



Memorandum

TO: CITY COUNCIL **FROM:** Mayor Matt Mahan
SUBJECT: MARCH BUDGET MESSAGE FOR FISCAL YEAR 2024-2025 **DATE:** March 12, 2024

APPROVED: *Matt Mahan*

RECOMMENDATION

Direct the City Manager to submit a balanced budget for Fiscal Year 2024-2025, guided by the policy direction and framework of priorities outlined in this March Budget Message.

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In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2024-2025 March Budget Message for consideration by the City Council and the residents of San José. With Council approval, this initial framework provides the City Manager with direction to prepare proposals for the Council's budget deliberations in May and to formulate the Fiscal Year 2024-2025 Proposed Budget.

OVERVIEW

I. Reaffirming Focus Amidst a Slowing Economy

Last year, our new City Council came together around four key Focus Areas foundational to San José's long-term success. While there are many things we want to do for our community, we acknowledged that there are a few basic things we must do: ensure safe neighborhoods, shelter those living on our streets and in our creeks, clean up our city, and make San José an easier place to invest, especially in new housing and jobs.



Together, we laid out an ambitious, long-term vision for tackling these challenges. We committed to building an unprecedented 784 new units of emergency interim housing (EIH) and the City’s largest safe parking site, while also allocating \$50 million in new funding to construct permanent affordable housing. We invested in police academy recruitment, expanded the department’s budgeted headcount, and embraced new technologies like automatic license plate readers (ALPRs). We made an ongoing commitment to a cleaner city by bringing many of BeautifySJ’s functions into our base budget while also launching new blight reduction and beautification pilots like our Clean Gateways program. We invested in filling empty storefronts and activating our commercial districts through small business associations, events and street closures.

The City Council’s four Focus Areas are as essential and aligned with the community’s priorities today as they were when we adopted them one year ago. As the Administration shared in our Budget Priority Setting Study Session on February 13th, 2024, San José neighbors are overwhelmingly united with residents from across our region and state in asking that our government move the needle on a few complex, but interrelated challenges: unsheltered homelessness, unaffordable housing, crime, and blight. Our Annual Community Response Survey summarizes San José residents’ priorities:



While addressing these challenges should continue to be our priority as a Council, we must also grapple with a new and significant challenge that makes focus all the more important: a slowing economy and projected budget deficits.

According to the 2024-2025 City Manager’s Budget Request and 2025-2029 Five-Year Forecast and Revenue Projections, and in line with national trends, our local economy is slowing. A sluggish economy translates directly into lower projected tax revenue. In fact, many of the city’s key sources of General Fund revenue are projected to slow, if not decline in the current fiscal

year: projected sales tax revenue (down 3% this fiscal year and growing 3% next fiscal year), property tax revenue (slowing to 5.6% growth this fiscal year, 4% next fiscal year), Measure E revenue (down nearly 20% year over year), and transient occupancy tax revenue (flat year over year).

Given these circumstances, the Council should be applauded for setting aside \$18.8 million of ongoing revenue in the 2023-2024 Adopted Operating Budget into the Future Deficit Reserve to help reduce the impact of lower future revenues and rising costs on essential city services. Even so, slower revenue growth will make it harder for the City to meet growing financial obligations while also moving the needle in our Focus Areas. Employee compensation — including increases from previously existing labor agreements and the agreements the Council approved last year — constitute an increase of \$25.3 million this year, and retirement contributions are increasing by another \$14.3 million in accordance with actuarial assumptions approved by the City’s retirement boards. The Council also committed to maintaining and expanding our interim housing portfolio, including four new and expanded EIH communities. In total, the City is on pace to oversee the capacity to serve nearly 1,700 homeless residents in interim housing, inclusive of bridge and emergency interim housing, converted hotel rooms, and supportive parking spaces. This necessary service level will also require ongoing support from the General Fund, estimated at \$25 million in 2024-2025 and increasing to \$70 million by 2028-2029 assuming the City does not find cost-sharing opportunities and efficiencies in the operation of sites.

Taken together, these costs along with other, smaller sources of expenditure growth, including the cost of utilities and vehicle operation and maintenance, are projected to outstrip revenues in the coming fiscal year and beyond. The City Manager projects a modest General Fund shortfall of \$3.6 million for FY 2024-2025 that will need to be resolved. Assuming this ongoing shortfall is fully resolved, another \$37.6 million shortfall would need to be addressed in 2025-2026, with additional shortfalls in the out years. Over the next five years, the City is facing a cumulative General Fund shortfall of nearly \$80 million.

2025 – 2029 General Fund Forecast Incremental Surplus						
	2024 - 2025	2025 - 2026	2026 - 2027	2027 - 2028	2028 - 2029	Five Year (Shortfall)
Incremental Surplus (Shortage)	(\$3.6M)	(\$37.6M)	(\$17.8M)	(\$13.9M)	(\$6.7M)	(\$79.6M)
% of Budget (Based on Expenditures)	0.2%	2.3%	1.0%	0.8%	0.4%	

This projection, however, significantly understates our true structural shortfall in two important ways that the Council will need to address in the coming fiscal year.

First, the projection excludes [\\$23.5 million in services funded on a one-time](#) basis in FY 2023-2024, many of which we will likely want to retain in some form. These one-time funded services include the Police Department Sworn Backfill Reserve, additional resources for police recruiting and backgrounding, trail patrols along the Coyote Creek and Guadalupe River, a variety of blight reduction pilots managed by BeautifySJ, child and youth programming, climate and seismic resilience planning, supplemental arts and culture funding, storefront activation grants, funding for a county clinician to provide alternative emergency response services, and other community priorities.

Second, the San Francisco Bay Regional Water Quality Control Board (Water Board) recently, and for a third consecutive time, rejected the City's Direct Discharge Plan, which is a critical component of our EPA-mandated Municipal Stormwater Permit. In its findings, the Water Board concluded that the City must produce a more detailed and ambitious plan for eliminating the direct discharge of pollutants into waterways from encampments and lived-in vehicles near storm drains. By June 2025, the City is expected to achieve a 100% trash load reduction and will no longer be allowed to use creek clean up credits to offset ongoing pollution. Failure to comply with these mandates could expose the City to significant legal and financial risks.

Thus, for moral, fiscal and environmental reasons, the Council must prioritize substantial investments in expanded alternatives to unmanaged encampments along waterways and additional capacity for outreach, enhanced clean-ups, and encampment abatement in these areas without simply shifting encampments to nearby neighborhoods. The Administration's preliminary estimate for beginning this herculean task in FY 2024-2025 is \$25 million.

Taken together, the Council faces a \$52.1 million structural shortfall in FY 2024-2025, meaning our projected revenues in the coming fiscal year are \$52.1 million less than current service levels plus the new investments required to remain compliant with our Stormwater Permit. Moreover, this shortfall excludes a number of other important services that the community likely expects to be improved or enhanced, nor does it include any necessary investments to rehabilitate the City's aging infrastructure.

Estimated Service Level / Structural Shortfall in 2024 – 2025 for Planning Purposes	
	2024 – 2025
February 2024 Incremental Surplus / (Shortfall)	(\$3.6M)
Tentative Estimated Cost to Address Stormwater Permit Requirements Related to Individuals Experiencing Homelessness Living Adjacent to Waterways	(\$25M)
2023 - 2024 Programs Funded on a One-Time Basis in the General Fund	(\$23.5M)
Total Estimated Service Level / Structural Shortfall	(\$52.1M)

II. Closing the Gap While Supporting Our Most Vulnerable Residents

Bringing the General Fund into structural alignment and making progress on the Council’s most important priorities will require trade-offs and difficult decisions. The City Manager is directed to bring forward a Proposed Budget that resolves the General Fund shortfall by:

1. Identifying cost savings and efficiencies that do not result in service impacts;
2. Eliminating vacant positions, the removal of which is expected to have minimal service impacts;
3. Reducing or eliminating current services, including the consideration of budget reductions for Mayor and City Council Offices, that – while important and valued by many – must be considered in order to bring the General Fund into structural alignment and still fund the City Council’s most critical priorities as identified in this message; and
4. Identifying any revenue sources that could be used to offset these service reductions, including new contributions from state and regional partners and the potential reallocation of a portion of Measure E resources over a multi-year period, for the provision of necessary services to our homeless residents and to meet stormwater permit requirements.

In addition, to bring forward a balanced budget as described above, the City Manager is directed to include other potential General Fund reductions in the Proposed Budget that the City Council may choose to accept as alternatives to some of the recommended adjustments, or as an alternative to the potential reallocation of Measure E revenues. These are difficult decisions and the Council and community members will need to weigh in with their perspectives.

The road before us is not easy. This will be the first time anyone on the current Council is facing a shortfall of this magnitude without the benefit of having external funding sources such as the Coronavirus Relief Fund or American Rescue Plan Fund as a backstop. We will need to be

fiscally responsible and honest about the tradeoffs our situation demands, both to each other and to our constituents. But amid crisis comes opportunity. We will work together to find a way forward that works for all of us because that is what this moment demands. We will emerge on the other side with a more focused, more efficient and even more pragmatic approach to our greatest challenges.

III. Urgent Action on Homelessness

Homelessness in San José is a humanitarian, fiscal, and environmental crisis that requires bold action. In our county last year, 201 people died on our streets. These deaths and other immeasurable suffering are preventable with access to basic shelter and supportive services. Today, well over 4,000 people continue to endure unnecessary trauma, violence, inclement weather, and other challenges in unsafe and unmanaged conditions on our streets.

Our failure to provide alternatives to unmanaged encampments takes a financial toll as well. It costs over \$65,000 per person per year just to react to unsheltered homelessness. We spend over \$15 million per year picking up trash at tent and vehicle encampments alone. Approximately 7% of all calls for fire and police response are homelessness-related, even though the homeless population represents less than 0.5% of San José's total population. The cost of street homelessness extends beyond city services to hospital emergency rooms and small businesses, and is reflected in less tourism and businesses choosing to relocate out of the city. It impacts nearly every aspect of our day-to-day lives.

With the latest news that the Water Board rejected our Direct Discharge Plan for the third time due to our inadequate approach to addressing homelessness along our waterways, we must quickly scale alternatives to and better manage the impacts of encampments. Failure to act fast could result in hefty fines of up to nearly \$60,000 *per pollutant per day* and potential litigation that could jeopardize funding for other city services. We also risk further impacts to water quality and damage to critical habitat along riparian corridors.

Alternatives to Unmanaged Encampments

We need to expand the tools available to treat homelessness like the crisis it is — and quickly. Fortunately, San José has opened 734 interim solutions since 2020, including 499 emergency interim housing beds, 190 motel/hotel converted units, and 45 safe parking spaces. Concurrently, the city has invested \$256 million between Measure E and other sources to support the creation of 1,549 affordable and permanent supportive housing units since 2020. We also may have an opportunity this November to approve a Regional Housing Measure that would unlock significant funding for affordable and permanent supportive housing.

But if we want to stretch the impact of our limited resources, we need to be more nimble. For example, thanks to Councilmember Cohen's leadership and engagement, Public Works recently

reduced the construction cost for Berryessa Safe Parking by 43%, saving the City approximately \$6 million dollars. Relatedly, philanthropist John Sobrato and DignityMoves have partnered with the city on an innovative approach that is significantly reducing the cost and development timeline for the Via Del Oro EIH community. We need to apply these same approaches to deliver the 784 EIH beds in our pipeline faster and more cost-effectively. Therefore, the City Manager is directed to engage all relevant city departments to complete the four remaining EIH projects in the pipeline (Via Del Oro, Rue Ferrari expansion, Cherry Avenue, and Cerone) by the end of FY 24-25, and apply cost and time-saving learnings from Berryessa Safe Parking and Via del Oro to deliver Cherry and Cerone.

It will take all of us doing our part to meet the urgency of this crisis. We appreciate John Sobrato and DignityMoves for leaning in and helping bring additional private and philanthropic support to open Via del Oro. DignityMoves has raised over \$2 million of the \$3 million goal for the project and is working with additional donors to close the gap. The City Manager is directed to evaluate further cost reductions and design enhancements — as well as potential and modest gap funding, if necessary — to ensure we bring these beds and services online as soon as possible. Additionally, the Salvation Army plans to build 74 interim beds as part of their Emmanuel House Shelter redevelopment project. Pending the County's allocation of \$4 million to the Salvation Army's interim housing project, the City Manager is directed to explore providing one-time funding of up to \$1 million to supplement the County's contribution.

We also need to continue pursuing operational efficiencies to maximize our impact. Last fall, Council approved calculated reductions in onsite security and staffing adjustments at EIH sites that have proven fruitful in reducing operating costs. The City Manager is directed to continue evaluating reasonable, efficient ways to trim operating costs without compromising critical case management services, and pursue opportunities to bring down the City's contribution towards operations costs, including CalAIM for reimbursement and quality health services, partnerships with Valley Water in line with AB 1469, further Housing Authority coordination, and behavioral health service integration. The City Manager is directed to work with the County and regional partners to explore bringing the shelter capacity we've added into the countywide coordinated entry system and maximize support from these key partners.

While we remain committed to interim housing, the city is still not moving fast enough to offer shelter to everyone who needs it. With approximately 1,000 homeless neighbors living along our creeks, we need safe alternatives at unprecedented scale to move people out of our waterways in order to comply with the Water Board's mandate. Safe sleeping sites present the most promising, accelerated strategy. We've seen [Reno open a campus to accommodate 600 people](#) through a combination of individual sleeping pods and one large tent for congregate shelter. [San Diego adopted a similar safe sleeping approach](#) that serves over 400 homeless residents with basic security and sanitation.



Safe sleeping site in San Diego

The City Manager is directed to identify one-time and ongoing funding to bring basic, low-cost, low-barrier safe sleeping sites online by the end of December 2024 — conditioned upon the Council approving one or more sites before July 2024 — with enough capacity to significantly reduce the number of unmanaged encampments along our waterways. Furthermore, and aligned with the MBA proposed by Councilmembers Doan and Batra on low-barrier solutions to homelessness, the City Manager should include a broader evaluation of low-cost strategies and potential sites — including Valley Water sites — with the goal of moving people out of our waterways over time while preventing homeless residents from being displaced into other neighborhoods. When evaluating congregate shelter opportunities, specific attention should be allotted to models that prioritize the physical and mental well-being of residents.

Homelessness Prevention, Intervention, Diversion, and Bridge Employment

Given that people are falling into homelessness at a faster rate than we can bring solutions online, we should invest in upstream strategies that prevent human suffering and reduce the need to provide a publicly-funded bed for everyone on our streets. According to [Destination: Home's 2023 year end report](#), of the nearly 14,000 people rehoused in Santa Clara County since 2020, 9% were connected to stable housing by moving in with friends and family. At our EIH communities, onsite staff have access to funding to help rehouse EIH participants with loved ones, reducing our reliance on housing construction to achieve positive outcomes. However, our street outreach teams don't have access to the same flexible funding. Therefore, the City Manager is directed to identify one-time funds to implement a pilot "Homeward Bound" program whereby outreach workers have access to flexible funding to reunite homeless residents with their loved ones by paying for transportation or other relocation costs, potentially including rental deposits and associated costs of securing housing within or outside of San José. This pilot

should include outcome measurements to ensure Homeward Bound strategies are effective in helping vulnerable residents achieve greater stability and opportunity.

We must also stem the tide of people falling into homelessness by continuing to invest in prevention, particularly as we saw a 24% increase last year in the number of residents becoming homeless for the first time. Fortunately, when we provide targeted financial assistance, legal support and other key services to at-risk families, 95% of people remain stably housed – with the average family requiring only about \$7,000 in financial assistance. The City Manager is directed to explore a one-time increase to the current level of funding dedicated towards homelessness prevention and identify one-time funding to continue the eviction diversion program for another year.

Additionally, certain populations are at higher risk for homelessness, including people exiting the criminal justice system, those in foster care, or those being discharged from health care settings. The City Manager is directed to accelerate work with the County, Housing Authority and regional partners like Destination: Home to develop a more formal and coordinated implementation plan for intervention and prevention among high-need groups, that may include cash assistance, housing navigation, workforce development, and access to behavioral health care, and identify associated funding needs for implementation. The City Manager is directed to report back to the Council on these efforts by October 2024.

In the same vein, we should also continue to uplift formerly homeless residents on their way to self-sufficiency by providing workforce opportunities. In partnership with Goodwill, we have successfully connected formerly homeless residents to living wage employment and interim housing through the SJBridge program. Between March 2022 and December 2023, 79 of the 273 individuals who participated in the program secured full-time employment with an average hourly wage of \$21.79. Currently, the program is only offered at one EIH, and we've learned that tying a bed to employment can lead to early program withdrawal, depriving others of workforce opportunities and skewing program outcomes. To address this challenge and improve program outcomes, the City Manager is directed to restructure SJBridge's referral process in line with [the Housing Department's recommendations](#), and spread the program across every EIH.

Managing the Impacts of Encampments

As we work to provide more safe, dignified shelter for our homeless neighbors, we need to better manage conditions on the streets and in our creeks. Our children don't feel safe walking to school, our small businesses are being harmed, and our parks and creeks are polluted with trash and biowaste. Housed or homeless, every San José resident should be held to the same set of standards that create a functioning, healthy, and safe community for everyone.

We need to give city staff the resources to regularly enforce a code of conduct and the existing good neighbor policy with empathy at every encampment, starting with our waterways and

expanding to our neighborhoods. On March 5th, Council approved staff recommendations for an “Enhanced Neighborhoods and Waterways Approach” that ensures compliance with the Municipal Regional Stormwater permit. The City Manager is directed to refine the original \$25 million estimate to provide the Council greater clarity on strategies and expected measurable impact, and propose one-time and ongoing funding — including potential cost sharing with Valley Water — to implement an approach that helps people transition out of our waterways without simply sending them into unmanaged encampments down the road.

At the same time, we must maintain — and enhance, wherever possible — acceptable levels of encampment response in our neighborhoods. In January, Council approved San José’s Implementation Plan for the Community Plan to End Homelessness, which included developing a “Framework for Shared Public Spaces.” The City Manager is directed to engage all relevant City departments and explore the allocation of existing and new resources to implement an expanded encampment management strategy within this Framework, including 1) providing weekly trash pickup services at the estimated 50 encampments that are currently not serviced; 2) establishing and prioritizing abatement where appropriate based on concrete thresholds for fire risk and criminal activity; 3) enforcing good neighbor policies related to encampment footprints (12’x12’), biowaste and unsanitary conditions, and blight and trash generation; and 4) enforcing park and trail rules, including enforcement of existing prohibitions on driving vehicles on trails and in parks. In addition, to minimize the cost and impact of biowaste, the City Manager is directed to include in the Framework implementation increased access to water, sanitation and hygiene services.

In our downtown, public perceptions of safety are intimately linked to homelessness, namely the presence of people lying on sidewalks or experiencing behavioral health crises. Right now, the City prohibits individuals from obstructing sidewalks within the Downtown Pedestrian Facilitation Zone between 10:00 a.m. and 12:00 a.m. However, enforcement has been lax for years. We recently partnered with the County to stand up a case conferencing center on St. James Street called the “Co-Lab”, where homeless outreach and service teams will work together on a regular basis to ensure that individuals experiencing crises are connected to the correct supportive services. The City Manager is directed to enforce the rules of the Pedestrian Facilitation Zone — starting with Santa Clara Street between Market and 4th Street and expanding outward in phases — and explore how to best engage the “Co-Lab” partners, including PATH and the Social Impact Team, to provide a compassionate initial response.

Persistent challenges from encampments migrate across jurisdictional boundaries. The City Manager is directed to work directly with partner agencies, including Caltrans, Valley Water and VTA, to amend existing or establish new interagency agreements that allow the City to conduct escalated clean-ups or abatements in a timely manner on their properties. The City Manager should prioritize securing a reasonable cost-sharing framework between agencies and evaluate

whether additional BeautifySJ resources are needed to implement our shared vision of a consistently clean and safe city irrespective of who owns a given parcel.

Finally, the accumulation of shopping carts significantly contributes to the size and scale of encampments and associated debris. The City's adopted Abandoned Shopping Cart ordinance (Municipal Code 9.60) doesn't go far enough to prevent shopping carts from littering our neighborhoods nor hold cart owners accountable for securing their property, possibly through automatic locking mechanisms. The City Manager is directed to engage with large retailers that fall under Municipal Code 9.60 and, in collaboration with the City Attorney, return to Council with recommendations and draft language for an expanded Abandoned Shopping Cart ordinance to enable the City to collect abandoned shopping carts at a faster rate, return them to their owners, and ensure full cost recovery via an increase in the existing fee associated with this ordinance.

Oversized Vehicles

Approximately 850 lived-in RVs occupy city streets, creating challenges for public safety, mobility, commerce, and the environment. On January 30th, Council directed staff to set the policy groundwork that will authorize tow authority around schools and in areas where oversized and overnight parking is prohibited. The City Manager is directed to explore the allocation of one-time or ongoing funding, as appropriate, to pilot better citywide regulation of oversized vehicles, including using tow authority when appropriate to enforce prohibited "overnight" and "oversized" parking, facilitate enhanced street sweeping, and implement a 150-ft setback for our most impacted schools.

Of course, without providing people with alternative places to park we will just shuffle people around the city. We should learn from cities like Mountain View, where they've implemented a [cost-effective safe parking program](#) at \$1.68 million per year to operate 133 vehicle slots and spent only \$2 million to stand up four sites. Mountain View successfully partnered with Santa Clara County on a cost-sharing agreement to provide the most basic but essential amenities and rotating case management across sites. Thanks to Supervisor Otto Lee's leadership, the County is considering a similar partnership with San José to support the Berryessa Safe Parking site. The City Manager is directed to 1) open the Berryessa Safe Parking site by September 2024; 2) allocate one-time and ongoing funding, as appropriate, to pursue opportunities to use City and County-owned land, lease privately-owned land, or engage faith-based partners to open at least one additional safe parking site akin to Mountain View's model; and 3) work with individual Council offices to identify suitable on-street locations where lived-in vehicles can temporarily park while new off-street parking alternatives are being identified.

Simultaneously, we should continue to mitigate the hazardous impacts of biowaste leaking from lived-in vehicles as part of our waterways approach. Between March and December 2023, the RV Pollution Prevention Program (RVP3) removed nearly 70,000 pounds of biowaste from lived-in RVs that would have otherwise polluted our neighborhoods and waterways. The City Manager is directed to identify ongoing funding to continue the RVP3 program with an expansion in the number of vehicles serviced.

We must also reduce the inflow of additional RVs onto our streets and provide incentives for people to relinquish their RVs when offered housing. We've seen "vanlords" purchase RVs at tow lots and rent them out — exploiting our homeless residents for a quick profit. We can get ahead of this trend by intervening with City dollars to purchase tow liens on vehicles in tow yards so that they can be junked instead of purchased by individuals. The City Manager is directed to explore paying for RV tow liens, and identify one-time funding to pilot an RV buy-back and disposal program.

Preserving Our Progress

As we invest in all of the strategies outlined above, we have a fiscal and civic duty to preserve our progress on homelessness. As more shelter, safe parking, and permanent and interim housing options open in the coming fiscal year, we need to require they be used and establish "no return zones" where significant resources have been dedicated towards rehousing people. Thanks to the Council's unanimous approval in February, we're testing this model first along a section of the Guadalupe River, where we leveraged state dollars to rehouse people and close one of the largest encampments downtown. The City Manager is directed to explore the allocation of the ongoing resources necessary to expand this model to areas in the city where the impacts of encampments are most costly and create unsafe conditions for all residents, waterways, commercial districts, and the environment.

We should apply the same "preserving our progress" philosophy to the neighborhoods that host safe parking, safe sleeping or EIHS, especially given our policy to prioritize placements at those sites for encampments in surrounding neighborhoods. If we wish to get more homeless people off the street, we must encourage more neighborhoods to embrace solutions, and demonstrate that their neighborhoods will be better off if they do. The City Manager is directed to explore the allocation of a combination of new and existing resources to establish no-encampment zones within two walkable blocks of every existing and planned EIHS, safe parking and safe sleeping site.

IV. Improving Community Safety

Creating a safe city is perhaps the most basic responsibility of government. And while we have the best police department in the country, it is also one of the most thinly staffed with just 914 active full-duty sworn officers. Moreover, reflecting broader national trends, we're grappling

with lower police academy application rates, making it harder to fill our 100 budgeted vacancies for sworn officers. Community survey data consistently highlights greater police presence and faster response times as top priorities. Clearly, our residents are telling us to expand our public safety response capacity, and we must listen.

Police Recruitment and Retention

Thanks to investments prioritized by the Council and the department's strong outreach efforts, we are beginning to see an upward trend in Academy enrollment for the first time in many years, with SJ 48 and SJ 49 currently consisting of 24 and 36 recruits, respectively. To maintain this progress, the City Manager is directed to continue the additional investment in marketing, recruitment and backgrounding approved in last year's budget and explore other strategies to ensure we fully utilize our Academy's capacity (50 officers per cohort).

As we work to expand Academy classes, we need to ensure our department reflects the gender and ethnic diversity of our community. Thanks to Vice Mayor Kamei's leadership, the City recently committed to the "[30x30 Initiative](#)," a nationwide effort to increase the representation of women in police recruit classes to 30% by 2030. In order to meet this goal, we must invest in recruiting and preparing women applicants. The City Manager is directed to identify ongoing funding to establish a Women's Bootcamp with capacity for at least 15 women per cohort providing them with additional exposure to the profession, mentorship and setting them up for success in our Academy.

In order to attract the next generation of SJPD officers from within our community, we must offer accessible opportunities for our youth to explore careers in law enforcement and begin gaining relevant skills. Currently the SJPD Cadet program serves youth ages 13-23, and graduates of this program have gone on to serve with distinction on our VCET, MERGE, and patrol teams. However, because these are volunteer positions, cadets often leave the program once they graduate high school. The City Manager is directed to explore funding a stipend for cadets aged 18-21 to maintain engagement between young adulthood and when interested residents are eligible to apply for the Academy at age 21.

Incentives have also proven to be effective in attracting new talent to our department and keeping SJPD competitive in a changing hiring landscape. Some of the most eligible and street-ready candidates for SJPD are currently employed in other jurisdictions. The City Manager is directed to explore increasing the lateral hiring bonus to encourage recruitment of qualified talent within the state of California.

Finally, last year's investment in backgrounding tools has enabled the department to begin streamlining the hiring process for all positions managed by the Department, which ensures we do not lose talented individuals to departments that move faster. The City Manager is directed to

maintain current investments in streamlining our hiring process and explore other means of being a preferred employer.

Leveraging Technology for Safer Neighborhoods

Given staffing shortages, we must continue investing in tools that make our officers and other public safety personnel maximally effective. Currently, the city has a network of 223 ALPRs, and will add an additional 256 by the end of the calendar year. This technology has allowed SJPD to recover millions of dollars worth of stolen vehicles and proven to be extremely effective in facilitating the apprehension and prosecution of individuals who have committed serious crime in our neighborhoods, including home invasions, hit-and-runs, and car-jackings.

The effectiveness of our ALPR network is enhanced via integration with the Air Support Unit's AIR3 helicopter, which can provide real-time identification and tracking of suspects irrespective of traffic congestion and other on-ground barriers. However, unlike other large cities, which typically field a fleet of multiple aircraft, San Jose's heavy reliance on our sole helicopter — which has now clocked over 5,500 hours of flight time since August 2018 — is resulting in growing maintenance costs and downtime. To maximize the impact of our Air Support Unit, the City Manager is directed to develop a Manager's Budget Addendum (MBA) summarizing projected maintenance costs for AIR3 with recommendations for the optimal timing and method for replacing the unit, and additional analysis on the financial viability and associated funding options for future expansion of the Air Support Unit.

Beyond our network of ALPRs, the Department of Transportation's (DOT) existing network of traffic cameras offers another opportunity to integrate existing resources to improve public safety outcomes. Cities like Riverside and Albuquerque have recently created Real Time Crime Centers that tie together a range of data sources and enable richer analytics and actionable data in real time. While we have neither the budget resources nor staff capacity to implement such a system today, the City Manager is directed to explore deeper integration of DOT cameras and SJPD enforcement activities through investments in recording capabilities and remote access to live camera feeds for appropriate SJPD personnel while adhering to the City's privacy and data retention policies and state law.

Thanks to state-level legislation, San José has another opportunity to expand our camera technology — this time to address traffic safety. Last fall, after substantial advocacy from my office, our Intergovernmental Relations team, and various councilmembers, including our Vision Zero Task Force Chair Councilmember Foley, the California Legislature passed AB 645. The bill authorizes an automated speed safety camera pilot program in six California cities, including San José, which is authorized to deploy 33 automated speed safety systems to better enforce traffic laws and speed limits. The City Manager is directed to allocate one-time or ongoing funding, as appropriate, to establish an equitable speed safety pilot program that deploys as many

automated speed safety cameras as is fiscally feasible on priority safety corridors or near school sites, as informed by our Vision Zero Action Plan.

Quick build solutions to traffic safety have proven an effective and affordable strategy to significantly improve safety on some of our most dangerous corridors. The City Manager is directed to explore accelerating the deployment of quick build traffic safety interventions and ensure that there is sufficient funding to deploy quick build projects within the foreseeable future. Quick build projects should be prioritized on priority safety corridors in alignment with the Vision Zero Action Plan.

Reimbursement and Future Reinvestment in Fire and Medical Services

The next several years will see the expansion of Fire Department (SJFD) service as we bring online the new dual company Fire Station 32 in 2025-2026, followed by the new single-company Fire Station 36 in 2027-2028 — both funded by voter-supported Measure T. This expansion of services is very much needed, but will also put more budgetary pressure on the General Fund.

As the City Council learned during the October 16, 2023 study session on Santa Clara County 9-1-1 Ambulance Services, the growing unavailability of County ambulances has increasingly impacted SJFD and our residents. In 2022-2023, due to the lack of available County ambulances, SJFD stepped in, providing over 700 rescue medic transports and 800 instances where firefighters/paramedics rode in County ambulances to maintain advanced life support patient care to the hospital. In 2023-2024, rescue medic transports alone are expected to reach 1,000. In acknowledgement of this burden, staff is working to secure a third-party vendor to bill for the Ambulance Transport User Fee to enable the City to recover costs for lawfully billable services that should have otherwise been provided by the County. The City Manager is directed to expedite the implementation of the Ambulance Transport User Fee as soon as practical.

Along with the heavy usage of SJFD services comes heavy usage of the equipment required to perform day-to-day life saving activities. The City Manager is directed to allocate one-time funding of at least \$500,000 to ensure their timely replacement offset by the reserve set-aside for this purpose in the 2024-2025 Base Budget.

Optimizing Service Delivery

Over time, we've come to rely on police officers to respond to service calls that relate to an immense range of individual and societal challenges, including homelessness and mental illness, which often don't require a sworn officer with a badge and a gun. This puts added stress on our officers, diverts capacity away from other important police work, and often does not provide an individual in distress with optimal support. In order to improve the quality of service residents receive and enable our department to focus on the best use of limited staff resources, the City has begun analyzing call data and exploring alternative response models. Building on the memo

authored by Councilmembers Ortiz, Torres, and Jimenez, and recent conversations between Board President Ellenberg and the Mayor's Office, the City Manager is directed to participate in exploratory conversations with the County's leadership team as both agencies work to develop a shared framework with clarity about roles, responsibilities and funding commitments.

V. Clean Up San José

Trash, graffiti, and other forms of blight make residents less satisfied with their quality of life, less trusting of each other, and less confident in their government. For the sake of civic pride, economic competitiveness and community well-being, we must hold ourselves accountable for delivering a cleaner, more beautiful environment for all of our residents.

Every day, our BeautifySJ (BSJ) teams work tirelessly to combat blight and restore vibrancy to our public spaces. Last year, BSJ and contracted vendors removed 9.49 million pounds of trash and eradicated 2.9 million square feet of graffiti. As described in the sections that follow, we need to prioritize the continuation of a number of BSJ services currently funded on a one-time basis and new, targeted services necessary to meet stormwater regulatory requirements and community expectations.

Clean Gateways

First impressions matter, which is why we allocated modest funding in last year's budget to beautify 11 of our most heavily-trafficked gateways across Districts 3, 5, 6 and 7 in a large ring around Downtown. Since then, city staff has worked with Gensler, a renowned architecture and design firm with an office in Downtown, to develop beautification concepts for these gateways and staff has begun work on three Highway 87 exits. Gensler's willingness to offer pro bono design expertise is commendable. We've also seen an outpouring of interest from nearby neighborhood associations. Using any program cost savings from the previous year, the City Manager is directed to explore additional partnership opportunities with private companies and community groups interested in sponsoring a Clean Gateway with financial and/or volunteer support with a goal of sustainably keeping each of our 11 initial gateways well-maintained.

Education and Engagement

The San José 311 (SJ311) app empowers residents to report various forms of blight and request a variety of other city services, including Free Junk Pickup, which helps prevent illegal dumping. We currently receive approximately 25,000 service requests per month, and while we are seeing a steady upward trend in customer satisfaction, residents continue to ask for more thorough and consistent communication from the moment of in-take to report closure. The City Manager is directed to explore opportunities with third-party vendors to incorporate native app functionality into the SJ311 service to improve data integration, enhance the quality and consistency of communication, and add alert capabilities for relevant city-led volunteer and community events.

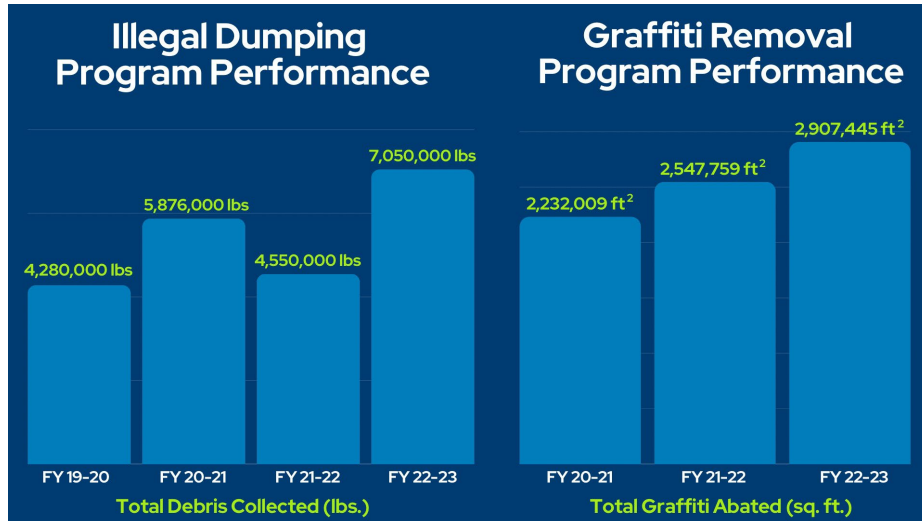
To increase the visibility and accessibility of our 311 services and especially ensure that residents in traditionally underserved neighborhoods have access to relevant information about the tool and on-demand city services, the City Manager is directed to explore new methods of public outreach, both in-person and online.

In addition to leveraging technology to encourage community engagement, last year we created the Beautify Your Block initiative to empower residents to beautify their own neighborhoods by offering training in blight reduction strategies and free equipment. However, soon after the budget was adopted, San José was awarded a \$1 million Neighbor-to-Neighbor grant from the State of California to carry out virtually identical work. To streamline administration, reduce resident confusion, and realize cost savings that can be applied to the projected structural shortfall, the City Manager is directed to consolidate these programs into a single effort to boost hands-on community involvement in blight reduction and beautification with priority given to neighborhoods within low-income census tracts.

To further promote direct community engagement, the City Manager is directed to allocate one-time resources to maintain the BSJ Grant Program at FY 2023-2024 funding levels. Additionally, and to complement the City's efforts to protect waterways, the City Manager is directed to evaluate expanded, outcome-based funding for the city's nonprofit creek clean-up partners.

Deterrence and Enforcement

Despite investing in education, technology and volunteer opportunities, the scale and cost of blight eradication is outpacing the city's rate of revenue growth. Just last year, our Removing and Preventing Illegal Dumping (RAPID) program team received a 7% increase in reports and collected over 7 million pounds of debris, representing a startling 54% year-over-year increase. BSJ and contractors responded to more than 26,000 graffiti work orders and eradicated almost three million square feet of graffiti, a 26% increase from the previous year. These trends are unsustainable.



Without a shift in overall strategy, we are stuck simply reacting to a growing problem. Fortunately, we can get upstream of certain forms of blight — namely, graffiti and illegal dumping — by investing in deterrence and enforcement.

Over the past several months, my office has convened partners from Caltrans, VTA, California Highway Patrol (CHP), the District Attorney’s Office (DA), and SJPd to work collaboratively toward deterrent and enforcement solutions for graffiti along our streets and freeways. We’ve identified three promising opportunities: 1) installing hoods and shields to keep taggers from accessing freeway signs; 2) installing cameras and sensors in hotspot areas to alert CHP or SJPd, depending on jurisdiction, to potential vandalism; and 3) deploying SJPd officers to conduct sting operations in hotspots within the City’s jurisdiction. The City Manager is directed to continue to explore these opportunities, including cost-sharing agreements with Caltrans, VTA and other relevant agencies, and assign staff and other resources to implement them as soon as possible with a goal of meaningfully reducing repeat graffiti in costly and highly visible hotspots.

The RAPID program’s eight cameras in illegal dumping hotspots have effectively reduced illegal dumping by 31% within a 150-ft vicinity over the past year. In 2022-2023, the program expanded deterrent efforts by adding bollards, boulders, and motion-light sensors. The City Manager is directed to dedicate one-time funding to install deterrents (e.g. trees, murals, bollards, boulders) and cameras in more illegal dumping hot spots, and identify and deploy staff resources to review camera footage and engage in enforcement activities.

As we pursue new strategies for enforcing our laws related to blight and vandalism, we should invite a frustrated community to help us uphold our community standards. SJPd already operates a successful P3 Mobile Crime Stoppers Unit that allows residents to report crime, engage in two-way dialogue with law enforcement anonymously, and earn cash incentives for tips that help solve cases. The City Manager is directed to explore adding cash incentives to the P3 Mobile Crime Stoppers Unit for tips that lead to the arrest of prolific taggers and illegal dumpers.

While considering the serious impacts that criminal adjudication can have on the future prospects of our youth and young people, we should also pursue alternative measures of enforcement for graffiti. Restorative justice and diversion programs offer the rare opportunity for offenders to meaningfully rectify any harm they may have caused the community. New York City, for example, instituted a [Young New Yorkers](#) program in which young offenders are tasked with creating art across the City, rather than entering the carceral system. The City Manager is directed to work with relevant partners, such as SJPd, BSJ, the Office of Cultural Affairs, the District Attorney, the Probation Department, and the presiding Superior Court Judge to identify and implement diversion and restorative justice methods for young offenders.

Code Enforcement

The City currently lacks the capacity to address both the code enforcement backlog and incoming cases, and simply adding more staff might not be the answer. Instead, the City should seek a re-engineering of the code enforcement process and organizational structure to allow for a more rapid and effective resolution of code enforcement issues throughout San José. The City Manager is directed to allocate the one-time funding necessary to complete this operational assessment. Through these efforts, we can efficiently close cases, reduce the backlog and ensure more responsive delivery of services.

VI. Attracting Jobs and Investment

The health of our local economy directly affects the range of opportunities open to our residents and the size of the tax base from which we fund public services. While City Hall neither plays the leading role in generating economic growth nor controls capital markets and interest rates, we have a significant impact on others' willingness to invest and participate in our local economy. In this moment of economic uncertainty, it is especially important to position San José as a welcoming environment for investment in new jobs and both affordable and market rate housing. The following targeted investments will unlock economic impact and private investment over time.

Planning and Permitting

Our current Downtown Environmental Impact Report (EIR) is supposed to streamline the environmental review process for building housing, office, hotel, and retail projects in

Downtown. However, projects are still experiencing processing delays, and often must submit lengthy technical reports related to traffic, air quality, and noise impacts. To streamline and shorten the California Environmental Quality Act (CEQA) process for Downtown projects, the City Manager is directed to pursue the best strategy to eliminate the need for non-site specific technical reports for every individual project and analyze the staff process for efficiencies. This could be in the form of an update to the Downtown EIR and/or the creation of standardized impacts and standardized mitigations that could simply be incorporated into the conditions of approval for typical residential, office, hotel, and retail projects in the downtown area.

Building on these streamlining efforts, the City should continue to improve predictability for project applicants citywide. Investors routinely stress the value of certainty in the development process, especially related to timelines. High interest rates and persistent inflation put an even higher premium on speed and certainty. To make San José a more predictable place to invest, the City Manager is directed to provide an analysis of what investments are needed in development services so that when an applicant applies for a permit and their application is deemed complete, they can get a reasonable timeframe of when they will receive approvals.

Similarly, when obtaining financing, the development community needs more information from the City to proactively identify and calculate their costs. [Cities like Sacramento, Roseville and Fremont provide comprehensive estimates for development fees](#) in advance to give applicants a clear, reasonably accurate estimate of the total amount of fees a proposed project will incur, and we should adopt this best practice. The City Manager is directed to create a fee calculator that estimates an applicant's cost of doing business with the city, starting with high-impact permit types that facilitate job and housing growth.

In addition to fee transparency, we need to continue to be mindful about the impact of fees on the cost of development. While the City's development-related fees are critical to ensure cost recovery and achieve important policy objectives, we also know that developers face rising construction and borrowing costs. In fact, in recent years the Council has approved thousands of new housing units that have not been built because the current cost of construction is higher than investors' expected return. Minimizing fee increases now creates an opportunity to unlock these projects as interest rates decline and rents rise over time. The City Manager is directed to continue to make every effort to ensure that fee increases are commensurate with cost requirements and explore the potential to pause certain fee increases where feasible and appropriate, including fees related to the inclusionary housing ordinance.

As co-chairs of the planning and permitting mayoral transition committee last year, Councilmembers Davis and Jimenez identified and brought forth a number of recommendations in a [memo](#) to the November 1, 2023 Rules Committee meeting. The memo outlined a number of areas in which the City might improve development services, including streamlined review processes and an assessment of the cost implications of the City's regulatory framework. The

City Manager is directed to complete the recommendations in the memo, allocating additional resources if necessary, and report to the Community and Economic Development Committee by the first quarter of 2025 for a discussion of findings and implementation options.

In addition to process improvements in our permitting systems, the City can generate more housing by working to pre-clear environmental review where our General Plan calls for intensive development – in our Urban Villages. The City Manager is directed to continue the work initially funded last year to enable CEQA pre-clearance for market-ready urban villages, ideally borrowing any additional streamlining strategies identified as the City Manager evaluates the current Downtown EIR and associated review process.

Maintaining Our Competitive Edge

San José is fortunate to be both a center of broad-based innovation and a manufacturing hub. Companies and individuals in our metro area secure more patents per capita each year than any other U.S. metro, including in artificial intelligence and machine learning. And while Silicon Valley is increasingly known for software, one of San José’s hidden strengths is the nearly 1 in 5 jobs we have in manufacturing. To build on these strengths and ensure that the next generation of innovators choose to start their AI and advanced manufacturing companies in San José, the City Manager is directed to propose specific incentives to encourage companies with fewer than 100 employees to start up in or relocate to San José.

San José State University (SJSU) plays a central role in our local innovation economy, graduating more technical degrees each year than any other institution of higher learning in California. To help retain this talent in San José and encourage others to participate in the AI revolution, the City Manager is directed to explore workforce, technology and especially AI-focused partnerships with SJSU, including the potential for a co-working space for aspiring technologists at the MLK Library.

Finally, to keep our city government on the forefront of powerful new technologies and methods, the City Manager is directed to explore the allocation of one-time funding to expand the Government AI Coalition and lay the groundwork for a Civic Sandbox Initiative that facilitates regular piloting of innovative technologies by City Departments in collaboration with outside entrepreneurs and academics.

Parks Ballot Measure

Our city parks currently face over \$450 million in deferred maintenance costs. Residents deserve better maintained parks with a broader array of activities and amenities — as Councilmembers Jimenez, Candelas, and Ortiz have championed by organizing movie nights, Viva Parks events, and other activations in their districts — but our City Charter precludes significant private investment in parks by prohibiting long-term leases of parkland for retail and commercial

purposes. Yet, many urban parks around the world, including Bryant Park in New York and Union Square in San Francisco, welcome private investment and thereby provide a significantly upgraded and heavily-used public space. It's time we let residents decide if they want the same opportunities for appropriate parks and uses in San José. The City Manager is directed to explore placing a measure on the upcoming November 2024 ballot that would allow the city to enter long-term retail and commercial leases on city park land and direct the resulting revenues back into our parks, returning to Council no later than the end of May 2024 with a status update and any polling results.

Night Markets & Special Events

Night markets and special events on public and private property build community and support local businesses and artists. The City Manager is directed to explore municipal code changes that can make it easier to host special events on private property and explore reducing red tape and fees for event permitting. The City Manager is further directed to explore expanding the ability for the Office of Economic Development and Cultural Affairs to permit outdoor special events on private property.

San José Sports Authority

The San José Sports Authority (SJSA) continually secures and hosts an impressive array of sporting events, enriching the fabric of our city and bringing millions of tourism dollars into city coffers. In 2026, the San Jose metro area will take things to a new level by hosting both Super Bowl 60 and six matches of the FIFA World Cup. To fully realize the economic potential of these world-class events, we must proactively plan for them. The City Manager is directed to provide the San José Sports Authority additional one-time funding to prepare the city for Super Bowl 60 and the FIFA World Cup. Funding should be used to plan and execute a San José marketing initiative, direct event activations, additional SJSA staff time, and economic impact reports.

Super Bowl 50 in 2016 taught us many lessons. In particular, we learned that our own regulations and policies can impede community efforts to participate in the excitement surrounding such a large and unique event. For example, Oracle's "super graphic," which conflicted with our municipal code proved to be an unnecessary and time-consuming distraction. The City Manager is directed to expedite discussions with partners for 2026 sports tourism planning. Furthermore, the City Manager is directed to anticipate and remove barriers, returning to City Council for approval if necessary, related to super graphics, wayfinding, sponsorship, and marketing and activation campaigns associated with 2026 events and any future significant sports or tourism related events. The City Manager is further directed to return to City Council by December 2024 with a report summarizing their preparation for these major 2026 events.

Finally, the SJSA is nearing the end of a five-year contract during which it has consistently delivered high-profile and economically impactful sporting events for our city. In addition to the economic impact of its work, SJSA builds civic pride and involves a diverse range of community stakeholders in these events. To continue our work together, the City Manager is directed to extend the SJSA multi-year funding agreement and include provisions for optional future extensions if mutually agreed upon performance metrics are achieved.

The Downtown Experience

San José has the fastest rebounding downtown in California and third fastest in the nation. This trend is primarily fueled by what we are calling the “experience economy,” or unique in-person events and venues that bring people together to enjoy music, arts, food and other cultural experiences. These experiences are bringing residents out of their homes, and visitors into our city – propelling economic activity and helping our small businesses.

Thanks to downtown holiday programming such as Christmas in the Park, Downtown Ice, and Winter Wonderland, the area around Plaza de Cesar Chavez Plaza hosted more than 700,000 visitors over an 8-week period. However, the lack of a meaningful ordinance and enforcement for unpermitted vendors has been a real challenge for many of San José’s event programmers, venue operators, and small businesses. The City Manager is directed to explore the allocation of one-time resources for the development of an unpermitted vendor policy to be implemented and enforced in time for the 2024 holiday season, and coordinate with the County to advocate at the State level for regulatory changes.

Santa Clara Street is Downtown San José’s most prominent street. Unfortunately, the area is blighted with numerous vacant storefronts, dilapidated buildings, poor lighting, and worn down facades. The SJDA is launching a new effort to give the buildings on Santa Clara Street a much needed refresh, such as lighting, painting, storefront treatments, and blight-busting strategies to combat problems at key downtown sites. The City Manager is directed to allocate one-time funding to support the SJDA in this effort.

San Pedro Street is the first San José permanent pedestrian mall to be established in 52 years. City staff is working with various organizations to secure funding to incrementally upgrade San Pedro Street to make it more inviting to pedestrians. The City Manager is directed to continue working with private, philanthropic, and government entities to secure funding for San Pedro Street Pedestrian Mall upgrades, and explore providing tactical gap funding for San Pedro St. Pedestrian Mall upgrades, if needed. Furthermore, the City Manager is directed to value engineer and phase the San Pedro Street Pedestrian Mall upgrades in a manner that is fiscally prudent and sensitive to business concerns.

Digital Wayfinding Kiosks

Digital Wayfinding Kiosks help visitors and residents in cities like Phoenix, Berkeley, Houston, and Miami navigate business districts and their downtowns. Wayfinding kiosks can provide complimentary Wi-Fi, allow free access to public transit maps, and can even let people make a restaurant reservation, all while facilitating revenue generation. In Santa Monica, the [digital wayfinding initiative](#) is creating 40 kiosks to generate a minimum of \$5 million in revenue to the City annually with a one-time signing bonus of \$4 million. If a future deal is worth even a fraction of Santa Monica's, San José could make meaningful investments to upgrade cultural facilities, support small businesses, increase downtown programming, and expand other city services. The City Manager is directed to prioritize one-time resources to implement the digital wayfinding ordinance update by the end of FY 24/25, and redirect resulting revenues into event activation and destination marketing programs.

Storefront Activation Grants Program

Currently funded on a one-time basis, the Storefront Activation Grants program encourages economic development in the downtown and in underserved neighborhoods, attracts investment and supports small businesses still recovering from the negative consequences of the pandemic. The program provides immediate assistance for those businesses that seek to improve a vacant storefront or need assistance to activate and enhance exterior spaces, reduce blight and retain jobs. Over 80% of business owners receiving grants are Black, Indigenous, and people of color. However, as one of the most popular citywide business programs, the grant program is oversubscribed with a roughly \$400,000 waitlist. The City Manager is directed to explore the continuation of this important program into 2024-2025.

Team San José

San José's efforts in destination marketing have successfully generated crucial city tax dollars. Yet, in the ever more competitive tourism landscape, further investment is critical to growing this important revenue source. The City Manager is directed to explore providing Team San José one-time funding for destination marketing and content creation to grow tourism.

Rental and labor costs associated with use of convention and cultural facilities tend to be higher in San José than in other markets. Rather than letting this dissuade events and conventions, the City can provide targeted, one-time subsidies to attract new events and conventions to our larger city facilities in hope of keeping them longer term. The City Manager is directed to explore allocating a small amount of additional funding for City Free Use within the Convention and Cultural Affairs Fund, which may allow Team San José greater flexibility in targeted instances to attract new and large events. The City Manager should also evaluate the potential for long-term cost savings by adding solar panels on top of the convention center paired with on-site storage.

San José's funding for arts and culture is primarily provided through the Transient Occupancy Tax (TOT). Since the COVID-19 pandemic, TOT has experienced a significant decrease and is not expected to return to pre-pandemic levels in the near future. In FY 23-24, \$1 million in General Fund supplemented TOT funding for arts and culture programs. The City Manager is directed to continue to provide one-time supplemental arts and cultural funding to partially bridge the gap. The City Manager is further directed to return with an MBA evaluating the establishment of an admissions fee and other revenue opportunities for San José events that could serve as a new revenue stream for arts and cultural organizations and cultural facilities.

San José Earthquakes Sports Complex

The San José Earthquakes are preparing to build a professional sports training complex on 12 acres at the Santa Clara County Fairgrounds in partnership with the City and County. This collaboration holds potential benefits for San José, including the opportunity to build out four new public fields as part of the overall facility and 250 hours of free public field use for underserved community groups. The City Manager is directed to bring forth an MBA analyzing how the City might best support development of the San José Earthquakes Sports Complex in a way that maximizes benefits for the community.

VII. Other Important and Ongoing Work

The above sections outline critical investments within our core Focus Areas, keeping in mind the fiscal constraints we face. Of course, there are many other important services that we must sustain in these uncertain times. In the Fiscal Year 2024-2025 Budget Priority Study Session on February 13, 2024, the City Manager outlined her City Service Area outcomes and key priorities, including the City Manager's Foundational Priorities. While many of these priorities overlap with the direction included in this message, the City Manager is directed to recommend budgetary adjustments, where necessary, to ensure that this work is continued in 2024-2025.

Additionally, the City Manager is directed to allocate sufficient ongoing funding to enable the Mayor's Office to work with the Council and an outside consultant to overhaul and manage the annual Council Appointee review and feedback process. The following sections highlight a few key investments in other important and ongoing work that we should prioritize as we make difficult budget tradeoffs this year.

Children and Youth Master Plan

In the heart of Silicon Valley, all children should be given the opportunity to live, grow, and develop to lead rich and vibrant lives. The Children and Youth Master Plan seeks to provide the City's most vulnerable and marginalized youth opportunities to access a myriad of services to meet their needs and explore college and career pathways. The City Manager is directed to explore the development of a budget and implementation plan to pilot this work in Poco

Way/Mayfair and Seven Trees/Santee communities, and fund staffing at both the Starbird and Berryessa Youth Centers.

San José Animal Care and Services (SJACS)

Dedicated SJACS staff, volunteers, and rescue partners provide critical care for thousands of animals at our shelter every year, but they need help keeping up with the climbing number of animals coming through the shelter's doors. After years of veterinary staffing challenges at SJACS, all veterinarian positions are filled, and we recently brought on a temporary veterinarian position to address the high demand for veterinary services. The City Manager is directed to transition this temporary position into an ongoing role to ensure the long-term success of shelter operations. Additionally, the City Manager is directed to explore supplementing existing spay and neuter programs with one-time funding, including resources for Trap, Neuter, and Release.

Digital Equity Work

The City's award-winning work to close the Digital Divide has been and should continue to be a priority, especially here in the heart of Silicon Valley. Two key additional goals involve "digital equity" and "digital empowerment." Digital equity is about making sure everyone has access to the internet and technology. Digital empowerment is about making sure people know how to use the internet and technology effectively. As cybersecurity threats evolve and artificial intelligence presents both benefits and challenges for residents, we must do more to expand access to digital skill building and workforce opportunities.

The City Manager is directed to continue to prioritize and remove barriers to advancing the Digital Empowerment priority. This must include looking inward at process improvements to support our public-private partnerships with telecommunications companies, providing strong advocacy at the state and federal level on the multitude of legislative items related to broadband infrastructure and funding, reevaluating the our existing programs and services available through our Library and community partners to ensure they meet community needs, and bringing the full program assessment back to the City Council as soon as possible.

2025-2026 Future Deficit Reserve: While we must be focused on balancing the budget in 2024-2025, we also need to look ahead to 2025-2026. Even as we resolve the General Fund shortfall in 2024-2025, we face an additional estimated shortfall of \$37.6 million in 2025-2026. As she incorporates the direction within this message into her 2024-2025 Proposed Budget, the City Manager is directed to establish a 2025-2026 Future Deficit Reserve to set aside some of the funding anticipated to help address the projected shortfall for that year.

Prior One-Time Funded Items: If not identified previously, the City Manager is directed to evaluate programs funded on a one-time basis in 2023-2024 for continuation in 2024-2025.

Essential Services Reserve: For the 2024-2025 budget cycle the City Manager is directed to set aside \$2,000,000 in the Essential Services Reserve. This reserve allows Councilmembers to request one-time funds for critical projects through Budget Documents.

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

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

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

I respectfully request my colleagues' support of this message.

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

APPENDIX A

2024-2025 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. As appropriate, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure; and, maintain or increase the Budget Stabilization Reserve as a buffer against a further weakening of future economic conditions or unanticipated cost increases.
4. Evaluate program-level budgets and identify opportunities to shift resources or reconfigure operations from the least influential contributors to the strongest contributors of achieving outcomes related to City Council-approved Focus Areas, critical CSA services and programs, and Foundational Strategic Support Focus Areas.
5. Prioritize limited resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2023-2024 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.
9. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
10. Analyze non-personal/equipment/other costs for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. 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.
13. 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 2023-2024 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to 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.
14. Engage employees in department and/or city-wide budget proposal idea development.
15. 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.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

APPENDIX B

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

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

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

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

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

Budget Documents: Memoranda issued by a Councilmember to the Mayor recommending adjustments to the City Manager's Proposed Budget. Typically, Budget Documents are based on the information received in a Cost Estimate Request and Response, but they may also recommend targeted funding for community groups whose programs or actions serve the public interest, but would not be performed by City staff. All Budget Documents that recommend a City-provided service or project must be based on a Cost Estimate Response.

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

Submittal Dates:

- **Wednesday, May 8** Deadline for Councilmembers to submit Cost Estimate Requests to the City Manager's Budget Office
- **Friday, May 17** Cost Estimate Responses returned to Councilmembers
- **Thursday, May 23** Budget Documents due to Mayor's Office