CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: SENIOR STAFF

FROM: Jennifer A. Maguire

SUBJECT: **2025-2026 BUDGET REDUCTIONS AND COST CONTROL MEASURES**

DATE: December 19, 2025

BACKGROUND

Due to a weakened economic environment, the City's General Fund revenues will likely end the 2025-2026 fiscal year $15-$20 million below currently budgeted estimates, and an ongoing General Fund shortfall ranging from $55 - $65 million is preliminarily projected in 2026-2027. Property Tax revenues, the City's largest revenue category, has been negatively impacted by property valuation corrections that took effect toward the end of 2024-2025 and by a lower overall roll growth that continues into 2025-2026 and beyond. Sales Tax revenues, the City's second largest revenue category, continued its year-over-year decline in 2024-2025, and its growth in 2025-2026 and 2026-2027 is expected to be minimal. Moreover, Utility Tax and Franchise Fee revenues, the City's third largest revenue category that had experienced significant growth over the last few years, have moderated considerably as electricity rate increases have subsided.

While I am confident that the City can navigate these challenges, we need to take action now to mitigate the expected revenue loss in 2025-2026 and to better position the organization to address the preliminarily projected General Fund shortfall in 2026-2027. This memorandum outlines the process to reduce General Fund budgeted allocations in 2025-2026 and increases the level of cost controls currently in place throughout the organization, including the re-implementation of a hiring freeze.

REDUCTIONS FOR GENERAL FUND SUPPORTED DEPARTMENTS AND OFFICES

Departments are directed to control costs to the extent possible without noticeably impacting high-priority services, with the primary goal of generating General Fund savings in the current fiscal year and helping preserve the limited number of vacant positions to provide as much redeployment flexibility as possible in order to minimize organization disruption and potential employee layoffs in the future. As fully as circumstances allow, departments should consider implementing reductions now that could be continued into 2026-2027.

To ensure that savings are realized, actions will be included in the 2025-2026 Mid-Year Budget Review Report – scheduled for release on January 30, 2026 and considered by the City Council for approval on February 10, 2026 – to reduce General Fund budgeted allocations by $10 - $15 million. These savings include the following components:

- Withholding distribution from the Salaries and Benefits Reserve previously designated for costs related to health rate and Management Pay for Performance increases;
- An additional 0.5% reduction to Personal Services appropriations;
- A 1.0% reduction to Non-Personal/Equipment appropriations; and
- Targeted reductions to certain City-Wide Expenses and Capital Improvements appropriations that have not yet started or have otherwise incurred few costs, and that would be expected to have minimal impact.

The Budget Office will follow up directly to provide the reduction amounts by appropriation to each department. Departments may propose alternative reductions to minimize impacts; however, they will be accountable for providing an implementable reduction. In response, departments will submit the completed template memorandum included as Attachment A by January 9, 2026.

COST CONTROL MEASURES

The following cost controls are now in effect. While they are primarily aimed at the General Fund, the hiring freeze applies to all departments, and enterprise, fee, and capital funded service delivery should remain mindful of these cost controls to minimize ratepayer impacts.

Suspend Pending New Initiatives, Facilities Openings, etc.

- Consider suspending the implementation of new/enhanced programs planned or recently implemented for 2025-2026, as it may be less impactful for the community and employees to halt the deployment of new/enhanced services than the elimination of existing services. The Budget Office will follow up directly with departments on known new/enhanced programs and facilities openings; responses should be included in the memorandum due January 9, 2026.

Reduce Personal Services Spending

- **City-Wide Hiring Freeze**. Filling vacancies will be significantly curtailed – across all funding sources – in the second half of the fiscal year. This will not only generate cost savings, but will help mitigate employee impacts and organizational disruption related to the implementation of 2026-2027 budget reduction proposals that will be determined over the next few months. A hiring freeze will be in effect beginning Monday, December 22, 2025. All recruitments currently in process will be frozen and will need authorization to continue and no new recruitments will be posted, with the following exceptions:

    - Police Department and Fire Department sworn and communications positions;
    - Positions directly supporting Animal Care and Services operations; and
    - Positions directly supporting a very limited set of services within City Council Focus Areas and Administration priorities, which will be communicated directly to departments by the Budget Office and Human Resources Department.

Other exceptions to the hiring freeze, in addition to those listed above, will be granted on a limited case-by-case basis that demonstrates a position's direct and immediate impact on critical service delivery or would otherwise result in significant organizational risk, including certain enterprise, utility, and development-fee funded positions required to maintain rate-payer services.

As part of the response memorandum due on January 9, 2026, departments may submit a limited number of vacant positions that should be considered for exemption from the hiring freeze. As of December 19, 2025 department access to NeoGov is suspended and any postings of exempted positions must be routed through the Human Resources Department. Recruitments that have offers extended as of December 19, 2025 may proceed. The vacant positions for all other active recruitments must be included in the January 9, 2026 memorandum to be considered for exemption from the hiring freeze. Any subsequent requests for hiring freeze exemptions should be made via a request form to Deputy City Manager Jennifer Schembri. A sample request form is included as Attachment B.

- **Overtime**: Overtime expenditures shall be limited to absolutely unavoidable purposes. Department Directors (or designee) shall pre-approve the use of all overtime.

- **Temporary Staffing Personnel**: The use of temporary personnel should be limited only to maintain critical operations. Prior to submittal to the Budget Office, all temporary staffing personnel requests should be carefully evaluated by departments.

Reduce Non-Personal/Equipment Spending

- **Reducing or Delaying Equipment Purchases**: Weighed against the immediate benefits and long-term costs, consider this strategy to generate near-term savings or avoid incurring ongoing operations and maintenance costs associated with the new equipment.

- **Travel that Requires an Overnight Stay and/or Airfare**: Departments should avoid travel unless there is a prior commitment or the travel would tangibly benefit the City's near-term priorities. The number of attendees per event should also be minimized to one or two employees if travel is absolutely necessary. International travel should continue to be avoided. Exceptions to this direction are intended to be narrow and should be discussed with Deputy City Manager Jennifer Schembri prior to making travel plans.

- **Contractual Services**: Evaluate contracts for their necessity and to determine if any cost-saving opportunities, such as reducing the scope of work or negotiating options, are available. As always, consultant expenditures should be closely scrutinized to determine if the work could be done more effectively, at a lower cost by in-house staff or deferred (e.g., recruitments, training, coaching).

- **Marketing and Sponsorship Expenditures**: Marketing expenditures should generally be limited to those projects that are cost recovery, generate revenue, or decrease costs by reducing service demand. Sponsorships should be avoided unless prior approval is given by Assistant City Manager Lee Wilcox.

City-Wide Expenses and General Fund Capital Projects

- **Reevaluate City-Wide Expenses and General Fund Capital Projects:** All programs and projects funded in the General Fund that have not yet incurred expenses in the current fiscal year or have made little progress should be reevaluated for continuation. The Budget Office will reach out directly on expenditures that fall into this category to determine if General Fund savings can be generated.

Thank you in advance for your work to implement this direction and your upcoming work on the 2026-2027 Budget development process. I know that these budget reductions and cost control measures are not easy, but remain confident in our *One Team* approach to problem-solving. Please reach out to Jim Shannon, Budget Director, for any questions.

JENNIFER A. MAGUIRE
City Manager

cc: City Council Appointees
Executive Staff

Attachment A: 2025-2026 Budget Reduction and Hiring Freeze Exemption Request Template
Attachment B: Hiring Freeze Exemption Request Template

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Jim Shannon
Budget Director

FROM: Department Director Name

SUBJECT: **2025-2026 BUDGET REDUCTIONS AND HIRING FREEZE EXEMPTION REQUEST**

DATE: January XX, 2026

Approved   Date

This memorandum is in response to the recommended reductions for inclusion in the 2025-2026 Mid-Year Budget Review and the direction to implement cost controls for 2025-2026. Included are applicable noticeable service impacts to the appropriations identified by the Budget Office, the consideration of pausing pending new initiatives or facility openings, any suggested alternative reductions to those identified by the Budget Office, and a limited list of positions requested to be exempted from the city-wide hiring freeze.

<u>Section I – Budget Reductions</u>
[Fill out the first row of this table with the budget reductions by appropriation category that were provided by the Budget Office. If you are submitting an alternative reduction for consideration, fill out the second row accordingly; however, the total for the Alternative Reductions must equal the sum of the Budget Office Reductions, or leave the second row blank, if applicable.]

	Foregone Distribution from Salaries and Benefits Reserve	**Personal Services Reduction**	**Non-Personal/ Equipment Reduction**	**City-Wide Expenses Reduction**	**Capital Reduction**	**Total**
Budget Office Reductions	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Alternative Reductions for Consideration	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*

Significant and Noticeable Service Level/Performance Impacts (If applicable)
[Provide an appropriately detailed, yet concise, description of any significant service level impacts that would be noticeable by the community, or would result in a significant and immediate organizational risk resulting from the Budget Office Reduction Target. *This section is not required if impacts are not significantly noticeable*.]

Deferral of New/Enhanced Program and Facilities Openings (If applicable)
[Provide descriptions of potentially deferred new/enhanced programs or facility openings previously planned for 2025-2026 that have not yet started and that should also be considered for elimination in the 2026-2027 Proposed Budget development process. Departments should indicate whether these deferrals could reasonably continue into 2026–2027. *This section is not required if no new services are currently authorized that have not yet started*.]

Alternative Reductions (If applicable)
[If the Budget Office reduction target amounts would result in a significant and noticeable service impact or organizational risk, provide and describe less impactful alternative budget reductions for consideration. This section should align with the second row in the table above. *This section is not required if the reduction amounts will not result in significant impacts or if the alternative reduction(s) would yield the same or worse impacts*.]

Section II – Hiring Freeze Exemption Request
[Fill out the table below (or provide in a modified format as needed) for the limited number of vacant positions – including previously in-process recruitments – that should be exempted from the hiring freeze to continue critical service delivery. The justification for the exemption request should clearly show the position's direct and immediate impact on critical service delivery that, if left vacant, would result in significant organizational risk, including certain enterprise, utility, and development-fee funded positions required to maintain rate-payer services. If the recruitment is in process, please note what stage of the process it is currently in (posted, second round, reference checks, etc.)]

Classification	Fund	FTE	Position Number(s)	Justification	Service Level Impact if Not Filled

Department Director

cc: Jennifer Schembri, Deputy City Manager
Assistant/Deputy City Manager CSA Sponsor

ATTACHMENT B

HIRING FREEZE EXEMPTION REQUEST FORM

DEPARTMENT:	**DATE:**
DEPARTMENT CONTACT:	

Position Classification:	
Position Number:	**Job Code:**
FTE:	**Limit Date of Position (if applicable):**

Funding Source: **___% Fund ___ Budget Program _____** **___% Fund ___ Budget Program _____** **___% Fund ___ Budget Program _____** **___% Fund ___ Budget Program _____** **___% Fund ___ Budget Program _____**	**Date Position Became Vacant:** _____________ **Backfill Dates :** __________ to ____________ **From:** ☐ Temporary Pool ☐ Temporary Agency ☐ Higher Class Pay ☐ Rehired Retiree ☐ Other ________________

JUSTIFICATION:

____

Department Director or Designee Approval

____

Date

____

Deputy City Manager Approval **Date**

Recruitment Type Approval:

☐ Internal/External
☐ Internal Only – Lateral
☐ Internal Only – Lateral/Promotional