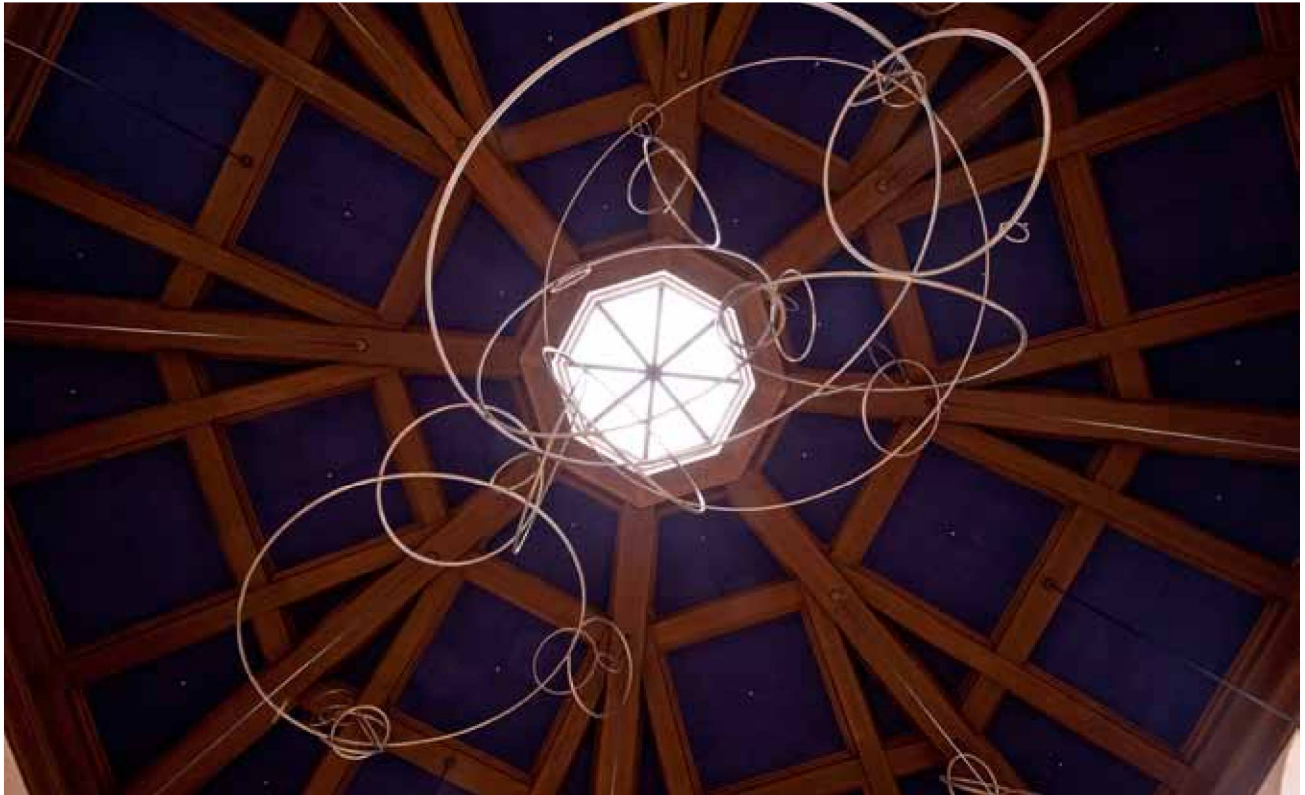


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# EXECUTIVE SUMMARY

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## *Full Circles, 2011*

By Mark Grieve and Ilana Spector

District 10, Visitation Valley Branch Library

*Full Circles* is a dynamic constellation of interlocking steel hoops embellished with recycled bicycle gears, located in the Visitation Valley Branch Library. According to the artists, the artwork is intended to evoke a “universe of possibilities” and communicate to “all walks of life”.



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# MAYOR'S LETTER

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Mayor's Letter

May 31, 2013

It is with great pride that I present the Proposed Budget for the City and County of San Francisco for Fiscal Years 2013-14 and 2014-15. This year's budget reflects a lot of hard work between city government and the people we serve. We've met in every district of the City, worked with our elected city family, and with hundreds of community leaders and providers who help us deliver services to the people of San Francisco. It's because of this consensus approach that I am proud to propose a responsible and balanced two-year budget that reflects the core values that we share in San Francisco - values of fiscal responsibility, social responsibility and investing in our City's future.

When we began this year's budget, we began like many years before: trying to reduce significant budget shortfalls. In late 2012 when I issued my budget instructions to department heads, our projected General Fund deficit was \$129.1 million for Fiscal Year (FY) 2013-14 and \$263.2 million for FY 2014-15. Although these deficits posed a challenge, they were lower than the deficits I faced in my first two years in office because we have pursued policies to control costs, grow our economy, create jobs and stabilize our fiscal health. This year I am proposing a budget that protects our social safety net, increases public safety, and invests in our City's infrastructure at unprecedented levels. It is also a budget that significantly grows our City's reserves.

The past few years have not been easy. We've made tough, but necessary choices on everything from escalating pension and health care costs to reforming our unfair, job-punishing business tax. We've also added a healthy dose of fiscal discipline with two-year budgeting, five-year financial planning, and a Ten-Year Capital Plan to get us to this point.

These tough choices have paid off. I am delivering this budget as San Francisco's economy is recovering, growing, and moving in the right direction. San Franciscans are getting back to work: our unemployment rate has dropped from 9.6 percent in January 2011 to 5.4 percent last month. Our credit rating has been upgraded by bond rating agencies in the last year, making our tax dollars go further when we deliver capital projects and giving our city even more investor confidence. And, by the end



of this two-year budget, the City's reserves will be at 4 percent of the total General Fund budget - an important element of our City's overall fiscal health.

## *Investing in Community Safety*

It is essential that we live in a safe city; this budget includes funding to make San Francisco an even safer city. We developed a six-year Police and Fire Staffing Plan to train the next generation of San Francisco first responders. Over the next two years, San Francisco will hire 300 new, sworn police officers with 6 new academy classes. And, we will add 120 firefighters with 3 new fire academy classes.

Being a safe City also means investing in a social safety net to ensure support for our most vulnerable residents. One thing we agreed on early was that in a time of state and federal cuts, protecting our social safety net is more important than ever. I have rejected all proposed year one mental health and substance abuse reductions from the Public Health Department and I have restored \$4 million in federal cuts to programs serving people living with HIV & AIDS. On our streets, there are still too many individuals and families without a place to call home. That's why we are extending a dedicated emergency family shelter to provide year-round services, adding 25

more units of family supportive housing, and supporting a new approach to housing transitional age youth, which connects these young people to work. We will also continue our efforts to be a healthier City. The Affordable Care Act will extend health insurance to 35,000 San Franciscans, and I have tasked our Department of Public Health and the Human Services Agency to implement the Affordable Care Act.

### *Investing in San Francisco's Infrastructure and Economy*

This budget includes \$445.2 million in capital investments which will support approximately 4,000 construction and related industry jobs over the next two years. My proposed budget also includes historic levels of General Fund support for smart capital investments: \$71.8 million in year one and \$105.3 million in year two, which represents funding at 92 percent of the Capital Plan recommended levels. My budget will fully fund the City's street repaving program to improve streets and sidewalks, and continue construction and planning on critical projects such as the Water and Sewer System Improvement Programs, our new General Hospital, the Bayview Opera House, improvements to MUNI, and—thanks to the \$195 million dollar voter-approved parks bond—we will invest in our parks and open spaces.

It is extremely important to me that as a government we set our innovative citizens up for success. Job growth in San Francisco is outpacing the rest of the state and nation; with 35 construction cranes across our skyline, you can visibly see public and private construction jobs being created - in fact 223,000 jobs will be created over the next ten years! I believe that small businesses are the heart and soul of our economy. My proposed budget includes funding for an online Business Portal to cut through bureaucratic red tape and make starting and operating a business in San Francisco easier. My budget also continues my Invest in Neighborhoods Initiative that is creating customized plans in 25 neighborhood commercial districts, and providing a Job Squad that brings City Hall to our neighborhood businesses. Further, because San Francisco is truly a global city, over the next two years we will continue to build on the success

of ChinaSF and expand our outreach to Latin American and Asian markets - not just attract businesses to locate here, but to introduce SF Made products to these growing markets.

I am especially proud of our City for coming together to ensure the success of our citizens around the Housing Trust Fund. Last year, together with the support of the voters, we passed a \$1.5 billion stream of funding over the next 30 years for affordable housing and assistance for first-time home buyers. Over the next two years we have budgeted \$42.8 million for new affordable housing developments; funds to help first time home owners and first responders with down payment assistance, and funds to preserve and stabilize existing housing. Every public dollar for new affordable housing developments is leveraged with two private dollars. All of these investments are needed to protect the housing stock in our City and make sure San Francisco can be affordable, and we are doing it smartly, with some of the strongest tenant protections in place.

While the worst of the economic crisis may be behind us, we cannot deviate from our commitment to fiscal responsibility and reform. We will continue to invest in our neighborhoods, in our infrastructure, and, most importantly, in our people.

The City Charter requires the Mayor to submit a balanced budget proposal on June 1. However, I view this submission as a first step in a process. I am proud of what we've accomplished in this budget submission, and I look forward to continuing to work with the Board of Supervisors to develop the best budget possible for the City and County of San Francisco.

Sincerely,



Edwin M. Lee  
Mayor



# EXECUTIVE SUMMARY

## SAN FRANCISCO'S BUDGET

The budget for the City and County of San Francisco (the City) for Fiscal Year (FY) 2013-14 and FY 2014-15 is \$7.9 billion and \$7.9 billion, respectively. Roughly 50.2 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 49.8 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 to the right summarizes total spending in each of the Major Service Areas.

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 27,900 employees. This represents a 3.7 percent growth in labor force over the two-year period, which is largely due to the City preparing for implementation of the

Affordable Care Act at both the Department of Public Health and the Human Services Agency; the hiring of additional maintenance workers to reduce overtime and improve fleet reliability at the Municipal Transportation Agency; and the continued implementation of the Mayor's six-year public safety hiring plan at the Police and Fire departments.

Total Department Uses by Major Service Area	FY 2013-14 (\$ millions)	FY 2014-15 (\$ millions)
Public Protection	1,289.8	1,313.8
Public Works, Transportation & Commerce	2,968.7	2,934.6
Human Welfare & Neighborhood Development	977.8	973.0
Community Health	1,906.8	1,951.5
Culture & Recreation	318.8	313.3
General Administration & Finance	776.9	785.9
General City Responsibilities	838.4	854.3
Less Transfer Adjustments	(1,161.4)	(1,196.6)
<b>Total Budget</b>	<b>7,915.9</b>	<b>7,929.9</b>

## 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 departments' budget requests. Departments then prepare their budget requests and submit them to the Controller by mid-February. The Controller consolidates, verifies, and refines the departments' proposed budgets, and turns the proposals over to the Mayor's Office of Public Policy and Finance. From March through May, 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 two-year budget proposal for departments by June 1st of each year. The Board of Supervisors' Budget and Finance Committee holds public hearings on the budget in June, makes recommendations for approval, and makes changes to the budget before it 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.

In November of 2009, voters passed Proposition A, which amended the City Charter to require the City to transition to a two-year budget cycle for all departments by FY 2012-13. In FY 2010-11, the City adopted two-year budgets for four early-implementation departments: the Airport, the Municipal Transportation Agency, the Public Utilities

Commission, and the Port Commission. For the first time this year, these four early-implementation departments have a “fixed” two-year budget, and are required to open their FY 2013-14 budgets for re-approval only if updated revenues or expenditures are 5 percent above or below the previously adopted FY 2013-14 levels. Because none of these four departments have changes that meet this threshold the overall budgets for these departments will remain closed, adjusted by supplemental appropriations.

These departments will budget for FY 2014-15 next year as part of their next fixed two-year budget.

All General Fund departments will retain a variable two-year budget while they adjust to the new system; for these departments FY 2013-14 and FY 2014-15 will be the second year of producing a two-year budget.

## SAN FRANCISCO'S FY 2013-14 AND FY 2014-15 BUDGET SHORTFALL

In December of 2012, the Mayor’s Office projected a General Fund deficit of \$129.1 million for FY 2013-14 and \$263.2 million for FY 2014-15. The projected shortfalls are primarily due to growth in City costs such as wage and fringe benefit costs; the opening of new large scale capital projects including the Public Safety Building and the new San Francisco General Hospital; and the implementation of the new Housing Trust Fund set-aside. To help balance the projected shortfalls, the Mayor issued budget instructions to departments to reduce their General Fund Support by 1.5 percent in each year. If fully realized, a 1.5 percent reduction in discretionary General Fund Support would generate approximately \$18.7 million in ongoing savings to the General Fund.

<b>Budget Instructions General Fund Deficit</b>	<b>FY 2013-14 (\$ millions)</b>	<b>FY 2014-15 (\$ millions)</b>
<b>Sources</b>	15.3	80.8
<b>Uses</b>	(144.4)	(344.0)
<b>Projected General Fund Deficit</b>	(129.1)	(263.2)

## FIVE-YEAR FINANCIAL PLAN

The Five-Year Financial Plan, also a requirement of Proposition A, requires the City to forecast expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments.

future economic changes. The strategies discussed represent ambitious but achievable targets which seek to slow projected growth while the City develops additional revenue, savings, and operational proposals that may require multi-year planning efforts.

In March 2013, the City’s second ever Five-Year Financial Plan was released and was unanimously approved in April of 2013 by the Board of Supervisors. The Plan shows that the City’s revenue will grow by \$577.5 million, or 13 percent, over the next five years. However, the Plan also shows that expenditures will grow by \$1,065.7 million, or 25 percent, over the same period. The cost of City services is projected to steadily outpace revenue growth during the five-year period if the City does not take additional corrective action.

In addition, the Five-Year Financial Plan updated the City’s shortfall projections to project a General Fund deficit of \$123.6 million in FY 2013-14 and \$256.1 million in FY 2014-15. The more optimistic projections reflect updated positive revenue projections related to the continued economic recovery, as well as updated current year-end fund balance projections.

The Plan identifies proactive measures the City can take to address the imbalance between revenues and expenditures, thereby restoring stability to City finances over the next five years and preparing the City to weather

<b>Five-Year Financial Plan General Fund Deficit</b>	<b>FY 2013-14 (\$ millions)</b>	<b>FY 2014-15 (\$ millions)</b>
<b>Budget Instructions - Projected Shortfall</b>	(129.1)	(263.2)
<b>Changes Reflected in the Five-Year Plan</b>	5.5	7.1
<b>Updated Projected Shortfall</b>	(123.6)	(256.1)

# BALANCING THE BUDGET

In preparing the proposed budget, Mayor Lee undertook an extensive outreach and engagement process. The Mayor partnered with members of the Board of Supervisors to hold six district-based budget town hall meetings across the City; hosted a city-wide online Town Hall with over 1,000 participants; and met with hundreds of residents, community organizations, City commissioners, labor organizations, business owners, and activists to discuss the budget.

The Proposed Budget incorporates a number of strategies, recommended by the Five-Year Financial Plan, in order to balance the City's budget and improve structural balance in the City's finances. The Mayor's balanced budget ensures that as our local economy grows, we continue to address structural budget issues, while making targeted, job-creating investments. The table to the right reflects the combination of solutions that the Mayor's proposed budget includes to create a balanced budget.

**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, and projected changes in the City's fringe benefit costs.

**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.

Projected Shortfall	FY 2013-14	FY 2014-15
<b>Five-Year Financial Plan Projected Shortfall</b>	(123.6)	(256.1)

Solutions	FY 2013-14	FY 2014-15
<b>Revenue and Fund Balance</b>	119.0	96.3
<b>Citywide Changes and Solutions</b>	(3.8)	118.2
<b>Departmental Changes and Solutions</b>	8.4	41.6
<b>Final Balance After All Changes</b>	0.0	0.0

# HIGHLIGHTS FROM THE FY 2013-14 AND 2014-15 BUDGET

## *Generating Economic Growth and Job Creation*

When Mayor Lee first came to office in January 2011, San Francisco's unemployment rate was 9.5 percent. At the release of this proposed budget, the unemployment rate has dropped to 5.4 percent. Job growth in San Francisco is outpacing the rest of the State and nation: during the 12-month period ending September 30th, 2012, San Francisco added over 27,000 private sector jobs.

Currently, there are 35 tower cranes at construction projects across San Francisco, which visually illustrates the volume of construction and job creation taking place. Meanwhile, the tourism industry in San Francisco remains strong: in 2012, 16.5 million people visited San Francisco, which amounts to an average of 131,128 visitors every day.

This economic growth is resulting in strong revenue growth for the City's General Fund. In FY 2013-14, the

budget projects an increase of \$368.0 million in General Fund revenues, and an additional \$122.4 million in FY 2014-15, compared to the FY 2012-13 adopted budget. Continuing the trend from FY 2012-13, the largest increases in General Fund revenues are real property transfer tax, property tax, and payroll tax.

As a result, the Mayor's Proposed 2013-14 and 2014-15 budget continues investments key economic development initiatives including: the Invest in Neighborhoods initiative; the Small Business New Jobs Investment Fund; and the one-stop online business portal, geared at making opening and operating businesses in San Francisco easy and efficient. The proposed budget also maintains resources to enable the Office of Economic and Workforce Development (OEWD) to continue the successful sector-based economic development initiatives identified as priorities in the San Francisco Economic Strategy.

In addition, the Mayor's proposed budget enhances the



City's domestic and international business attraction efforts. More than 20 firms have chosen to locate in San Francisco as a result of the City's successful ChinaSF initiative, and San Francisco will build on this success by expanding the model to cover all of Asia as well as Latin America.

### *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 financial policies, including the Five-Year Financial Plan. These policies, now in effect, grow the City's reserves, limit the use of some of our most volatile revenues, and ensure that the City is on a more sustainable and less volatile financial path. By the end of FY 2012-13, the City will have \$127.3 million in Rainy Day and Budget Stabilization Reserves. The Mayor's proposed budget includes additional deposits of \$30.0 million over the next two years; rendering \$157.3 million in City reserves by the end of FY 2014-15, which is equal to approximately 4.0 percent of our total General Fund budget of \$3.9 billion. This unprecedented level of reserve funding will help protect our budget during future economic downturns.

A significant portion of the balancing plan for this two-year budget comes from savings generated by the savings in the City's cost for health and pension. Over the last several years, the City and its Health Service System (HSS) have begun to work together to begin to reduce our health care costs. The City has worked together with our employee labor organizations to begin to address employee wellness, which will continue to be an important strategy. In addition, the City will save more than \$52.6 million over the next two years as a result of the innovative work done by HSS. For example, HSS has formed two Accountable Care Organizations that align the incentives of all parties involved in City-supported healthcare plans to quality care, cost containment, and joint collaboration. This policy is already improving City employee outcomes and helping reduce budget deficits.

### *Fiscally Responsible Investments in Capital and Infrastructure*

The Mayor's Proposed FY 2013-14 and 2014-15 budget includes \$445.2 million in capital investments, supporting approximately 4,000 construction and related industry jobs. The proposed budget includes historic levels of General Fund investment in capital and infrastructure with \$71.8 million in spending in FY 2013-14 and \$105.3

million in FY 2014-15, (92 percent of the recommended pay-as-you-go Capital Plan funding level in each year). In contrast, funding for capital ranged from 43.7 percent to 64.3 percent of recommended levels in the prior three years. This budget invests in our City-owned assets to extend their useful life and make them less expensive to maintain and operate; funds planning efforts for future large scale capital projects to ensure project budgets and timelines are accurate and attainable; and ensures the safety of our citizens by investing in seismic improvements and new facilities for first responders and health care providers.

In addition, the FY 2014-15 budget includes \$40.0 million in General Fund support to fully fund the City's street repaving program after the Road Repaving and Street Safety bond funds are expended. This up-front investment will save the City on future, more expensive street repaving costs; reduce repair expenses for Muni; and save car maintenance costs for San Francisco drivers.

### *Improving Government Efficiency*

During the economic downturn, many City departments were forced to reduce services and staff. As a result of this and other economic factors, many departments that provide public services are now experiencing backlogs and delays. This budget supports strategies and initiatives to streamline processes, provide a more efficient and responsive government, and prepare for the next economic downturn. Including:

- Hiring five new positions at the Department of Public Works to keep pace with incoming permit applications and reduce the existing backlog by 47 percent without increasing fees to the public.
- Creating a \$17.0 million Economic Stabilization Reserve at the Department of Building Inspection to provide departmental financial stability during future downturns.
- Adding revenue-backed departmental staff at the City Planning Department to implement a formalized system for processing architectural addenda, and by implementing a policy and protocol establishing a Case Coordinator system with standardized, defined roles and responsibilities across review teams.
- Extending the hours of the Assessment Appeals Board to include nighttime hearings, which will speed up the hearing timeline and provide flexibility for San Franciscans who may find it difficult to attend hearings during the work week.

### *Implementing Federal Healthcare Reform*

One of the major changes facing government in the next two fiscal years is the implementation of the Affordable Care Act (ACA). The ACA is designed to expand health



insurance coverage, improve the health care delivery system, and control increasing health care costs. Healthcare reform will transition the healthcare industry from a volume-based payment system to a value-based payment system, and San Francisco has been preparing for years to ensure successful implementation. However, implementation of ACA still requires major policy and operational shifts for City departments. The Department of Public Health (DPH) is making significant investments to prepare for the change while effectively managing costs, including:

- Developing an integrated delivery system to create a comprehensive system of care that is clinically and financially accountable to provide coordinated health services;
- Reprogramming the Behavioral Health Center to allow DPH patients to be placed more quickly in the appropriate level of care and improve patient flow within the DPH network;
- Strengthening Primary Care to ensure patients receive timely access to preventative care;
- Creating an Office of Managed Care responsible for contracting strategy with other health plans, utilization management, marketing-branding, data reporting, quality improvement, and provider services; and
- Investing in data analysis to collect and procure timely data on utilization and costs and convert that data to actionable operational recommendations.

The Human Services Agency (HSA) will also play a critical role in helping the City's residents participate in and understand the impacts of the ACA. HSA staff will enroll as many as 40,000 newly eligible Medi-Cal clients, and will provide information and services to San Francisco residents who inquire about eligibility for subsidized health insurance offered through the Affordable Care Act-authorized health exchanges.

## *Maintaining Our City's Social Safety Net*

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. In the City's Five-Year Financial Plan, the Department of Public Health and its structural deficit is discussed in detail as a huge driver of the overall deficit. This two-year budget moves to close this structural problem without implementing cuts to service providers. In addition, the proposed budget backfills past reductions from the State and federal governments, and provides targeted service augmentations, including: \$2.8 million in Title V childcare cuts from the State; \$4.0 million in HIV health and prevention service cuts from the federal government; \$3.8 million in additional funding for homelessness prevention services and housing subsidies; and an additional \$2.5 million for supportive services for seniors, including nutrition and digital inclusion services.

## *Ensuring Public Safety*

Mayor Lee's proposed budget ensures the City's safety and security by building back staffing capacity at the Police and Fire Departments. The proposed budget reflects the Mayor's six-year hiring plans for the Police and Fire Departments with the inclusion of six General Fund supported Police Academies and three General Fund supported Fire Academies during the upcoming two fiscal years, which will translate to the hiring of 300 police officers and 120 fire fighters. In addition, the Mayor's budget also provides for hiring of a class of 20 deputy sheriffs as well as a class of ten 911 call takers. Finally, over the next two years the City will open the doors of the new Public Safety Building (PSB), which will provide a new facility for the Police Department Headquarters and the Southern District Police Station, in addition to moving many of our first responders out of the seismically deficient Hall of Justice into a new building which will remain fully operational as a command center in the event of an emergency. The new Fire Station 4 will open inside the PSB, which will serve the growing Mission Bay neighborhood.