

Executive Summary



SAN FRANCISCO'S BUDGET

The budget for the City and County of San Francisco (the City) for Fiscal Year (FY) 2012-13 and FY 2013-14 is \$7.3 billion and \$7.6 billion, respectively. Roughly 52.3 percent of the budget is comprised of self-supporting activities driven by the City's Enterprise departments, which focus on City-related business operations and include the Port, the Municipal Transportation Agency, the Airport, the Public Utilities Commission, and others. The remaining 47.7 percent is comprised of General Fund monies, which support public services such as Public Health, Police and Fire Services, Recreation and Parks, and others.

Each year, the City makes decisions on how to allocate General Fund monies based on the resources that are available and the priorities and needs of the City and its citizens. The chart below summarizes total spending in each of the Major Service Areas.

Total Department Uses by Major Service Area	Fiscal Year 2012-13 (\$ millions)	Fiscal Year 2013-14 (\$ millions)
Public Protection	1,210.0	1,242.8
Public Works, Transportation & Commerce	2,808.0	2,922.5
Human Welfare & Neighborhood Development	902.9	905.8
Community Health	1,675.6	1,748.6
Culture & Recreation	282.5	289.9
General Administration & Finance	834.3	831.1
General City Responsibilities	615.2	579.7
Less Transfer Adjustments	(981.8)	(965.8)
Total Budget	7,346.7	7,554.5

The City and County of San Francisco is also a major San Francisco employer; the proposed budget for the next two fiscal years includes funding for approximately 27,000 employees. This represents a 2.9 percent growth in labor force over the two-year period, which is largely due to the City absorbing the responsibilities of the State-dissolved San Francisco Redevelopment Agency, the Department of Public Health's preparation for implementation of health care reform, the hiring of additional transit operators to reduce overtime at the MTA, and the launch of several capital projects to restore and improve our City's infrastructure.

BUDGET PROCESS

The City's budget process begins in September with preliminary revenue projections for the upcoming budget years. In December, the Mayor's Office and the Controller's Office issue budget instructions to departments, which contain detailed guidance on the preparation of department's budget requests. Departments then prepare their budget requests and submit them to the Controller by mid-February. The Controller consolidates, verifies, and refines the department's proposed budgets, and turns the proposals over to the Mayor's Office of Public Policy and Finance. From March through June, the Mayor's Office analyzes each budget proposal, examining policy and service implications in order to meet citywide needs and reflect the Mayor's goals and priorities for the upcoming year. Concurrently, the Mayor conducts budget outreach to obtain feedback from the community on budget priorities.

The Mayor presents his balanced budget proposal for Enterprise departments on May 1 and for General Fund departments on June 1. The Board of Supervisors' Budget and Finance Committee holds public hearings on the budget in May and June, makes recommendations for approval, and makes changes to the budget before the budget goes to the full Board. The entire budget is heard and must be voted on and approved by the full Board of Supervisors by August 1st. Finally, the budget returns to the Mayor for his approval and final adoption.

SAN FRANCISCO'S FY 2012-13 AND FY 2013-14 BUDGET SHORTFALL

In December of 2011, the Mayor's Office projected a General Fund deficit of \$262.7 million for FY 2012-13 and \$375.3 million for FY 2013-14. These projected shortfalls are the result of revenue growth offset by the loss of one-time solutions used to balance the FY 2011-12 budget and expenditure growth most notably in the City's labor costs. At that time, the Mayor issued budget instructions to departments to reduce their General Fund Support by 5.0 percent in each year, and to propose a 2.5 percent contingency reduction. If fully realized, a 5.0 percent reduction in discretionary General Fund Support would generate approximately \$58.0 million in ongoing savings to the General Fund.

BUDGET INSTRUCTIONS GENERAL FUND DEFICIT	Fiscal Year 2012-13 (\$ millions)	Fiscal Year 2013-14 (\$ millions)
Sources	19.7	104.9
Uses	(282.4)	(480.2)
Projected General Fund Deficit	(262.7)	(375.3)

These projections were revised in the March 2012 Joint Report, (a four-year budget projection jointly issued by the Controller, Mayor and Board of Supervisors) to project a General Fund deficit of \$169.6 million in FY 2012-13 and \$312.0 million in FY 2013-14. The Joint Report's more optimistic projections reflect updated revenue projections based on the continued economic recovery as well as the effect of current year ending fund balance, which will be available to reduce the City's projected budget shortfalls over the coming two fiscal years.

JOINT REPORT GENERAL FUND DEFICIT	Fiscal Year 2012-13 (\$ millions)	Fiscal Year 2013-14 (\$ millions)
Budget Instructions— Projected Shortfall	(262.7)	(375.3)
Changes Reflected in Joint Report		
Changes in Revenue	81.0	91.9
Changes in Salaries and Benefits	0.9	(27.4)
Other Changes in Uses	11.3	(1.3)
Updated Projected Shortfall	(169.6)	(312.0)

REFORM EFFORTS LEADING TO SAVINGS AND STABILITY

Over the last several years, San Francisco has made significant efforts to manage the City's budget responsibly while navigating through very challenging fiscal conditions. These efforts include the voter approved Proposition A, which created greater discipline in the City's budgeting processes by requiring the City to adopt new, more responsible, long-range focused financial policies, including producing a Five-Year Financial Plan that projects revenues and expenditures for the City. These policies, now all in effect, will grow the City's reserves, as well as limit the use of some of our most volatile revenues, and ensure the City is on a more sustainable and less volatile financial path.

In addition in November 2011, the City's voters passed Proposition C, which reformed the City's pension system by changing the way that the City and County employees will contribute to the pension system, the San

Francisco Employees' Retirement System (SFERS). The changes mandated by the new law create cost sharing when pension costs rise, as well as require new employees to begin to contribute to their retiree health costs. This change generated nearly \$40.0 million in savings to the General Fund in FY 2012-13.

PARTNERING WITH THE CITY'S LABOR UNIONS TO MANAGE COSTS

In addition to partnering with labor to pass Proposition C, the City also worked to come to agreement with all our employee unions. The City and its employee unions reached an agreement that saves more than \$28.0 million over the next two years. The agreement also sees the expiration of the 12 furlough days implemented during FY 2010-11, and includes a modest wage increase in FY 2013-14.

STATE AND FEDERAL IMPACTS

For the last several years, the City experienced a reduction in state and federal resources due to budgetary reductions and restructuring at both levels of government. In the coming two fiscal years, the City will recognize additional losses in Medi-Cal reimbursement for Laguna Honda Hospital, Ryan White HIV/AIDS funds, reductions in Community Development Block Grant (CDBG), and other federal Department of Housing and Urban Development funding. The State also relinquished significant new public safety responsibilities to California's counties, and dissolved Redevelopment Agencies. Both actions are reflected in the Mayor's budget. In addition, the State is continuing to address a significant budgetary shortfall for the coming fiscal year. The Mayor's proposed budget does not assume any new cuts from the State; however, it does include a \$15.0 million reserve for state budget impacts in FY 2012-13.

CRAFTING A BUDGET THAT INVOLVES THE COMMUNITY, INVESTS IN SAN FRANCISCO, AND PROMOTES INNOVATION

Budget Outreach

In preparing his proposed budget, Mayor Lee undertook an extensive outreach and engagement process. The Mayor partnered with members of the Board of Supervisors to hold six budget town hall meetings across the City; held policy-area budget stakeholder meetings with community leaders in the areas of Health and Human Services, Arts and Culture, Public Safety, and Recreation and Parks; hosted the first ever Innovation Budget Town Hall using Google+ hangout technology; and met with hundreds of residents, community

organizations, City Commissioners, labor organizations, business owners, and activists to discuss the budget.

Balancing the Budget

The City's Five-Year Financial Plan recommended a number of strategies to balance the City's budget in order to create greater structural balance in the City's finances.

The City's projected shortfall at the time of the Joint Report was \$169.6 million and \$312.0 million for FY 2012-13 and FY 2013-14, respectively. The Mayor's balanced budget plan ensures that as our local economy grows, we continue to address structural budget issues, while making targeted, job-creating investments. The table below reflects the combination of solutions that the Mayor's proposed budget includes in order to create a balanced budget. The Mayor's proposed budget also includes several key restorations and investments.

Revenues and Fund Balance reflect improving local tax revenues, additional prior year fund balance, an increase in state Public Safety Realignment revenues, and other one-time sources.

Citywide Solutions reflect changes to citywide costs and prior assumptions for capital spending, baselines, and inflationary costs on non-personnel spending, as well as the results of the City's labor negotiations.

Departmental Savings and Revenues represent the savings and revenue proposals proposed by departments to offset the City's budget shortfall. The majority of the savings reflected in this category are related to revenues, and do not reflect service reductions.

Funding Restorations and Investments reflect critical investments in preserving economic development work previously conducted by the San Francisco Redevelopment Agency, the extension of the Jobs Now program, and restoration of Federal HIV/AIDS cuts. The number also includes a 1.0 percent cost-of-doing business increase for non-profit service providers.

As a result of the extensive work with the community, budget stakeholders, department heads and others, the Mayor's proposed budget includes no direct service reductions to health and human service programs, backfills some important HIV/AIDS services, funds a public safety hiring plan, and invests in job-creating infrastructure and economic development activities. Policy highlights of the Mayor's Budget are outlined in the sections that follow.

PROJECTED SHORTFALL	Fiscal Year 2012-13 (\$ millions)	Fiscal Year 2013-14 (\$ millions)
Joint Report Revised Deficit	(169.6)	(312.0)
Additional Costs not assumed in Joint Report	(36.5)	(36.4)
Shortfall After Additional Costs	(206.1)	(348.4)

SOLUTIONS	Fiscal Year 2012-13 (\$ millions)	Fiscal Year 2013-14 (\$ millions)
Revenues and Fund Balance	90.3	103.6
Citywide Solutions	96.9	206.4
Departmental Savings and Revenues	53.5	68.7
Funding Restorations and Investments	(34.6)	(30.3)
Shortfall After Restorations and Investments	0.0	(0.0)

Jobs and Continued Economic Recovery

In FY 2011-12, Mayor Lee released his 17-Point Jobs Plan, a guiding policy framework for San Francisco's economy that is aimed at moving the City toward continued economic recovery. In line with the Plan, the Mayor's proposed budget includes over \$11.3 million each year in support for vital initiatives to encourage job growth and move the economy towards further recovery.

These initiatives include: \$5.3 million in ongoing support to continue the federal Jobs Now program; implementation of the Invest in Neighborhoods initiative, where selected neighborhoods will receive a point person at City Hall, the opportunity to apply for small project grants, and access to a range of other services aimed at strengthening neighborhood commercial corridors; improvements to the Bayview/3rd Street and Central Market/6th Street areas to backfill the loss of neighborhood economic development support from the San Francisco Redevelopment Agency; a focus on small business development through the Job Squad, a team that will provide direct assistance to business owners; and an increase to the Small Business New Jobs Investment Fund of \$2.0 million each year.

Capital and Infrastructure Investments

Over the next two fiscal years, the City will spend \$441.4 million through its capital budget. This includes \$238.2 million in total capital investments in FY 2012-13 and \$203.2 million in FY 2013-14, including \$74.1 and \$60.5 million for General Fund departments and \$164.1 and \$142.7 million for Enterprise departments. Combined, these capital investments will support approximately 2,900 jobs during the life of the projects. In addition, due to the passage of the Road Repaving and Street Safety Bond in November 2011, the City will spend an additional \$74.4 million in FY 2012-13, and \$43.7 million in FY 2013-14 to improve and repair our streets and public right-of-way.

The City will also invest \$15.6 million to purchase new equipment, including the purchase of 117 vehicles to ensure compliance with the Healthy Air and Clean Transportation Ordinance's requirement that the City replace 400 older vehicles by FY 2015-16.

Innovating and Improving Government Efficiency

The Mayor's proposed budget features the consolidation of key service areas to improve government efficiency, including:

Realigning Contract Compliance—The following functions will be transferred from the Human Rights Commission (HRC) to the City Administrator's Office: the Equal Benefits Division, Local Business Enterprise Division, and Surety Bond Program. This transfer

will better allow the HRC to focus on its core mission of developing important social policies, fostering conflict resolution, and addressing and responding to discrimination complaints while providing greater efficiency within the City Administrators' Office for contracting, purchasing, and contract compliance.

Creating the Office of Early Care and Education—The Mayor's budget centralizes the administration of San Francisco's early care and education programs under a new, independent Office of Early Care and Education (OECE). Under the direction of the Mayor and with the joint leadership of the Department of Children, Youth and Their Families, First Five San Francisco, the Human Services Agency, and the San Francisco Unified School District, this new office will improve access to early care and education, strengthen the workforce of early care and education providers, and build early care and education system capacity. This independent office will rely on the Human Services Agency for back office functions, such as accounting and human resources management. By consolidating services and using existing resources, the Office of Early Care and Education will maximize resources, improve policy coordination, and provide a single line of authority for the City's investments. This new independent office will build upon the successes of San Francisco's model programs to further streamline a high quality early care and education system.

Promoting Innovation—The Mayor's Innovation team is working on several initiatives to make government more innovative and efficient:

- SmartPDF, an online interactive tool that will provide a centralized location where members of the public can access, create, submit and manage forms for all City departments. In addition, the team is working to streamline the permitting process and help businesses in San Francisco get up and running quickly;
- New mobile phone and tablet solutions with the goal of improving online access to City services and information, and continued efforts to build a comprehensive citywide fiber network;
- ImproveSF, an online social media platform that engages the community in solving civic challenges. City departments post their challenges on ImproveSF, and community members suggest, comment, and vote on potential solutions;
- Hackathons, where individuals from different innovation-forward industries are brought together to find solutions to civic challenges.

Maintaining our City's Social Safety Net: Health and Human Services

Mayor Lee's proposed budget demonstrates a commitment to health and human services by ensuring no service reductions and including targeted backfills of state and federal funding cuts that would have adversely

impacted some of the City's most vulnerable populations. The Mayor asked departments to work closely with community providers and come up with innovative ways to preserve services despite tighter budgets, and has accepted department revenue proposals in lieu of service reductions. The Mayor's budget fully restores \$6.6 million in federal cuts for HIV/AIDS services in FY 2012-13, fully restores an additional \$6.2 million and \$8.7 million in proposed Department of Public Health reductions to mental health and other crucial services in FY 2012-13 and FY 2013-14, respectively, and backfills \$0.4 million in cuts to nutrition and self-sufficiency services for seniors. In addition, the Mayor's proposed budget includes a 1.0 percent cost-of-doing business increase for all non-profit City contractors to ensure that our non-profit partners are capable of maintaining high quality services at current levels despite facing rising operating costs.

Ensuring Public Safety

Mayor Lee's proposed budget demonstrates a commitment to the City's safety and security by ensuring adequate staffing at the Police and Fire Departments and by focusing on the conscientious implementation of Public Safety Realignment. Both the Police and Fire Departments are experiencing and/or expecting a large number of retirements in the next two fiscal years. In response, the Mayor is supporting the departments' new hiring plans, including three General Fund supported Police Academies and one General Fund supported Fire Academy in each of the next two fiscal years. In addition, the Mayor's Office will continue to regularly convene and facilitate communication and collaboration between all of our public safety departments to ensure that realignment is implemented responsibly and effectively. The City will receive \$17.3 million from the State in both FY 2012-13 and FY 2013-14 to offset a significant portion of the costs associated with the realignment population at the Sheriff's Department and the Adult Probation Department.