

May 1, 2025

Honorable Mayor and City Council:

I am proud to deliver the 2025-2026 Proposed Operating Budget, a fiscally responsible and balanced budget that meets the important objectives of the City Council while also structurally aligning the General Fund with minimal community or employee impact. This budget follows the direction provided by the Mayor and City Council with their approval of the Mayor’s March Budget Message for Fiscal Year 2025-2026, and considers other City Council and Administration priorities, recent community outreach and surveys, and the impacts of service reductions to the community.

The 2026-2030 General Fund Five-Year Forecast was used as the starting point in the development of the budget. For the General Fund, a revised Base Budget shortfall of \$35.6 million is projected for 2025-2026, followed by an additional incremental shortfall of \$52.9 million, with a small shortfall or surpluses over the remaining three years of the Forecast. While the 2025-2026 shortfall represents a relatively modest portion of the General Fund Base Budget at 3%, decisive action is needed now to ensure a structurally aligned balanced budget given the additional larger shortfall anticipated the following year, and recent actions by the federal government that are contributing to economic and funding uncertainty. The City must also make a select number of new investments to address the City Council’s most urgent priorities and address key areas of organizational risk.

Keeping these considerations in mind, the Proposed Budget follows City Council direction to focus on targeted, strategic spending, while fully resolving the shortfall in 2025-2026 and cutting in half the additional shortfall forecasted for 2026-2027, reducing it from \$52.9 million to \$25.9 million. It is important to note that, even with a number of cost reductions and service delivery efficiencies, and corresponding position eliminations necessary to address the shortfall, the Administration anticipates a very minimal number of employee impacts resulting from actions in this Proposed Operating Budget.

For the City’s many other dedicated funds (e.g., Airport Funds, Integrated Waste Management Fund, San José Clean Energy Fund, Sanitary Sewer Funds), the budget actions considered various service delivery and infrastructure needs balanced within the available resources of each fund. All budgeted service levels considered associated impacts to rate payers during the Proposed Operating Budget’s preparation.

**Budget Town Halls**



- May 7**  
District 3 – Roosevelt Community Center
- May 8**  
District 8 – Grace Church of Evergreen
- May 12**  
District 4 – Berryessa Community Center
- May 21**  
District 9 – Lincoln Glen Church
- May 22**  
District 2 – Ledesma Elementary
- May 28**  
District 1 – Moreland Services Center

**Budget Decision Milestones**

- May 7 – 15**  
City Council Budget Study Sessions
- May 13/June 9**  
Public Hearings on 2025-2026 Proposed Budgets and Fees & Charges
- June 2**  
2025-2026 Mayor’s June Budget Message Released
- June 10**  
Council Review/Approval of the 2025-2026 Mayor’s June Budget Message
- June 17**  
Adoption of the 2025-2026 Capital and Operating Budgets, 2026-2030 CIP, and the 2025-2026 Fees & Charges

## 2025-2026 PROPOSED OPERATING BUDGET

As guided by City Council’s approval of the Mayor’s March Budget Message for Fiscal Year 2025-2026, this Proposed Budget prioritizes and reallocates the City’s limited General Fund and resources in other funds to continue work on some of our most challenging issues, including reducing unsheltered homelessness, increasing community safety, cleaning up our neighborhoods, growing our economy, and building more housing. Allocations also address select areas of urgent, important, and continuing core service work within other community services, strategic support services, and deferred infrastructure areas. A summary of the recommended key actions for these investment priorities is provided later in this transmittal memorandum.

Other summary information items that can easily be found in this transmittal memorandum include: Total Proposed Budget; Position Impacts; General Fund Forecast; Proposed Budget Development Considerations; General Fund Budget Balancing Plan; Measure E Allocation Strategy and Affordable Housing Funding; Strategic and Equity-Focused Approach to Cost and Service Reductions; City Service Area Highlights and Key Budget Actions with key budget actions outlined by title and the section where they can be found throughout the Proposed Operating Budget document; and Fees and Charges Adjustments.

It is important to note that though this transmittal memorandum primarily discusses the incremental changes to the budget and new or reallocated funding to implement new, enhance, or reduce existing services levels, the 2025-2026 Proposed Operating Budget is a comprehensive document that contains budgetary and performance data for each City Service Area (CSA) and department, linking the expected service delivery environment to expected actions and outcomes, facilitated through the spending in dozens of Core Services and hundreds of Budget Programs.

While the exact impact is unknown, actions by the federal government that may limit or condition grants to State, regional, and local governments – including the City of San José – are being closely monitored by the City, and contested where appropriate. Other risks include unfunded capital needs, potential revenue loss due to regulatory changes and economic uncertainty, increased retirement contributions due to market volatility, and the extremely limited levels of reserve funding to provide a backstop against these uncertainties. The Administration will continue to work across departments to identify key risk areas and keep the City Council apprised of any necessary changes to the Proposed Budget.

Based on the hard work of City staff, this Proposed Operating Budget thoughtfully and successfully allocates ongoing funding to the priorities identified in the March Message, brings the General Fund into closer structural alignment with service level demands over a two-year period, and considers existing funding sources across 145 City funds. Each funding source was brought into balance to sustainably continue City programming and services in accordance with City Council direction, priorities, and policies.



## 2025-2026 PROPOSED OPERATING BUDGET

### Total Proposed Budget

The 2025-2026 Proposed Budget totals \$5.6 billion for all City funds (General, Special, and Capital). This amount is \$555.1 million (9.1%) less than the 2024-2025 Adopted Budget (Table 1 below). The Proposed Budget, however, does not yet include funds that will be rebudgeted and added to the final 2025-2026 Adopted Budget to complete multi-year projects. Once these rebudgets are included, the total amount of the budget will increase.

<b>2025-2026 Proposed Budget — All Funds (Table 1)</b>			
	<b>2024-2025 Adopted</b>	<b>2025-2026 Proposed</b>	<b>% Change</b>
General Fund	\$ 2,130,127,112	\$ 1,685,752,026	(20.9%)
Special Funds	3,667,126,712	3,593,120,917	(2.0%)
<Less: Operating Transfers>	(1,106,073,764)	(884,256,012)	(20.1%)
<b>Net Operating Funds</b>	<b>4,691,180,060</b>	<b>4,394,616,931</b>	<b>(6.3%)</b>
Capital Funds	1,444,448,234	1,186,347,799	(17.9%)
<Less: Capital Transfers>	(6,952,000)	(7,377,000)	6.1%
<b>Net Capital Funds</b>	<b>1,437,496,234</b>	<b>1,178,970,799</b>	<b>(18.0%)</b>
<b>Total</b>	<b>\$ 6,128,676,294</b>	<b>\$ 5,573,587,730</b>	<b>(9.1%)</b>

### Position Impacts

The Proposed Budget includes a slight net increase to the overall position count throughout the organization. The Base Budget included the elimination of 31 positions, as these positions were funded on a one-time basis only in the 2024-2025 Adopted Budget. Actions in the Proposed Budget add a net 36 positions, primarily due to 21 added positions in the Housing Department (most of which were previously funded on a one-time basis) for homeless prevention, outreach, contract oversight services; 14 sworn positions in the Fire Department to operate the new Fire Station 32 beginning in spring 2026; and other reductions and additions across departments. Overall, the net level of staffing increases by 5 positions, from 6,994 full-time equivalent (FTE) positions in the 2024-2025 Adopted Budget to 6,999 positions in the 2025-2026 Proposed Budget, as shown in Table 2 below.

<b>Changes in Position Count (All Funds) from 2024-2025 Adopted to 2025-2026 Proposed Budget (Table 2)</b>	
<b>2024-2025 Adopted Budget</b>	<b>6,994 positions</b>
<i>2025-2026 Base Budget Changes</i>	<i>(31) positions</i>
<i>2025-2026 Proposed Budget Changes – General Fund</i>	<i>6 positions</i>
<i>2025-2026 Proposed Budget Changes – Other Funds</i>	<i>30 positions</i>
Total Net 2025-2026 Position Changes	5 positions
<b>2025-2026 Proposed Budget</b>	<b>6,999 positions</b>

**2025-2026 PROPOSED OPERATING BUDGET**

**General Fund Forecast**

In February 2025, the Administration released the 2025-2026 City Manager’s Budget Request and 2026-2030 Five-Year Forecast and Revenue Projections document to estimate the budget condition of the General Fund and selected Capital Funds over the next five years. The Forecast initially anticipated an ongoing shortfall of \$45.7 million in 2025-2026. That shortfall was revised downward to \$35.6 million due to a number of combining factors, including increased estimates for Property Tax revenue and Franchise Fee revenue, a slight increase in retirement costs resulting from a lower discount for the pre-funding of retirement contribution, and a handful of other minor revisions to several revenue categories and expenditure components.

Table 3 below displays the incremental General Fund shortfalls estimated over the next five years. It is important to note that the shortfall anticipated in 2026-2027 assumes that the \$35.6 million shortfall for 2025-2026 is fully resolved with ongoing solutions. Any portion of a shortfall not fully resolved would be carried over to the following year.

**2026-2030 Revised General Fund Five-Year Forecast**  
 (\$ in millions)<sup>1</sup>  
 (Table 3)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Five-Year Surplus/ (Shortfall)
<b>Incremental Surplus/ (Shortfall)</b>	(\$35.6) <sup>2</sup>	(\$52.9)	(\$3.7)	\$4.0	\$1.2	(\$87.0)
<b>Total Cumulative Shortfall</b>	(\$35.6)	(\$88.5)	(\$92.2)	(\$88.2)	(\$87.0)	(\$87.0)

<sup>1</sup> Does not include 1) costs associated with services funded on a one-time basis in 2024-2025; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

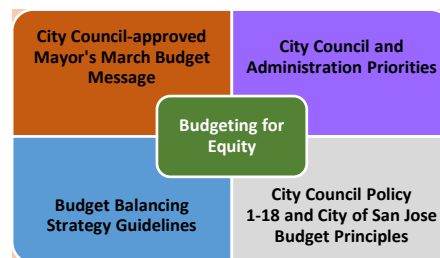
<sup>2</sup> This figure was revised from the \$45.7 million shortfall as presented in the February 2025 Forecast as a result of continued analysis of projected revenues and expenditures.

As with any forecast, these projections will vary in response to changing economic conditions, which primarily affects City revenues, changes in projected expenditures, particularly in salary levels and retirement costs, or other factors beyond the City’s control. The Administration will continue to evaluate financial trends and other changes that could affect the City’s budget situation and report to the City Council regularly. It is important to highlight that the projected shortfalls omit the cost of programs previously funded on a one-time basis in the General Fund, estimated at approximately \$8.5 million, any one-time expenditure needs – including the significant backlog of deferred capital maintenance needs – and any service level enhancements desired by the City Council and community. When considering these other factors, the City faces an even larger service level/structural shortfall.

To make matters more challenging, even after resolving the 2025-2026 shortfall on an ongoing basis, additional ongoing solutions of \$52.9 million are still required to resolve the shortfall currently projected for 2026-2027. As a result, City Council’s approval of the Mayor’s March Budget Message directed the Administration to take a multi-year approach to balancing the General Fund. The Proposed Operating Budget fully meets this direction by establishing a 2026-2027 Future Deficit Reserve, setting aside ongoing funding of \$27.0 million in 2026-2027. This prudent approach positions the City to better weather future uncertainty and another difficult budget development process next fiscal year by significantly reducing the currently projected shortfall in 2026-2027 from \$52.9 million to \$25.9 million.

## Proposed Budget Development Considerations

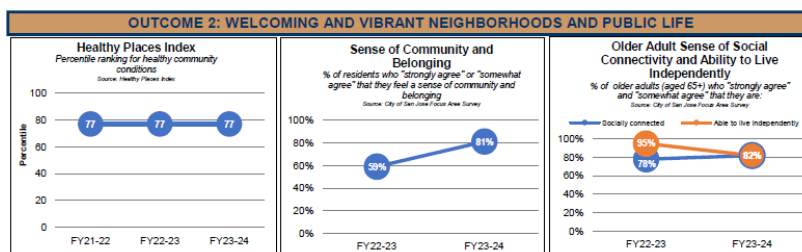
The Proposed Budget must balance a variety of competing community and organizational needs while ensuring that the resources contained within all City funds remain in balance and thoughtfully deployed. While the budget development process was informed by a variety of factors, the inputs shown on the right are the key drivers that provided the strategic approach to address these needs.



The Mayor's March Budget Message for Fiscal Year 2025-2026, as approved by the City Council, identified the main investment priorities for the budget process, and directed the Administration to employ the City Manager's recommended Budget Balancing Strategy Guidelines<sup>1</sup> that outlined a number of general approaches to use in the development of the budget. City Council Policy 1-18<sup>2</sup> and the City of San José Budget Principles<sup>2</sup> further ensured that the Administration applied best budgetary practices and worked to align ongoing revenues with ongoing expenditures. Throughout the year, the City Council also identified new or revised desired service levels to benefit the community, and the Administration identified areas for additional investment or reallocation to address organizational risks and service delivery gaps.

Unfortunately, budgetary constraints significantly limit the City's ability to meet desired service levels and, in fact, requires ongoing cost and service reductions along with some minimal revenue increases to bring the General Fund into structural alignment in 2026-2027 while also continuing or enhancing those services consistent with City Council direction as included in the March Budget Message. Due to the nature of the City's work, service reductions could have a disproportionate impact on already disadvantaged communities. As a result, the Administration's obligation during the budget process was to intentionally consider equity regarding budget actions, asking questions such as: who is burdened by the action, what steps could be taken to mitigate the impact, and are there other feasible cost reduction strategies that would have less of an impact? Additional discussion on the Administration's approach to budget reduction follows.

To deepen our ability to understand the impact of services within different segments of the community, we are in the final stages of a three-year process to revamp the outcomes, strategic objectives, performance measures, and activity and workload highlights displayed in the Proposed and Adopted Budgets. This approach was piloted in the 2023-2024 Adopted Operating Budget with revisions to the Neighborhood Services CSA, at both the CSA and Department Core Service level, along with the development of a "Community Indicators Dashboard" that aligns with the revised outcomes. This process continued in the 2024-2025 Adopted Operating Budget and is nearly completed in the 2025-2026 Proposed Operating Budget with revisions and updates to the Environmental and Utility Services, Transportation and Aviation Services, and Strategic Support CSAs. The work to create the new metrics is substantially complete and new Community Indicators for these CSAs will be brought forward as part of the Adopted Budget process. Actions are included in this budget to embed the new processes for oversight, management, and modernization of the City's new performance measures and community indicators, as well as to support other performance measure projects including updates to the Focus Area scorecards.



<sup>1</sup> Included at the end of this transmittal memorandum.

<sup>2</sup> Included in the *Budget Policies and Practices* section of this budget document.

## 2025-2026 PROPOSED OPERATING BUDGET

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### General Fund Budget Balancing Plan

As previously mentioned, the City Council's approval of the Mayor's March Budget Message for Fiscal Year 2025-2026 directed the City Manager to bring forward recommendations that fully resolve the \$35.6 million shortfall on an ongoing basis in 2025-2026 and resolve a portion of the additional \$52.9 million shortfall in 2026-2027, while also minimizing impacts to existing services and allowing for targeted new funding for the City Council's most urgent priorities. The Proposed Budget's implementation of this direction is summarized below.

- ❖ **Reallocation of homeless sheltering and support costs from the General Fund to Measure E.** In response to City Council direction, the Proposed Budget increases the ongoing allocation of Measure E revenues for homeless sheltering and support programs from 15% to 90%, which allows for the shift of ongoing General Fund costs to the Real Property Transfer Tax Fund of \$39.2 million in 2025-2026, increasing to \$42.8 million in 2026-2027.
- ❖ **Identification of new revenue.** The Proposed Budget recognizes new revenues of \$12.5 million in 2025-2026, of which \$9.0 million is ongoing. These actions include a one-time increase of Cardroom Business Tax revenues in 2025-2026 due to a shift in the timing of regulatory proceedings of the State Gaming Commission, implementation of the First Responder Fee Program in the Fire Department, implementation of a two-year Business Tax Amnesty Program in the Finance Department, increases in various fees and charges to maintain cost recovery levels, and recognition of new grant revenue.
- ❖ **Cost and service reductions.** The Proposed Budget includes cost and service level reductions of \$11.7 million in 2025-2026 and \$14.9 million ongoing. These actions include reductions to personal services, including vacant and filled positions; reductions to contractual services, supplies and materials and other non-personal/equipment allocations; and several reductions scheduled to take effect in 2026-2027 to allow for sufficient transition time of impacted customers/service providers and employees.
- ❖ **Deferring full activation of new public safety facilities.** While new Measure T facilities will come online in 2025-2026, the Proposed Budget defers the full activation of public safety facilities as previously included in the Base Budget. Fire Station 32, a two-company station, is now scheduled to come online in spring 2026 as a one-company engine station; the activation of the second truck company is deferred, resulting in savings of \$826,000 in 2025-2026 and \$5.6 million ongoing. Similarly, while the Police Training Center is scheduled to begin operating in spring 2026, the subsequent activation of the South San José Substation previously anticipated in 2026-2027 is also deferred, saving \$1.9 million in 2026-2027. The full activation of these facilities will be re-evaluated in future budget cycles.
- ❖ **Strategic use of limited reserve funding.** To address one-time funding needs – including replacement of the 9-1-1 dispatch back-up generators and replacement of mobile data computers in patrol vehicles – the Proposed Budget allocates \$7.0 million from the Budget Stabilization Reserve and \$11.5 million from the Community and Economic Recovery Reserve, of which \$10.0 million will be allocated as a backstop to potential denial of pandemic-era reimbursements from the Federal Emergency Management Agency (FEMA).

The 2025-2026 Proposed General Fund Budget Balancing Plan that resolves the \$35.6 million shortfall forecasted for 2025-2026 is displayed in Table 4 below, which shows the matrix of balancing strategies and the dollars associated with each action. A technical discussion of the balancing strategies can be found in *Attachment A* to this message and is described in detail throughout the Proposed Budget. *Attachment B* provides the status of Mayor and City Council referrals approved as part of the Mayor's March Budget Message for Fiscal Year 2025-2026. *Attachment C* provides information regarding any actions included in the budget that specifically addressed a recommendation issued by the City Auditor.

## 2025-2026 PROPOSED OPERATING BUDGET

### General Fund Budget Balancing Plan (Cont'd)

<b>2025-2026 Proposed Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)</b>		
	<b>2025-2026</b>	<b>Ongoing</b>
<b>2025-2026 General Fund Shortfall</b>	<b>(\$ 35,646)</b>	<b>(\$ 35,646)</b>
Balancing Strategy		
<b>Source of Funds</b>		
Beginning Fund Balance:		
Community and Economic Recovery Reserve	\$ 11,500	\$ 0
Budget Stabilization Reserve	7,000	0
Information Technology Sinking Fund Reserve	2,360	0
Other Beginning Fund Balance Adjustments	1,755	0
Grants/Reimbursements/Fees:		
Cardroom Business Tax	5,000	0
First Responder Fee Program	2,000	4,000
Energy Customer Development Team	520	520
San José Public Library Foundation Grants	439	456
Commercial Solid Waste CPI Adjustment	431	431
Fire Non-Development Fee Program	430	430
Police Department Fees and Charges	393	393
Other Fee Programs/Reimbursements/Grants	330	330
Coyote Creek and Guadalupe River Trail Patrol	325	0
Parking Citation Scofflaw Program	300	300
Public Art Staffing Continuation	200	200
Citywide Sports Fields Staffing	181	181
Action Sports Park Service Delivery Change	0	(135)
Business Tax Amnesty Program	1,575	1,575
Overhead Reimbursements	350	364
<b>Subtotal Source of Funds</b>	<b>\$ 35,089</b>	<b>\$ 9,045</b>
<b>Use of Funds</b>		
2026-2027 Future Deficit Reserve	\$ 0	\$ 27,000
Unmet/Deferred Technology, Infrastructure, and Maintenance	20,526	864
Transfer to the Emergency Reserve Fund (FEMA Non-Reimbursable Expenses)	10,000	0
Service Level Enhancements	10,201	3,613
Earmarked Reserves	7,750	1,400
Previously One-Time Funded Services (from 2024-2025)	5,924	2,486
Other Fee Programs/Grants/Reimbursements	1,504	1,610
New Infrastructure/Equipment Operations and Maintenance	1,467	6,318
Cost Shift to the Real Property Transfer Tax Fund (Measure E Reallocation)	(39,188)	(42,750)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(11,668)	(14,948)
Use of Reserves	(7,073)	(12,194)
<b>Subtotal Use of Funds</b>	<b>\$ (557)</b>	<b>\$ (26,601)</b>
<b>Total Balancing Strategy</b>	<b>\$ 35,646</b>	<b>\$ 35,646</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>

## 2025-2026 PROPOSED OPERATING BUDGET

### Measure E Allocation Strategy and Affordable Housing Funding

The Mayor's March Budget Message for Fiscal Year 2025-2026, as approved by the City Council, included the following direction:

*Modify 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.*

The 2025-2026 Proposed Operating Budget includes the ongoing reallocation of Measure E in accordance with this direction. As shown in the table below, this policy change increases the amount of Measure E funding available for homelessness sheltering and support by \$39.2 million in 2025-2026 (from \$7.8 million to \$47.0 million) and by \$42.8 million in 2026-2027 (from \$8.6 million to \$51.3 million).

Recommended Allocation of Measure E Revenues in the 2025-2026 Proposed Operating Budget (\$ Millions)		
	2025-2026	2026-2027
Program Administration (5% of total revenue)	2.75	3.00
Homelessness Prevention (10% of remaining revenue)	5.23	5.70
Homelessness Support and Sheltering (90% of remaining revenue)	47.02	51.30
<b>Original 15%</b>		
Interim Housing Construction and Operations (Base Budget)	7.84	8.55
<b>Reallocated 75%</b>		
Interim Housing Construction and Operations (Additional Contribution)	25.00	39.25
Outreach, Sanitation and Other Support Services	3.50	3.50
Beautify San José Encampment Management Services*	6.68	
Homeless Rapid Rehousing*	4.00	
<b>Total Amount Reallocated</b>	<b>39.18</b>	<b>42.75</b>
<b>Total Estimated Measure E Revenues</b>	<b>55.0</b>	<b>60.0</b>

\*One-time funding shift from the General Fund to the Real Property Transfer Tax Fund; these services will again be funded in the General Fund in 2026-2027 and ongoing.

## 2025-2026 PROPOSED OPERATING BUDGET

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### Measure E Allocation Strategy and Affordable Housing Funding (Cont'd)

**Interim Housing Portfolio.** The City's interim housing portfolio in 2025-2026 includes 1,110 bridge/emergency interim housing site units, 280 converted hotel rooms, and 126 supportive parking spaces; and 60 safe sleeping sites, 306 new motel rooms and 55 supportive parking spaces to relocate unhoused residents from the City's waterways for a total of 1,937 interim housing units/spaces. As discussed in *Appendix C – Interim Housing Forecast* in the 2025-2026 City Manager's Budget Request and 2026-2030 Five-Year Forecast and Revenue Projections, the contribution from the General Fund to support the City's interim housing portfolio – under the existing Measure E policy – is \$25.0 million in 2025-2026 and rises to \$66.0 million in 2026-2027. The recommended policy change in the 2025-2026 Proposed Operating Budget eliminates the General Fund contribution of \$25.0 million in 2025-2026 by shifting this entire cost into the Real Property Transfer Tax Fund, and decreases the General Fund contribution in 2026-2027 by \$39.3 million, from \$66.0 million to \$26.7 million.

**Outreach, Sanitation and Other Support Services.** An ongoing allocation of \$3.5 million was established in the 2024-2025 Adopted Operating Budget to provide sanitation services to encampments along waterways, as well as outreach and other services to help meet the basic needs of residents along the waterways and conduct housing assessments to refer and place individuals into shelter and housing opportunities. The 2025-2026 Proposed Operating Budget shifts these costs from the General Fund to the Real Property Transfer Tax Fund.

**Beautify San José Encampment Management Services.** The 2025-2026 Proposed Operating Budget includes a one-time shift from the General Fund to the Real Property Transfer Tax Fund of a portion of Beautify San José's cost to provide trash and waste pickup from unhoused residents, including trash collection at encampments and sewage collection from lived-in vehicles (\$6.7 million). These funds will not be used for any abatement activities. These costs will be shifted back to the General Fund in 2026-2027.

**Homeless Rapid Rehousing.** A total of \$4.0 million will pay for rapid rehousing services that help outreach workers immediately place unhoused residents into temporary housing, such as a hotel room or other type of short-term rental opportunity. These costs will be shifted back to the General Fund in 2026-2027.

**Affordable Housing Impacts.** The reallocation of \$39.2 million (\$42.8 million ongoing) of Measure E revenues to support homeless sheltering and support services is a key strategy to minimize impacts to other community services and City employees; however, the tradeoff is a significant reduction of ongoing revenues to support the development of new affordable housing.

To partially mitigate this impact, the Housing Department is working to make available approximately \$160 million from various sources to support new affordable housing development in the near term and helping to move forward previously committed affordable housing projects. First, the Housing Department has identified approximately \$60 million of prior year Measure E and other Housing Funds that have been made available to support a new Notice of Funding Availability (NOFA) scheduled for release prior to the end of 2024-2025. This NOFA is estimated to support the future development, through the Gap Financing Program, of up to approximately 250 affordable housing units. Second, due to collaborations with the County of Santa Clara Office of Supportive Housing and the Housing Authority to leverage public funding, affordable housing projects totaling approximately 760 affordable units that were previously identified for funding will now be able to move forward.

### Measure E Allocation Strategy and Affordable Housing Funding (Cont'd)

Finally, the Housing and Finance Departments are collaborating on a few innovative methods for financing housing development, including the issuance of a housing bond backed by loan repayments from the City's existing affordable housing project loan portfolio, that collectively could inject up to \$100 million in support of affordable housing development. The timing of the housing bond and pursuit of the alternate methods, such as master leasing and project refinancing, is anticipated in the second half of 2025-2026.

### Strategic and Equity-Focused Approach to Cost and Service Reductions

Even with the reallocation of Measure E resources, further actions are necessary to provide sufficient General Fund capacity in 2025-2026 for new investments in Council-directed priorities and to significantly address the additional incremental shortfall anticipated in 2026-2027. As noted above, the Administration took a strategic and equity-based approach to cost and service reductions – considering impacts to the community and our workforce. Within the framework of the City Council-approved Budget Balancing Strategy Guidelines, the Administration was guided by the following key considerations.

***Non-Personal/Equipment Savings – Identify efficiencies and cost savings through reductions in consulting services, supplies, materials and other contractual services with minimal service impacts.*** Though not a significant driver of the General Fund shortfall – ongoing non-personal/equipment costs (excluding utility costs) increased by just 2.6% in the 2025-2026 Base Budget and total non-personal/equipment funding is projected to increase by an average of only 1.3% over the Five-Year Forecast – each year bring opportunities to take a fresh look at various contracts that yield cost savings with minimal impacts. The 2025-2026 Proposed Operating Budget includes non-personal/equipment reductions of \$1.0 million in the General Fund that are expected to have no or minimal service impacts. A more comprehensive discussion on the evaluation of contracts to achieve long-term savings will be brought forward in an upcoming Manager's Budget Addendum.

***Strategic Support – Implement targeted reductions that minimize disruptions to community-facing departments while still preserving the back-of-house infrastructure necessary for day-to-day service delivery.*** Reductions to Strategic Support Departments (such as Finance, Human Resources, Information Technology, Public Works Departments, and Appointees) are part of the solution to resolve the General Fund shortfall, but small reductions in this area can have outsized impacts that unintentionally impact service outcomes across departments. The 2025-2026 Proposed Operating Budget includes targeted back-office reductions totaling \$4.1 million in 2025-2026, that, while certainly limiting overall organizational capacity, does not significantly impede the City's ability to deliver equitable community-facing or other basic core services.

***Public Safety Services – Achieve meaningful cost reductions within the Police and Fire Departments while still maintaining public safety, especially in historically underserved neighborhoods.*** With a combined budget that comprises approximately 55% of ongoing General Fund Base Budget expenditures, a modest level of cost savings in the Police and Fire Departments – without decreasing public safety – is necessary in order to prevent significant reductions throughout the organization that would otherwise more substantially impact services to historically underserved communities and other areas, and result in significant impacts to City employees. Three key strategies that illustrate this approach, as noted above, include implementing the Fire First Responder Fee, opening new Fire Station 32 as a single company station, and deferring the activation of the South San José Police Substation for a net General Fund improvement of \$2.8 million in 2025-2026 and \$10.6 million in 2026-2027.

## 2025-2026 PROPOSED OPERATING BUDGET

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**Community Services – To the maximum extent possible, preserve the City’s basic core services that are vital to low-income communities, communities of color, immigrants, and other historically marginalized residents.** Protecting core community services – such as parks access, community and recreational programming, and library hours – best leverages limited City dollars to support equitable outcomes. The Administration was intentional in evaluating budget reductions, informed by data to understand community usage and impacts, and ensuring that reductions do not have unintentional consequences for those who most rely on City services. Specifically, the Administration’s approach to achieve cost savings looked at services outside the City’s traditional core competency, services with lower levels of participation or impact, services or programs that have shrunk in recent years, and/or services where alternative service providers are identified. While these reductions are not without negative impacts, with service reductions totaling \$3.2 million in 2025-2026 and \$4.2 million ongoing, the City’s core community services remain intact. The 2025-2026 Proposed Operating Budget does not cut library hours, parks maintenance, staff-led community center and recreational programming, aquatics, scholarships, or nutritional programs.

**2026-2027 Reductions – Authorize reductions now that will take effect in 2026-2027.** Finally, taking a two-year approach to balancing the General Fund to partially reduce the anticipated additional incremental shortfall in 2026-2027 is not only fiscally responsible, but mindful of community and employee impacts. Several reductions are included in the 2025-2026 Proposed Operating Budget, totaling \$3.0 million, that will not take effect until 2026-2027. This lead time allows impacted service providers and community members to identify alternative services or other mitigation strategies. It also allows time for impacted employees to transition into new assignments and avoid potential layoffs.



***Alviso Branch Library and Community Center***

## 2025-2026 PROPOSED OPERATING BUDGET

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### City Service Area Highlights and Key Budget Actions

While much of this message and conversations surrounding the budget involve incremental changes to existing service levels, it is important to keep in mind that most of the City's budget is allocated to delivering basic services, year after year. In the context of a \$1.7 billion General Fund budget and \$5.6 billion total operating budget, only a small percentage is allocated to new actions. The overwhelming majority of the City's limited resources are dedicated to the daily – and critical – effort to serve the San José community.

The 2025-2026 Proposed Operating Budget document provides a comprehensive review of the resources, both funding and positions, allocated to provide services by CSA, Department, Core Service, and Budget Program. Each CSA section and Department section contains a wide range of outcomes, performance measures, and activity and workload highlights by which City services can be measured. The discussion below covers each CSA, giving an overview of the key service delivery expectations for 2025-2026 and highlighting key budget actions related to the direction from the City Council-approved Mayor's March Budget Message for Fiscal Year 2025-2026, investments to support other services, and actions that reduce costs in the General Fund and in other funds to ensure a structural alignment between ongoing revenues and expenditures. For more in-depth information, please review the CSA and Department sections in the Proposed Operating Budget.



*School of Arts Culture – Mexican Heritage Plaza*

## 2025-2026 PROPOSED OPERATING BUDGET

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### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Community and Economic Development CSA

Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$203.2 million and 481.77 authorized positions to the Community and Economic Development CSA, consisting of Core Services from the Office of Economic Development and Cultural Affairs, the Fire Department, the Housing Department, the Planning Building and Code Enforcement Department, and the Public Works Department. The CSA-supported outcomes include: *a Thriving, Inclusive, and Attractive Communities and Vibrant Public Spaces; Strong, Responsive and Equitable Economy; and an Accessible and Diverse Range of Housing and Business Opportunities.*

CSA priorities and highlights of expected service delivery in 2025-2026 include the following:

- Implement the Economic Strategy Workplan approved by the City Council to retain/grow jobs and revenue, foster small business reliance and create thriving business districts, accelerate a thriving downtown, and activate San José as the South Bay's hub for sports, arts, and entertainment.
- Implement the 2026 Sporting Events Strategy.
- Assist arts organizations, cultural facilities, and outdoor event producers to sustain, innovate, and adapt in a changing fiscal environment.
- Provide a range of training and employment services to residents by creating opportunities to learn job skills and earn credentials.
- Revise Inclusionary Housing Ordinance regulations.
- Issue Affordable Housing Notices of Funding Availability and implement innovative strategies to generate additional funding for affordable housing development.
- Initiate the Four-Year Review of the Envision San José 2040 General Fund.
- Streamline and improve the California Environmental Quality Act process, permit fees, and project tracking.
- Implement and publicize Development Services process improvements.
- Facilitate the permitting and coordination of local utility projects.
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The Proposed Budget includes a variety of actions that align with the March Message priority investment area of *Growing our Economy and Building More Housing*, primarily leveraging a mix of one-time funding allocations from the General Fund or other funds. It is important to note that the City expects relatively low levels of development activity in the near term, which continues the recent fall of revenues received within the City's various Development Fee Funds. Actions are included to appropriately reduce or realign costs to address the low activity levels, and to help bring the General Fund into structural alignment.

## 2025-2026 Proposed OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Growing Our Economy

2026 Sporting Events (\$1.5 million)/City-Wide Expenses

Sports and Entertainment District Preliminary Development (\$250,000)/Office of Economic Development and Cultural Affairs

Energy Customer Development Team (\$1.2 million)/Office of Economic Development and Cultural Affairs and Public Works

Small Business ADA Legal Support (\$120,000)/City-Wide Expenses

Storefront Activation Grant Program (\$350,000)/City-Wide Expenses

Supplemental Arts and Cultural Funding (\$100,000)/City-Wide Expenses

Business Outreach and Development Staffing (\$525,000)/Office of Economic Development and Cultural Affairs

#### Building More Housing

Housing Grants Program Management Staffing (\$310,000)/Housing

CEQA Process Improvement (\$250,000)/Planning, Building and Code Enforcement

ProjectDox Software Upgrade (\$280,000)/ Planning, Building and Code Enforcement

Contracts Monitoring and Compliance Staffing (\$238,000)/Housing

#### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Public Works Staffing Plan (-\$709,000)/ Public Works

Administration and Fiscal Oversight Staffing (-\$327,000)/Planning, Building and Code Enforcement

San José Works – Youth Jobs Initiative (-\$490,000)/City-Wide Expenses

Permit Center – Supervision Staffing (-\$239,000)/Planning, Building and Code Enforcement

Planning Staffing (-\$335,000)/Planning, Building and Code Enforcement

Non-Development Fee Program Realignment (-\$210,000)/Fire



### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Environmental and Utility Services CSA

Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$1.0 billion and 812.99 authorized positions to the Environmental and Utility Services CSA, consisting of Core Services from the Energy Department, the Environmental Services Department, and the Transportation Department. The CSA-supported outcomes include: *Utility Services That Protect Public Health and the Environment; Affordable, Effective Utilities with Excellent Customer Care; Sustainable Utility Systems That Meet Future Needs; and Protected, Restored, and Maintained Environment.*

CSA priorities and highlights of expected service delivery in 2025-2026 include the following:

- Build, operate, and maintain the City's wastewater, stormwater, recycled water, and potable water utility infrastructure to ensure system reliability and public health and safety.
- Oversee programs to collect, process, recycle, compost, and dispose of solid waste to maximize diversion from landfills and protect public health, safety, and the environment.
- Provide leadership on climate action through policy, measures, and programs that reduce greenhouse gases and ensure a long-term water supply. Support environmentally sustainable practices throughout the community through education, public-private partnerships, and the implementation of the Climate Smart San José plan.
- Continue operating the City's Community Choice Aggregation program with the goals of providing residents and businesses with a choice of electricity providers while progressing towards meeting greenhouse gas emissions reduction goals.
- Develop San José-specific energy and programs that reduce carbon, maintain and expand utility programs for low-income customers, and support local renewable energy projects in compliance with regulatory obligations.
- Continue to meet National Pollutant Discharge Elimination Wastewater and Stormwater Permit compliance.



*The Wastewater Treatment Plant Collection – Artist: Robert Dawson (2010)*

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

This EUS CSA is responsible for a wide array of infrastructure and programs that maintain a healthy environment for residents, and ensure safe, sustainable, and efficient utility services. Investments are included to operate, maintain, and improve equipment for wastewater treatment; provide appropriate levels of compliance, risk management, and fiscal support resources for the procurement of renewable and conventional energy; and help lower recycling contamination rates that ultimately result in lower customer rate increases. After an analysis of available resources and programmatic needs, actions are included to eliminate vacant positions, further helping to mitigate rate increases, and reallocate costs in accordance with the work performed.

#### Important and Ongoing Core Service Work

Dewatering Facility Electricity Costs (\$7.5 million)/ Environmental Services	Security Services (\$460,000)/Environmental Services
Chemical Costs Increase (\$1.9 million)/ Environmental Services	Retail Recycled Water Distribution Facilities (\$350,000)/Environmental Services
Regional Wastewater Facility Security Improvements (\$1.8 million)/Environmental Services	Energy Regulatory Policy & Compliance Staffing (\$283,000)/Energy
Heavy Equipment Purchases (\$1.6 million)/ Environmental Services	Environmental Inspection Vehicles (\$283,000)/Environmental Services
Distributed Control System and Windows 11 Upgrades (\$937,500)/Environmental Services	Pump Station Site Improvement (\$250,000/ Environmental Services Department
Contamination and Recycling Tagging Project (\$461,000)/Environmental Services	New Green Stormwater Infrastructure Maintenance (\$186,000)/Transportation
	Storm Drain Inlet Markings (\$145,000)/Transportation Department; (\$102,000)/Environmental Services Department

#### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Staffing Consolidation and Realignment (-\$1.1 million)/Environmental Services	Climate Smart Program Fund Shift (-\$453,000 in the General Fund)/Energy
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## 2025-2026 PROPOSED OPERATING BUDGET

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### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Neighborhood Services CSA

Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$334.7 million and 1,471.5 authorized positions to the Neighborhood Services CSA, consisting of Core Services from the Housing Department, Library Department, Parks, Recreation and Neighborhood Services Department, Planning, Building and Code Enforcement Department, and the Public Works Department. The CSA-supported outcomes include: *Safe and Clean Neighborhoods and Public Spaces*; *Welcoming and Vibrant Neighborhoods and Public Life*; *Equitable Access to Community Opportunities to Flourish*; and *Housing Security through Supportive Solutions*.

CSA priorities and highlights of expected service delivery highlights in 2025-2026 include the following:

- Provide access to information and knowledge resources for all San José residents, students, educators, and families including access to technology and print materials, classes, afterschool homework help for students, and educational and literacy programs for all ages; administer the Digital Inclusion Fund Grant Program.
- Provide access to healthy lifestyles through public parks and trails and public recreational programs and opportunities for people of all ages and abilities.
- Through the investments of Beautify San José, meet neighborhood cleanliness and stormwater permit priorities by addressing pollution from recreational vehicles on streets and encampments near waterways; continue to implement a broadened neighborhood engagement model to increase participation and volunteerism; and address neighborhood cleanliness through graffiti and illegal dumping removal and enforcement, neighborhood dumpster days, deterrents, gateway corridor beautification, homeless encampment services and abatements, and No Return / No Encampment Zones.
- Respond to complaints and conduct inspections for code violations city-wide to address blight, substandard housing, illegal occupancy, unpermitted construction, etc., contributing to the overall health, safety, and quality of life of residents, businesses, and the community.



*Iris Chang Park*

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

- Improve management of the City's shelter system to reduce operating costs, increase occupancy, increase throughput to permanent housing, and improve coordination with the County Coordinated Entry System.
- Through the Animal Care and Services Center, provide care for 12,000 incoming animals with an estimated 17,000 calls for service while targeting a live release rate of 90%.

The City Council approved Mayor's March Budget Message for Fiscal Year 2025-2026 continues the priority investment areas of *Cleaning up Our Neighborhoods* and *Reducing Unsheltered Homelessness*, which are primarily implemented in the Neighborhood Services CSA. *Other Important and Ongoing Core Service Work* includes supplementing the Library's budget to acquire new print and digital media amidst cost increases and insufficient capital funding, continuing revenue-backed staff to ensure equitable use of the City's sports fields, and continuing previous commitments in Animal Care and Services. As discussed above, a number of actions are also included here that reflect cost and service reductions to help bring the General Fund into structural alignment.



#### Cleaning Up Our Neighborhoods

Code Enforcement Re-Engineering Implementation Reserve (\$400,000)/General Fund Capital, Transfers and Reserves	BeautifySJ Grant Program (\$150,000)/City-Wide Expenses
Gateway Maintenance (\$250,000)/City-Wide Expenses	Enhanced Vacant/Dangerous Downtown Building Inspection (\$150,000)/Planning, Building and Code Enforcement
Neighborhood Blight Enforcement (\$250,000)/City-Wide Expenses	Non-Profit Creek Clean-up Partnerships (\$75,000)/Parks, Recreation and Neighborhood Services

#### Reducing Unsheltered Homelessness

Homeless Outreach and Support Services Staffing (\$1.5 million)/ Housing	Housing Grants Program Management Staffing (\$357,000)/Housing
Eviction Prevention Staffing (\$654,000)/Housing	Homeward Bound (\$200,000)/Housing
Facilities Management – Interim Housing Maintenance Staffing (\$166,000)/Public Works	

#### Other Important and Ongoing Core Service Work

Acquisition of Materials (\$500,000)/Library	Digital Communications Staffing (\$150,000)/Public Works
Veterinary Contract Services (\$200,000)/Public Works	Animal Adoption Pop-Up Events (\$125,000)/Public Works
City-Wide Sports Fields Staffing (\$181,000)/Parks, Recreation and Neighborhood Services	Staff and Volunteer Workforce Management Software (\$75,000)/Public Works

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Action Sports Park Service Delivery Change (Effective 2026-2027, \$879,000)/Parks, Recreation and Neighborhood Services

Hybrid Community Center Drop-In Program Reduction (-\$841,000)/Parks, Recreation and Neighborhood Services

Senior Health and Wellness Grant Program Providers (-\$526,000)/Parks, Recreation and Neighborhood Services

SJSU/City of San José Joint Agreement for Dr. Martin Luther King, Jr. Library Operating Cost Savings (-\$500,000)/Library

Family, Friends and Neighborhoods (FFN) Caregiver Support Network Program Staffing (Effective 2026-2027, -\$498,000)/Library

College and Career Pathways and Workforce Development Staffing (-\$439,000, Shift to SJ Library Foundation Funding)/Library

Out of School Time Program School Consolidation (-\$277,000)/Parks, Recreation and Neighborhood Services

MLK Access Services/Materials Processing Staffing (Effective 2026-2027, -\$259,000)/Library

Family Camp 2025 Season Closure (-\$240,000)/Parks, Recreation and Neighborhood Services

Neighborhood Engagement Model Staffing Realignment (-\$180,000)/Parks, Recreation and Neighborhood Services

Placemaking Fundraising Efforts (-\$165,000)/Parks, Recreation and Neighborhood Services



## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Public Safety CSA

Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$906.9 million and 2,594.2 authorized positions to the Public Safety CSA, consisting of Core Services from the Police Department, Fire Department, Office of the Emergency Management, and the Independent Police Auditor's Office. The CSA-supported outcomes include: *a Safer San José with Effective Emergency Response Services and Resilient Communities that are Prepared for Emergencies.*



CSA priorities and highlights of expected service delivery highlights in 2025-2026 include the following:

- Respond to calls for service of essential emergency services (patrol, fire suppression, rescue, and emergency medical services) in a safe, efficient, and effective manner.
- Continue regional all-hazard emergency management planning, training, and exercises.
- Provide a police misconduct complaint process that is thorough, objective, and fair.
- Effectively investigate crimes and seek successful prosecution of suspects.
- Provide expanded enforcement of Municipal Code violations related to neighborhood quality of life issues and coordinate across departments to implement the Responsibility to Shelter Policy.
- Advance the deployment and use of technology to enhance the delivery of public safety services where possible.

As one of the primary functions of a city is to provide public safety and emergency response services to its community, the City seeks in each budget cycle to make improvements in this critical service delivery area. Despite budgetary constraints, targeted investments in the Police and Fire Departments are recommended, particularly to operate the Measure T-funded Fire Station 32 and the Police Training Center, to replace or acquire necessary new equipment, to improve emergency call taking, to support the recruitment of a highly-qualified and diverse workforce, and to deploy sophisticated evacuation modeling and notification software.

As discussed above, the Public Safety CSA also provides significant solutions to address the General Fund that do not negatively impact current service levels, including the recognition of new fee revenue from the First Responders Fee Program, indefinitely deferring Fire Station 32 Truck and activation of the South San José Police Substation, and the elimination of long vacant positions in the Police Department.

To support the implementation of the Responsibility to Shelter Policy, as directed in City Council's approval of the Mayor's March Budget Message for Fiscal Year 2025-2026, the establishment of the Police Department's new Neighborhood Quality of Life Unit is primarily facilitated by reducing other, less impactful units, to allow for the redeployment of these existing positions into Field Patrol.

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Increasing Community Safety

Mobile Data Computer Replacement (\$5.2 million)/ City-Wide Expenses	Coyote and Guadalupe River Trail Patrol (\$650,000)/Police
Police Department Sworn Backfill Reserve (\$5.0 million)/General Fund Capital, Transfers and Reserves	Disaster Preparedness and Emergency Response Modeling Software (\$580,000)/City Manager's Office
2026 Sporting Events – Police Department (\$3.0 million)/Police	Real Time Intelligence Center Technologies (\$485,000)/Police
Police Training Center Fixtures, Furniture and Equipment (\$3.0 million)/General Fund Capital, Transfers and Reserves	Controlled Substance Security Devices (\$200,000)/Fire
Police Department Neighborhood Quality of Life Unit (\$2.1 million)/Police	Police Officer Lateral Incentive Program (\$200,000)/Police
Police Department Equipment Replacement (\$985,000)/Police	Community Evacuation Notification Software (\$167,000)/Fire
Fire Station 32 (Single Company) (\$673,000)/Fire	Automatic License Plate Readers (\$120,000)/Police
	Fire Communications Staffing (\$72,000)/Fire

#### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

First Responders Fee Program (\$2.0 million)/General Fund Revenues	Megan's Law Enforcement Reorganization (-\$586,000)/Police
Fire Station 32 Truck Deferral (-\$5.6 million)/Fire	Front Lobby Hours – Saturday and Sunday Closure (-\$492,000)/Police
Police Substation Activation Deferral (Effective 2026-2027, -\$1.0 million)/Police	Auto Theft Unit Reduction (-\$250,000)/Police
Unstaffed Unit Reduction (-\$1.3 million)/Police	



## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Transportation and Aviation Services CSA

##### Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$330.8 million and 608.5 authorized positions to the Transportation and Aviation Services CSA, consisting of Core Services from the Airport Department and Transportation Department. The CSA-supported outcomes include: *Effective and equitable transportation that promote a strong economy; Users have a positive, reliable, and efficient experience; Safe and secure transportation system that enhances community livability.*

CSA priorities and highlights of expected service delivery highlights in 2025-2026 include the following:

- Provide a safe transportation system for the traveling public through effective engineering, education, and enforcement. Prioritize implementation of Vision Zero Action Plan strategies to reduce traffic fatalities, including deployment of speed safety cameras.
- Continue work on implementing balanced, multimodal goals of the Envision San José 2040 General Plan to provide a transportation network for all users that is safe, efficient, and sustainable.
- Provide parking for business, retail, and event customers and employees in Downtown parking facilities, as well as parking compliance services in support of businesses and programs.
- Operate San José Mineta International Airport (SJC) efficiently while meeting all regulatory requirements for security and safety.
- Continue recovery and restoration of flights and passenger traffic while providing exceptional customer service with new, modern, up-to-date services and amenities.
- Continue to provide efficient and safe services for passengers, airlines, and tenants; regulatory compliance; priority maintenance and operations; and cost-effective operation of the Airport's shared-use model.



The Proposed Budget includes one action related to the 2026 Sporting Events to support the March Message investment priority of *Growing Our Economy*, and one action within *Cleaning Up Our Neighborhoods* – a Manager's Budget Addendum will be released later in the budget process to recommend the specific allocation of the \$1.0 million of ongoing General Fund resources reserved for the expansion of the Oversized Lived-In Vehicle Program. The remaining actions are to ensure our airport operations are adequately resourced, and key investments are made for the safety, reliability and future enhancement of the City's transportation network.

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Growing Our Economy

2026 Sporting Events Destination Marketing and Support (\$300,000)/Airport

#### Cleaning Up Our Neighborhoods

Earmarked Reserves: Oversized Lived-In Vehicles Enforcement Reserve (\$1.0 million)/General Fund Capital, Transfers and Reserves

#### Other Important and Ongoing Core Service Work

Measure T Bridge Maintenance Program Staffing (\$427,766)/Transportation

Airport FAA Mandate Safety Management System Staffing (\$189,819)/Airport

Airport Deferred Preventative Maintenance Staffing (\$332,337)/Airport

Fire Sprinkler Testing (\$180,000)/Airport

Sidewalk Repairs at City-Owned Properties (\$250,000)/Transportation

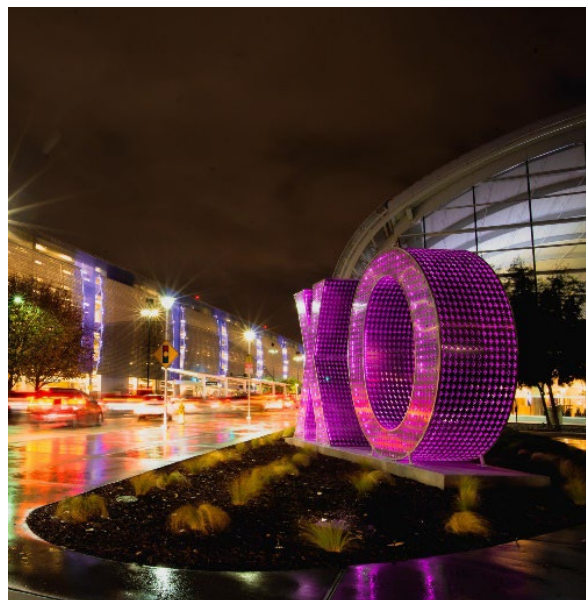
Sustainability Program Initiatives (\$100,000)/Airport

#### Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues

Our City Forest Office Space (Effective 2026-2027, -\$175,000)/Transportation

Oversized and Lived-In Vehicle Enforcement (OLIVE) Program and Elimination of Extended Parking Stay (EPS) Contractual Enforcement Program (-\$27,878)/Transportation

Invasive Shot Hole Borer Beetle Management and Community Forest Management Plan (-\$250,000)/Transportation



## 2025-2026 PROPOSED OPERATING BUDGET

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### City Service Area Highlights and Key Budget Actions (Cont'd)

#### Strategic Support CSA

Expected 2025-2026 Service Delivery Highlights and Key Budget Actions

The 2025-2026 Proposed Operating Budget allocates \$560.0 million and 1,029.6 authorized positions to the Strategic Support CSA, consisting of Core Services from the Finance Department, the Human Resources Department, the Information Technology Department, and the Public Works Department. The CSA-supported outcomes include: *Excellent City Service Delivery that Enhances Internal and External Customer Experience and Engagement, Strategic Investments in People, Technology, and Assets; and Inclusive, Adaptive, and Sustainable Environment.*

CSA priorities and highlights of expected service delivery highlights in 2025-2026 include the following:

- Ensure the City's financial resources are protected and available to address the short-term and long-term needs of the community; make accurate and timely payments to City employees and vendors; provide accurate and timely financial reports; procure and deliver top-notch products and services; and deploy efficient business systems and processes for timely billing and collection efforts.
- Continue to reduce vacancies by evaluating, streamlining, and innovating for effective hiring practices and building long-term capacity through strategic pipeline programs.
- Maintain City facilities, equipment, and vehicles, and manage space usage; oversee the City's capital projects, ensuring on-time and on-budget delivery of facilities that meet both customers and City staff needs.
- Leverage innovative solutions and data to support City priorities and advance service delivery capabilities. Partner with City departments to implement initiatives that address service gaps, improving quality of life in San José. Provide departments with data analytics tools and dashboards that support evidence-based decision-making. Enhance services by promoting service design principles that support accessibility, responsiveness, and overall service impact for both residents and businesses.

All City services – from emergency response, to street sweeping, to branch library services, to recreational services, to pavement maintenance, to airport operations, and others – rely on the day-to-day work of the Core Services within our Strategic Support departments. For ease of reference, the below list also includes budget actions related to the Mayor and City Council Office, and City Council Appointees.

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

While a select few funding actions are in alignment with the Mayor's March Budget Message for Fiscal Year 2025-2026, as approved by the City Council, the bulk of the limited new investments here are targeted to address critical unmet deferred capital maintenance needs or other areas of organizational risk. Strategic Support departments also play a key role in reducing General Fund costs through targeted service reductions. Though this budget includes the reductions highlighted below and others not shown included elsewhere, there is a practical limit to the ability of Strategic Support partners to further cut costs without impacting community-facing core services.

#### Cleaning Up Our Neighborhoods

San José 311 Program Support and Staffing  
(\$801,000)/Information Technology

Legal Representation Staffing (\$241,000)/City  
Attorney's Office

#### Other Important and Ongoing Core Service Work

9-1-1 Dispatch Backup Generator Replacement  
(\$5.0 million)/ General Fund Capital, Transfers,  
Reserves

Hyperconverged Infrastructure Refresh  
(\$2.3 million)/Information Technology

Tech Museum Corroded HVAC Pipes Remediation  
(\$1.0 million)/ General Fund Capital, Transfers,  
Reserves

Essential Services Reserve (\$1.25 million)/General  
Fund Capital, Transfers, Reserves

Cybersecurity Staffing and Services  
(\$612,000)/Information Technology

Center for Performing Arts Chiller Replacement  
(\$600,000)/ General Fund Capital, Transfers,  
Reserves

Equity Through Data Lead (\$302,000)/Information  
Technology

Public Information Manager (\$274,000)/Information  
Technology

Performance Measure Management Staffing  
(\$255,000)/City Manager's Office

Animal Care and Services – Various Improvements  
(\$250,000)/General Fund Capital, Transfers,  
Reserves

Facility Lighting Replacement (\$250,000)/General  
Fund Capital, Transfers, Reserves

Immigrant Community Support Services  
(\$250,000)/City Manager's Office

Fleet Vehicle Acquisition and Build Up Staffing  
(\$164,000)/Public Works

## 2025-2026 PROPOSED OPERATING BUDGET

### City Service Area Highlights and Key Budget Actions (Cont'd)

Cost Reductions/Service Delivery Efficiencies/Funding Shifts/Revenues	
Public Works Department Staffing Plan – Capital Improvement Plan (-\$939,000)/Public Works	Enterprise Resource Planning Project Staffing (-\$241,000)/Information Technology
Transfer to the Vehicle Maintenance and Operations Fund (-\$500,000)/General Fund Capital, Transfers, Reserves	Disaster Recovery and Grants Management Reorganization (-\$237,000)/Finance
Legal Transaction Staffing (-\$446,000)/ City Attorney’s Office	Transfer to the Communications Construction and Conveyance Tax Fund (-\$200,000)/General Fund Capital, Transfers, Reserves
Electrical Maintenance Staffing (-\$416,000)/Public Works	Unanticipated/Emergency Repair and Maintenance (-\$200,000)/General Fund Capital, Transfers, Reserves
SharePoint Project Support Staffing (-\$264,000)/Information Technology	Mayor and City Council Offices (-\$179,000)/Mayor and City Council
Project Management Staffing (-\$260,000)/Information Technology	Program Performance Audit Staffing (Effective 2026-2027, -\$141,000)/City Auditor
Recruitment & Development Staffing (-\$253,000)/Human Resources	

### Fees and Charges Adjustments

The 2025-2026 Proposed Budget includes various adjustments to fees and charges to provide the resources necessary to pay for operating and capital improvement expenses. For utility rates, no rate increase is included for the Storm Sewer Service Charge. The Sanitary Sewer Service rates will increase by 4% for 2025-2026. The Municipal Water Utility System includes a revenue increase of approximately 3% for 2025-2026, and for Recycle Plus rates, a 2.0% increase is included for single-family dwellings and 2.0% increase is included for multi-family dwellings.

In the Development Fee Programs, fees remain flat for the Building Development Fee Program, are increased by 10% for the Planning Development Fee Program, 10% for the Public Works Development Fee Program, and 10% for the Fire Development Fee Program to align program revenues with costs, maintain works-in-progress reserves, and enhance service levels where appropriate. Other upward and downward adjustments to various other departmental fee programs are included to generally maintain City Council-approved cost recovery rates. The fee changes are described in the 2025-2026 Proposed Fees and Charges document.



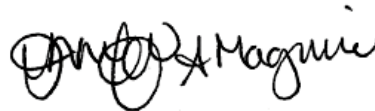
**Thank You America (Viet Heritage Garden)  
Artist: Tuan Nguyen (2024)**

### CONCLUSION

The 2025-2026 Proposed Budget performs the difficult task of strategically investing resources to meet important objectives of the City Council while also bringing the General Fund into closer structural alignment over a two-year period. As has been the City's long-standing practice, we must continue the solid financial discipline and leadership exhibited by our elected officials, City management, and our outstanding employees. This also includes a commitment to the principles of equity, partnership, and innovation that provides a strong foundation upon which to create, maintain, and strategically expand vital public services over the long term.

Finally, I want to again express my sincere gratitude to our extremely dedicated and talented staff who helped prepare this budget document. This budget represents an organization-wide effort from line staff within each department, back-of-house strategic support staff, supervisors and managers, and the incredibly hard-working members of the City Manager's Budget Office. Once again, our collective commitment to our *One Team* approach ensures that San José remains the best City it can be for our residents, businesses, visitors, and employees.

Respectfully Submitted,



Jennifer A. Maguire  
City Manager

## 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.

# CITY OF SAN JOSE BUDGET PRINCIPLES

**The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.**

## **1) STRUCTURALLY BALANCED BUDGET**

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

## **2) PROPOSED BUDGET REVISIONS**

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

## **3) USE OF ONE-TIME RESOURCES**

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

## **4) BUDGET REQUESTS DURING THE YEAR**

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

## **5) RESERVES**

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

# **CITY OF SAN JOSE BUDGET PRINCIPLES**

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## **6) DEBT ISSUANCE**

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

## **7) EMPLOYEE COMPENSATION**

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

## **8) CAPITAL IMPROVEMENT PROJECTS**

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

## **9) FEES AND CHARGES**

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

## **10) GRANTS**

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

## **11) GENERAL PLAN**

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

## **12) PERFORMANCE MEASURES**

All requests for City Service Area/departamental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

## **13) FIRE STATION CLOSURE, SALE OR RELOCATION**

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.