue measures, with only limited exceptions. Therefore, our best path forward is one that makes economic development – growing the proverbial pie – a central strategy.

Every new business that opens, every new development that breaks ground, every tourist attraction, and every job created adds to our tax base. These investments generate revenue growth – property taxes, sales taxes, and business fees – that funds essential services our community relies upon. Without economic growth, budget deficits become endemic, forcing painful tradeoffs year after year as we seek to fairly compensate our workforce and maintain service levels. We can grow our tax base by facilitating emerging industries and areas of strong market demand, betting on the experience economy and our downtown, and supporting our small businesses.

Supporting Emerging and Rapidly Growing Industries

The rapid growth of AI and increasing demand for data centers present a unique opportunity to expand our tax base. A typical 99 MW data center ramps up operations over several years, and the City stands to generate \$3.5 to \$6.4 million in annual General Fund revenues once it reaches full capacity. PG&E's recent data center market study found approximately 1.1 GW worth of signed and potential agreements for new data centers in San José, representing substantial demand for data center development that, if realized, will drive sustained economic activity, job creation, and expand our tax base. To put this investment in perspective, the full buildout of

these projects would roughly double San José's current total energy demand. To secure this historic investment in our city, the City Manager is directed to allocate funding for a limited number of new positions dedicated to attracting and facilitating data center investments and other large-load customers, potentially leveraging resources from a new agreement between the City and PG&E should all parties choose to move forward in the coming months.

Moreover, since new data centers and associated R&D uses are especially likely to be viable in the 159 acres of dedicated economic development land near the Regional Wastewater Treatment Facility, the City Manager is directed to prepare and release an RFQ for future development of these lands by Fall 2025.

Betting on the Experience Economy

While the office market continues to lag and recent commercial real estate transactions have demonstrated lower property values and short-term risks to our tax base, we are seeing tremendous potential for growth in what we have dubbed our "experience economy." This dynamic sector – built around in-person, social experiences – attracts residents to Downtown and other vibrant mixed-use neighborhoods to enjoy sports, entertainment, arts and cultural performances, dining, nightlife, and related activities.

In a first for any city or region, the San José metro area will host both the Super Bowl and the World Cup in 2026 – a once-in-a-generation opportunity to elevate our infrastructure, enhance our reputation, and establish San José as a premier destination for both Bay Area residents and international travelers. Our goal over the coming year should be to maximize the potential economic windfall associated with these global sporting events, which will bring tens of thousands of visitors and hotel stays between February and July, and capture more of this growing economic sector in the years to follow.

While additional coordination is needed amongst City departments and external partners to detail specific opportunities and project costs, the City Manager is directed to provide one-time funding for the following initiatives for 2026 and beyond:

- **Safety and Security:** Like any large events hosted in or near San José, 2026 events and fan experiences will require enhanced security in specific activation areas. The City Manager is directed to prioritize the funding needed to support event security and safety measures within San José.
- **Consultant Support:** The City's 2026 partners require support to develop branding, wayfinding, and event activations that will draw residents and visitors into San José and keep their consumer dollars here. The City Manager is directed to provide one-time funding to the San Jose Sports Authority to hire a consultant to design a coherent brand and fan experience around the variety of large sporting events coming to our region.
- **Wayfinding:** A downtown wayfinding initiative is already underway, but remains only partially funded. As we prepare for 2026, securing these upgrades is essential to seamlessly guide pedestrians, enhance connectivity, and strengthen Downtown's sense of place. The City Manager is directed to install wayfinding ahead of 2026 to enhance Downtown's identity and create a dynamic, easily navigable, and inviting streetscape.

- **Stitching Districts:** Existing pockets of vibrancy downtown lack the seamless connectivity that creates a truly unified and walkable experience. Building on the success of the Santa Clara Street Refresh, the next phase of public realm improvements should connect the SAP Center, Little Italy, and San Pedro Square along St. John Street. These improvements should maximize private and philanthropic investment alongside public investment and activation efforts to ensure a vibrant downtown for 2026 and beyond. The City Manager is directed to provide one-time funding for the Stitching Districts initiative and work with the stakeholders to complete this project prior to the 2026 sporting events.
- **Guadalupe River Park:** As a north-south gateway for visitors and residents traveling through Downtown, the Guadalupe River Park (GRP) has the potential to be San José's "Central Park." However, years of neglect have left it in disrepair. Building on the success of last year's Encampment Resolution Grant—which cleared the waterway and established a strict no-encampment zone—it's time to take the next step in revitalizing this critical space. In preparation for 2026, the City Manager is directed to leverage resources from internal city departments and external partners to clean up and revitalize GRP, building on discussions the Mayor's Office has initiated with the District 3 Office, GRP Conservancy, Valley Water, Caltrans, and other partners.

As important as 2026 is for our local economy and sense of civic pride, fully capturing the potential of our local experience economy requires a longer-term plan for establishing our downtown as a true destination for sports and entertainment. To define this vision, the City Manager is directed to allocate one-time funding as necessary and return to Council by December 2025 with a conceptual plan and next steps for the creation of a designated sports and entertainment district in the downtown area. Initial research should be coordinated with the San Jose Chamber of Commerce and other relevant stakeholders who can help define the initial scope of this work plan and potentially take on and fund elements of the research and planning process with outside partners. Leveraging resources from the Convention Center Facility District Revenue Fund, the City Manager is also directed to allocate one-time funding for a consultant to assess the costs and benefits of future San Jose Convention Center expansion that would allow us to secure and host larger conferences and events.

Building Momentum in Downtown

Investing in a vibrant downtown creates a flywheel effect for economic and cultural development, generating returns to our General Fund and fostering prosperity across our entire city. To strengthen the long-term vitality of Downtown San José, the City Manager is directed to pursue strategic initiatives aimed at increasing residential density, improving parking availability, and revitalizing Plaza de Cesar Chavez.

- **Downtown Office to Residential Conversion:** Spartan Village on the Paseo is a recent successful example of a commercial-to-residential conversion. With more conversion opportunities on the horizon, the City Manager is directed to return to Council with recommendations to waive the inclusionary housing requirements and park in-lieu fees for office-to-residential conversions.
- **Expanding Homeownership by Densifying Downtown:** Recognizing the need for starter homes in San José, the City's adopted Housing Element included strategy P-35 to facilitate more small multifamily housing. The City Manager is directed to return to the City Council with recommendations on the Small Multifamily Housing strategy,

including any necessary land use changes to promote increased density in neighborhoods near major thoroughfares, with a particular focus on areas surrounding Downtown.

Additionally, the City Manager is directed to evaluate and bring forward recommendations for the City Council to provide incentives for small multifamily housing construction, including pre-approved plans for this housing type.

- **First Church of Christ, Scientist Building.** The First Church of Christ, Scientist building – a prominent and historic structure in the downtown – has been vacant and blighted for years. Its prolonged neglect poses safety concerns, limits economic activity, and hinders efforts to revitalize the surrounding area. The City Attorney is directed to implement a plan to eminent domain the First Church of Christ, Scientist Building.
- **Remedy City Parking Challenges:** The City Manager is directed to explore opportunities to integrate the Milligan Parking lot with ParkSJ, identify ways to expand parking availability in the SoFA district, and evaluate the feasibility of adding the Convention Center parking facility to ParkSJ's 90-minute free parking program.
- **Plaza de Cesar Chavez:** As San José's most frequented downtown park, Plaza de Cesar Chavez needs strategic upgrades for future sports, arts, and cultural events. To enhance event programming, reduce event costs, and create lasting public value, the City Manager is directed to convene event producers to identify and fund solutions for activation pain points, such as stage improvements or electrification upgrades. The City Manager is further directed to provide one-time funding to launch a Plaza de Cesar Chavez Conservancy, contingent upon the City securing representation on its board. These efforts are especially timely as we approach the Cesar Chavez Centennial in 2027.

Supporting our Small Businesses

San José's status as a welcoming city that offers upward mobility to a large and diverse population rests largely on the strength of our small business community and the entrepreneurial spirit immigrants bring to our country. In fact, nearly half of the more than 60,000 small businesses in San José are immigrant-owned. Our ability to continue to provide broad-based economic opportunity depends on creating a business-friendly environment that fosters investment, streamlines approval processes, and supports small business expansion. To stay competitive and responsive to emerging economic opportunities, we must reduce bureaucratic barriers, enhance direct outreach, and strengthen our business districts through the following actions:

- **Special / Conditional Use (SUP/CUP) Permitting Reform:** San José's SUP/CUP permitting process limits the full potential of our small business ecosystem. Permitting timelines average 7 months, and initial submittal fees can start at around \$19,000 for a SUP and over \$26,000 for a CUP. Final costs often climb much higher. Our small business permitting process should be simpler, faster, and cheaper for everyone. The City Manager is directed to bring back recommendations to streamline the SUP/CUP permitting process, beginning in the downtown core.
- **Strengthening Business Outreach and Commercial Corridor Support:** San José's business outreach — particularly for Latino and Vietnamese-owned businesses — has benefited from time-limited staffing resources. To sustain this progress, the City Manager is directed to maintain 3 time-limited business outreach roles and continue fostering business associations in key commercial corridors like Story Road, East Village, and

Alum Rock. Additionally, Business Improvement Districts (BIDs) play a vital role in enhancing vibrancy, cleanliness, and placemaking. Last year, for the first time in 16 years, San José established two new BIDs — the Tully Road Eastridge Business Association and the Monterey Corridor Business Association. The City Manager is directed to build on this momentum by supporting the creation of two new BIDs in commercial districts with the local backing and financial capability to succeed.

- **Protecting Small Businesses from Legal Action:** Recently, several businesses in our historic Japantown and other key commercial districts were served with ADA lawsuits that threaten their operations and could lead to closure. While ensuring accessibility is vital, bad actors can take advantage of strict ADA laws. The City Manager is directed to explore the allocation of one-time funding to offer a grant program that provides legal support for small businesses facing frivolous ADA lawsuits and other legal suits. This could involve extending a grant agreement with Elevate set to expire in October 2025.

VII. Building More Housing

San José faces a housing affordability crisis driven by decades of underbuilding housing across all income levels, culminating in a new record low for production in 2024: zero new market rate multifamily housing starts. Because of our housing shortfall – especially relative to regional job growth – the San José metro area is one of the most expensive places to rent or buy in the country, and many families are just a paycheck away from losing the roof over their heads.

In order to give housing affordability the attention it deserves – it consistently ranks as a top concern for San Joséans in annual surveys – we must create a distinct focus area for building more housing. Performance metrics for this focus area should consider factors within our control, such as the time a planning application is with staff; metrics that measure the applicant experience, including the time it takes an applicant to navigate our processes and respond to comments; and an overall customer experience metric. Outcomes should measure progress on the total number of homes built, number of affordable homes built, and number of multifamily units built using a streamlined state or local ministerial process. The City Manager is directed to decouple “Housing” from the Attracting Investment in Jobs and Housing Scorecard, retitle it “Building More Housing,” and assign these respective outcome and performance measures.

Removing Barriers to Housing Development

The California Environmental Quality Act (CEQA) review process can delay housing development by years, inject uncertainty into the process, and cause projects to miss financing windows, ultimately driving up costs. By prioritizing CEQA process reform, we will accelerate development timelines, increase predictability, and instill confidence for housing investors. The City Manager is directed to prioritize CEQA reform work in the following areas: 1) Standardizing residential impacts and mitigations for traffic, noise, and air quality to streamline environmental analyses and reports by August 2025, 2) Expanding the Ministerial Ordinance into downtown, the airport land use area, and other growth areas by December 2025, and 3) Implementing recommendations from the 2022 [CEQA process improvement audit](#) to outline roles and expectations for environmental consultants and create guidelines and standard templates for preparing CEQA and NEPA documents.

Too often, the Planning Division is hamstrung by its cost recovery model, in which staffing levels and work plans are reliant on development fees from current applications. This burdens applications with high costs and reduces our ability to staff proactive policy work in support of future development opportunities and innovation within the department. Over time, we hope to achieve a higher baseline level of planning staffing that allows the City to make countercyclical planning investments that enable greater housing investments when the financial markets improve. The City Manager is therefore directed to ensure sufficient staffing resources are dedicated to achieve CEQA reform initiatives, even if it requires additional General Fund resources.

The Downtown Employment Priority Area mandates overzealous, unrealistic commercial requirements – sometimes dictating two or even three floors of commercial space within new multi-family developments – which can prove a significant barrier to housing feasibility. The commercial requirements are not necessary for street level vibrancy due to the more sensible Active Area Use Overlay which requires ground-floor retail and activation along major corridors. Imposing high minimum floor area ratios for commercial use conflicts with our goal of fostering dense, transit-oriented housing in the downtown core. Therefore, the City Manager is directed to eliminate the Downtown Employment Priority Area as part of the next city-initiated General Plan amendment hearing.

On a citywide basis, we also see specific impediments to new housing that should be addressed in the next General Plan update. For example, commercial requirements burden housing developments well beyond the downtown. In recent years, we've seen projects built with the required retail fail to secure tenants and have to come back to the City to convert the unused space to housing at significant additional cost. Instead of our current "one size fits all" approach to commercial requirements, we should embrace a more nuanced approach that protects vibrant business districts while lessening the burden where additional retail will likely sit vacant for years. We should also expand our growth areas to where there is current market demand for housing and job centers.

Addressing these and other barriers to housing will involve deeper analysis and therefore must be addressed through an update to San José's General Plan. The scope for the General Plan update shall include:

- Eliminating ground floor commercial requirements for housing developments that are not on vibrant business corridors.
- Expanding the amount of housing units in the General Plan EIR.
- Eliminating CEQA-related thresholds in the General Plan where they are not necessary.
- Expanding our growth areas to where there is current market demand for housing and employment uses, except in areas with immitigable Vehicle Miles Traveled (VMT) impacts.
- Exploring a dedicated designation for faith land and allowing mixed-income housing within this designation.

The City Manager is directed to initiate a General Plan Four-Year Review starting in fall of 2025 that will conclude by the end of FY 25-26. The final recommendations from the review may take longer to be fully implemented due to necessary CEQA analysis and other constraints, but the

agreed upon set of policies should be finalized next year. This review shall be undertaken with approaches to community outreach and engagement that streamline the process.

If we're serious about speeding up housing construction, we also need to be more flexible with existing rules and processes that contribute to longer development timelines. For example, housing developers currently are not permitted to continue construction through the weekend, dragging out construction timelines. The City Manager is directed to bring back an update to the Municipal Code to allow limited weekend construction hours by default in areas zoned for commercial, industrial, and high-density housing, with a mechanism for Council to reduce or modify the allowed hours to address site-specific concerns.

San José's entitlement timelines can also cause unnecessary development delays as projects are entitled for only two years with the option for two one-year extensions. Requests for extension have to come back for a public hearing, consuming staff time and creating uncertainty for investors. Allowing entitlements to span four years will create greater certainty within an investment cycle and reduce staff time preparing paperwork for extensions that are virtually always approved. Therefore, the City Manager is directed to return to the City Council with recommendations to reform entitlements to allow for a longer entitlement period.

New technology can play a role in improving planning processes and customer service. Just as we've successfully utilized AI-powered translation services to make public meetings more accessible, we can embrace technology to deliver better customer service in PBCE. For example, AI can help create checklists for development applicants, calculate fees, help an applicant navigate our online permitting processes, and point out specific rules in the Municipal Code. The Mayor's Office of Technology and Innovation has applied for funding through the Bloomberg Mayors Challenge to implement innovative ideas such as these. Should funding be awarded, the City Manager is directed to work with the Mayor's Office on an AI pilot within PBCE to improve the customer experience.

Many older buildings in San José have one shared meter for water. Due to city regulations, residents of these master-metered buildings do not pay for the water they use, disincentivizing conservation and exponentially increasing utility bills for property owners. To promote conservation and reduce costs associated with master-metered buildings, the City Manager is directed to return to the City Council with recommendations to align city policy with HUD guidelines that allow property owners to charge proportionally for tenants' use of utilities on master-metered properties.

Incentivizing Housing Development

With limited funding sources for affordable housing construction and tax-fatigue amongst voters, we must be agile in pursuing new sources of capital for affordable housing construction. Housing Revenue Bonds allow government agencies to issue tax exempt bonds at lower interest rates to finance construction of affordable housing that will be paid back through rental income. Enhanced Infrastructure Financing Districts apply a tax increment that may be paired with broader redevelopment opportunities in areas planned for significant development. In pursuit of funding mechanisms that don't add new taxes, the City Manager is directed to explore the feasibility of utilizing Housing Revenue Bonds and Enhanced Infrastructure Financing Districts.

Historically, during periods of high immigration and population growth, big cities have found ways to accommodate people in low-cost, naturally affordable housing with shared amenities such as single room occupancy (SRO) housing, boarding houses, and long-stay hotels. These affordable-by-design options allowed residents and workers to find an affordable place to live when moving to a new city. In San José, we have ordinances that allow for SRO and co-living typologies, but they haven't taken off in the ways we expected. To foster more naturally occurring affordable housing, the City Manager is directed to explore ways to reduce barriers in our Municipal Code and incentivize construction of SRO and co-living housing types such as through fee waivers and ministerial approvals.

The lack of federal, state, and local resources has made it increasingly difficult to finance 100% affordable housing projects because they require such deep subsidies. While the City has set aside land specifically for 100% affordable projects, viable projects haven't moved forward due to financing challenges. Mixed-income housing offers a sustainable alternative that leverages private investment to offset development costs and ensure greater financial stability over time. Additionally, research shows economically diverse communities foster positive social outcomes. Therefore, the City Manager is directed to return to the City Council with recommendations allowing for mixed-income housing development on City-owned land.

Affordable workforce housing fills a vital role in our housing continuum, yet we haven't built it at the scale we need. Instead, we've focused on creating a market of 100% affordable housing for lower-income residents and market-rate housing for everyone else when market conditions allow, leaving a significant gap in between for most working families. Our Inclusionary Housing Ordinance (IHO) was meant to incentivize developers to incorporate affordable housing in new developments on-site, but developers nearly always elect to pay in-lieu fees that sit in a fund and generate small numbers of new units with considerable lag time. To increase the production of workforce housing, the City Manager is directed to revise IHO regulations to: 1) Streamline processes, 2) Incentivize greater utilization of the credit exchange system, 3) Revise the fee structure to incentivize on-site, affordable unit builds for residents earning 60-120% Area Median Income (AMI), and 4) Ensure any project that is 100% affordable at or below 100% AMI are not subject to the IHO by default.

VIII. GOVERNMENT EFFICIENCY AND ACCOUNTABILITY

Focus Area Tracking and Reporting

Through the budget process each year the Council adopts a set of priorities, which we have in recent years called our Focus Areas. These are areas of extra emphasis for the Council and Administration that are set apart from other important and ongoing work because they reflect the community's top goals and typically involve complicated issues for which we are trying to significantly change one or more outcomes. Achieving these outcomes requires a unique level of policy iteration, programmatic investment, and collective effort. To keep the Council and the community apprised of progress and – perhaps more importantly – challenges and learnings associated with our limited set of Focus Area goals, the City Manager is directed to update the performance measures and outcomes within the Scorecards as frequently as is practicable and provide a quarterly opportunity for Council to learn from updates, ask questions, and provide feedback on performance. To ensure constructive updates and discussion, the City Manager

should present individual Focus Area reports to the relevant Council Committees quarterly, and cross-reference these reports and the associated Scorecards and Dashboards to the full Council at least twice per year.

Pay for Performance

As the Council and Administration work together to make progress within our key focus areas, those of us serving in positions of authority with the power to set priorities, allocate resources, adopt aligned programs and policies, and oversee large teams should be held accountable for delivering meaningful outcomes. In adopting the 2023-2024 Mayor's March Budget Message, Council directed the City Manager to overhaul the Senior Staff Management Performance Program (MPP) to ensure that performance pay is aligned specifically to the achievement of the outcomes and performance measures within the Focus Areas, along with the success of other priority core service areas. The City Manager responded to this direction via [Informational Memorandum](#).

Building on our efforts to align resource allocation, performance reviews, and pay raises with Council-adopted goals and measurable progress, the Council should extend this model to our own pay and ensure that it is being consistently used for Council Appointees and their Senior Staff. I propose updating our salary setting process to align with a Pay for Performance model that ties performance-based raises (e.g. those in excess of any annual cost-of-living adjustment) for elected officials directly to measurable progress on Focus Area goals set through the budget process, or otherwise updated by the Council during the fiscal year based on new information. These and other top priority goals – aligned with Council's policy direction and adopted budget priorities – should be directly incorporated into each Council Appointee's annual work plan and the annual performance review and feedback process the Council is hiring an outside consultant to help redesign.

Goals and performance targets that will be used for Pay for Performance targets for the Mayor, Council, Council Appointees and their Senior Staff should be set by the Council through the budget process and reflected in the Final Adopted Budget, and they should be assessed at the end of each fiscal year by the Council as a key input to the Salary Setting Commission's review of elected officials' compensation, the evaluation process for Appointees, and the Management Performance Program (MPP) review for Senior Staff.

To bring performance review and salary-setting processes into alignment with the progress we collectively need to achieve our most important goals, the City Manager and City Attorney are directed to work together and return to the Council by June 2025 with recommend language for a 2026 Charter amendment that, if passed by the voters, would:

1. Amend the salary setting process for the Mayor and Council by directing the Salary Setting Commission to align any pay raises beyond cost-of-living increases with actual performance relative to the Council's adopted Pay for Performance goals within the Council's Focus Areas, which should be reported to the Commission on an annual basis. Goals and performance each fiscal year will be summarized and reported to the Commission via an annual report prepared by the City Manager and adopted by the Council in an open session.
2. Make clear that any pay raises for Council Appointees and their Senior Staff in excess of cost-of-living increases will be tied to measurable goals that reflect community impact. The Council's adopted Pay for Performance goals within the Focus Areas that impact Council Appointees' and Senior Staff's areas of responsibility should take priority and account for at least a majority of their performance-based raise.

Preliminary ideas for how such a ballot measure may be structured should be brought to Council for review and discussion through the Budget Study Sessions in May 2025. Once Council has adopted ballot language, this 2026 measure should be placed on whichever of the 2026 June Primary or November General Election ballots is likely to require the least cost to taxpayers.

Return to Work

Today, our default expectation is that employees work in person 5 days per week. For public-facing roles like police officers and park maintenance workers, in-person work is required to carry out basic job duties. Some of us at City Hall have greater flexibility. Per our City Manager, approximately 20% of our overall workforce have Flexible Workplace Agreements in place where they work 3-4 days in the office and 1-2 days at home. Returning those City employees to the office more days a week would likely strengthen teamwork, communications, efficiency, and accountability, provide more opportunities for mentorship and professional development, and bring more people into the downtown during workdays. Therefore, the City Manager and all other Appointees should consider bringing more employees into the workplace in accordance with the City's Flexible Workplace Policy, which may include increasing the baseline expectation for flexible work to in-person work four days per week.

Building a Customer-centric Culture

As public servants, we dedicate ourselves to improving the daily lives of everyone in our community. In order to stay close to our customers – the people who live, work in, and visit our city – we should increase opportunities for City employees to get out of City offices and into each of our neighborhoods where we can witness conditions first-hand, speak with residents and small business owners, and take direct action. To this end, the City Manager should explore deploying City employees across the city to engage with, clean up, beautify, and otherwise support our neighborhoods on a periodic basis, as their work schedules permit – this work would be intended first and foremost to bring our entire workforce closer to the “customer,” our residents, and should include use of the SJ311 app.

IX. OTHER IMPORTANT AND ONGOING WORK

The above sections outline critical investments within our core Focus Areas, while being mindful about the fiscal constraints we face. Of course, there are many other important services that we must sustain in these uncertain times. In the Fiscal Year 2025-2026 Budget Priority Study Session on February 11, 2025, the City Manager outlined her City Service Area outcomes and key priorities, including the City Manager's Foundational Priorities. While many of these priorities overlap with the direction included in this message, the City Manager is directed to recommend budgetary adjustments, where necessary, to ensure that this work is continued in 2025-2026.

The following sections highlight a few key investments in other important and ongoing work that we must prioritize even as we make difficult budget trade offs this year.

Protecting Our Immigrant Community

During a time of uncertainty for so many of our immigrant neighbors, it is important for this Council to reaffirm our commitment to being a welcoming and inclusive city. The City Manager is directed to provide \$200,000-\$250,000 in one-time funding for services to support and protect our immigrant community, which could include expanding legal services, counseling and peer support networks, family preparedness plans, and strengthening privacy systems for non-profit partners.

San José Animal Care and Services (SJACS)

Dedicated SJACS staff, volunteers, and rescue partners provide critical care for thousands of animals every year. Last fall, the City Auditor released an audit that confirmed SJACS is over capacity and needs help keeping up with the large number of animals coming through the shelter's doors. When the audit came before Council in December, the Council provided additional direction for staff to restore Trap, Neuter, and Release (TNR) programs five days a week and work towards providing publicly available, low-cost spay and neuter services for owned pets. The City Manager is directed to prepare an MBA that evaluates options to redeploy existing resources to significantly scale up the weekly volume of TNRs and restore community spay and neuter services.

Climate Smart San José

The City Manager intends to shift the Climate Smart work within the Environmental Services Department to the Energy Department to allow for better alignment with the City's climate policy and energy-related efforts. We look forward to the increased spending on energy efficiency and renewable energy programs through San José Clean Energy, while also ensuring that sufficient General Fund resources remain focused on non-energy related activities to achieve our carbon neutrality goals.

2026-2027 Future Deficit Reserve: As part of our two-year strategy to balance the budget, we need to begin to address the additional incremental shortfall of \$53 million forecasted for 2026-2027. While incorporating the direction within this message into the 2025-2026 Proposed Budget, the City Manager is directed to establish a 2026-2027 Future Deficit Reserve to set aside ongoing savings from cost reductions authorized in this budget cycle that will help address the projected shortfall for next year's budget cycle.

Prior One-Time Funded Items: If not identified previously, the City Manager is directed to evaluate programs funded on a one-time basis in 2024-2025, in context of the direction included in this message and the Budget Balancing Strategy Guidelines referenced below, for potential continuation in 2025-2026.

Essential Services Reserve: For the 2025-2026 budget cycle the City Manager is directed to set aside \$1,000,000 in the Essential Services Reserve. This reserve allows Councilmembers to request one-time funds for critical projects through Budget Documents.

Budget Balancing Strategy Guidelines: In addition to the direction described in this memorandum, the City Manager is directed to deploy the Budget Balancing Strategy Guidelines, as described in Appendix A, to guide her approach to crafting a balanced budget in the year ahead.

Cost Estimate Request and City Council Budget Document Guidelines: This March Budget Message includes definitions and guidelines for the Cost Estimate Request and Budget Document process to continue to ensure the delivery of meaningful budgetary information for City Council decision-making. These guidelines can be found in Appendix B.

I have coordinated this March Budget Message with the City Manager and City Attorney and their respective offices.

I respectfully request my colleagues' support of this message.

Any questions may be directed to Stephen Caines, the Mayor's Budget Director, at Stephen.Caines@sanjoseca.gov.

APPENDIX A

2025-2026 Budget Balancing Strategy Guidelines

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. Pursue a two-year strategy to address the multi-year shortfalls by also considering actions to take effect in 2026-2027, and the establishment of a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
4. Evaluate program-level budgets to identify opportunities to reduce/eliminate or restructure services that yield cost reductions and allow for the preservation of City Council-approved Focus Areas service levels, critical CSA services and programs, and the City Manager's Foundational Strategic Support Focus Areas, to the extent practicable.
5. Prioritize resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2024-2025 in the General Fund, and/or respond to specific City Council direction.
6. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. Explore mechanisms to improve equity and inclusion within service delivery models.
9. Identify City policy changes that would enable/facilitate service delivery improvements, as well as one-time and ongoing General Fund savings, including changes to the policy governing the use of Measure E revenues.
10. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Consider delaying the opening of new City facilities as a near term cost reduction strategy.
12. Explore expanding existing revenue sources and/or adding new revenue sources.
13. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
14. Focus any available one-time resources on investments that 1) continue a very small number of high-priority programs funded on a one-time basis in 2024-2025 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
15. Engage employees in department and/or city-wide budget proposal idea development.
16. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
17. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

APPENDIX B

Cost Estimate Request and City Council Budget Document Guidelines

Consistent with prior years, the City Manager's Budget Request also includes guidelines for the process whereby City Councilmembers submit cost estimate requests to the Administration in preparation for their Budget Documents that are ultimately submitted to the Mayor's Office for potential inclusion in the Mayor's June Budget Message. This process is extremely beneficial in focusing the work of the Administration on feasible and implementable programs and services. The Administration recommends that the following definitions and guidelines – which provide definitions and limits to the Cost Estimate Request and Budget Document process to ensure the delivery of meaningful budgetary information for City Council decision-making – again be incorporated into City Council's approval of the Mayor's March Budget Message.

Cost Estimate Request: A request by a Councilmember to the Administration seeking the cost of a new project or program to be performed by City. The request from the Councilmember should include a clear description of the work to be performed and the anticipated outcomes that identifies how the change would affect services for San José residents, businesses, community groups, etc. Each Councilmember should submit no more than five Cost Estimate Requests.

The request must have a modest scope so that a reliable cost estimate response can be quickly and accurately completed. The anticipated scope should be a small-scale project that the City has delivered in the past, or an extension of a service that already exists that would only require a modest staffing addition on a one-time basis. Recent examples include the installation of targeted neighborhood traffic calming improvements, a radar speed display sign along a neighborhood street, or additional street tree plantings within a City Council District.

Requests that involve complex service delivery and/or large ongoing staffing resources for new programs (e.g., at-home STEM educational programs for children in Title I schools supplemented with free Wi-Fi hotspots), or large capital construction projects that require extensive design (e.g., new streetlight infrastructure, highway overpasses, etc.) are not appropriate for this process.

The request should identify the anticipated funding source to pay for the program (though City staff may suggest alternative funding sources in its response) and indicate if the project/program is a one-time or ongoing effort. To keep the budget structurally balanced, one-time expenditure requests should be offset by one-time funding sources, while ongoing expenditure requests should be offset by ongoing funding sources.

Cost Estimate Response: A response by the Administration to the Councilmember's request that clearly identifies the one-time and ongoing costs, as appropriate, any additional full-time equivalent positions that would be needed, and eligible funding sources. Explanatory notes are provided only if necessary to clarify what is included in the cost estimate response.

Budget Documents: Memoranda issued by a Councilmember to the Mayor recommending adjustments to the City Manager's Proposed Budget. Typically, Budget Documents are based on the information received in a Cost Estimate Request and Response, but they may also recommend targeted funding for community groups whose programs or actions serve the public

interest, but would not be performed by City staff. All Budget Documents that recommend a City-provided service or project must be based on a Cost Estimate Response.

As the Proposed Budget is fully balanced, Budget Documents must also identify the offsetting actions to pay for the recommended adjustment, such as the Essential Services Reserve. For example, if a Budget Document seeks to fund a \$50,000 project, then a typical offset would be a \$50,000 reduction to the Essential Services Reserve. It is important to note that the Essential Services Reserve is not an ongoing funding source. To pay for any ongoing costs, and to align within City of San José Budget Principles, the Budget Document would also need to identify an ongoing service in the Proposed Budget to defund.

Submittal Dates:

- **Wednesday, May 7:** Deadline for Councilmembers to submit Cost Estimate Requests to the City Manager's Budget Office
- **Friday, May 16:** Cost Estimate Responses returned to Councilmembers
- **Thursday, May 22:** Budget Documents due to Mayor's Office