


# EXECUTIVE SUMMARY



**San Francisco's new Navigation Center is a pilot project temporarily situated at a future site for affordable housing on Mission near 16th Street.** The first of its kind in the nation, it is a one-stop location where chronically homeless individuals can get connected to benefits, rehabilitation, employment, housing, and other supportive social services.

*Credit: Ken Fisher*



# MAYOR'S LETTER

June 1, 2015

Dear Residents of San Francisco,

I am proud to present to you my proposed budget for the City and County of San Francisco for Fiscal Years 2015-16 and 2016-17. This year, I am pleased to say that for the first time, I oversaw a budget which was balanced by increasing revenues, allowing us to make smart and strategic investments and increase services for the public.

These good economic times represent a significant opportunity for us to continue our work together to make sure that San Francisco is a safe and livable city, a caring and educated city, and a city that confronts our affordability challenges head on. City government has an important role to play in making the lives of all people better.

Since I took office in 2011, I have worked to make sure that as we emerged from the Great Recession, San Francisco used its prosperity to tackle its most pressing challenges. That's why our City has led the nation in developing the Housing Trust Fund, increasing the minimum wage, re-envisioning the Housing Authority, and making Muni free for low-income seniors, youth, and people with disabilities. This budget continues those efforts.

## Addressing Affordability

Addressing our affordability challenges continues to be my top priority. That is why the budget includes increased services for seniors and persons with disabilities, implementation of an increased minimum wage, free Muni for income-qualified youth, seniors, and disabled persons, investments in workforce development, and a cost-of-living adjustment (COLA) for non-profit organizations that contract with the City to provide services.

Housing continues to be the most vexing of our affordability challenges—which is why we must confront this challenge together. My budget includes new funding for the Housing Trust Fund, contemplates final action by the State of California allowing San Francisco to meet its redevelopment commitments more quickly, and invests in eviction prevention and neighborhood stabilization.



## Service Increases to Make San Francisco Safer and More Livable

Reliable, quality public service is an important aspect of how San Franciscans feel about living in our great city. Over the next year, San Franciscans will benefit from a 10 percent Muni service increase, which will help to address crowding and reliability. Building on the progress we made with the Streets and Road Resurfacing Bond, this two-year budget fully funds our city's street repaving program, which will allow us to repave more than 1,400 blocks over the next two years. Services at Public Works and Recreation and Parks will be expanded to keep our streets cleaner, maintain our city's trees, and promote public safety throughout our parks.

This budget also continues to fund our six-year public safety hiring plan to train the next generation of public safety personnel. Over the next two years, San Francisco will hire 400 new police officers, 198 firefighters, 55 paramedics, and 36 9-1-1 dispatchers to enhance community safety.

## **Investing in Our Social Safety Net**

We are also investing in systems of care that support the most vulnerable San Franciscans. This budget includes significant new resources dedicated to opening a new San Francisco General Hospital, adding 500 new units of supportive housing for people who are exiting homelessness through our innovative Navigation Center, and millions in new funds to support seniors and people with disabilities.

My budget includes \$690 million of City funds to support San Francisco's public schools, Preschool for All programs, and provide more summer and afterschool programs to clear out the waiting lists. We are making sure our children are educated and ready to succeed—by working together through our bold new effort to improve outcomes for all San Francisco's children and families with the Our Children, Our Families Council.

## **Long-Term Financial Sustainability**

My proposed budget balances the need for increased and enhanced services for City residents with the need to ensure long-term financial stability and invest in our infrastructure.

In the coming year, we will fully fund the Capital Plan's recommended level in the first year of the budget, and invest an unprecedented \$253.4 million in General Fund

support for smart, responsible capital investments based on the recommendations of our City's Ten-Year Capital Plan.

In addition to making strategic one-time investments, this budget continues to grow the City's reserves to offset the impact if an economic downturn does occur. By the end of June 2017, the City will have \$297.4 million across its General Reserve, Budget Stabilization Reserve, and Rainy Day Reserve. These reserves function as the City's savings account, protecting us from economic uncertainty and helping us continue to strengthen our credit rating.

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 have 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 proposed budget for the City and County of San Francisco (the City) for Fiscal Years 2015-16 and 2016-17 is \$8.92 and \$8.96 billion, respectively. Roughly half of the budget consists of self-supporting activities at 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. General Fund monies comprise the remaining half, which support public services such as Public Health, Police and Fire Services, Recreation and Parks, and others.

The City receives funds into its General Fund from a combination of local tax revenues as well as State and federal resources supporting health and human services programming. Economic activity in San Francisco is generating significant new tax revenues for the City, largely in real property transfer, sales, hotel, and business taxes; these resources help the City balance its budget. In Fiscal Year (FY) 2015-16, local tax revenues are projected to grow by 9.9 percent in the proposed budget, and an additional 2.3 percent in FY 2016-17. These projections reflect an assumption of continued economic growth in the first year of the budget, moderated somewhat in the second year.

Each year, the City makes decisions on how to allocate its budget based on the resources that are available and the priorities and needs of the City and its residents. The chart to the right summarizes total spending in each of the next two years in the City's Major Service Areas.

The City and County of San Francisco is also a major employer; the proposed budget for the next two fiscal years includes funding for approximately 30,000 employees. This represents a 5.5 percent growth in the labor force over the two-year period, which is largely due to the following factors:

Total Department Uses by Major Service Area	FY 2015-16 (\$ millions)	FY 2016-17 (\$ millions)
Public Protection	1,385.6	1,424.6
Public Works, Transportation & Commerce	3,396.4	3,389.0
Human Welfare & Neighborhood Development	1,196.6	1,183.0
Community Health	2,029.6	2,069.9
Culture & Recreation	369.7	365.6
General Administration & Finance	980.2	940.2
General City Responsibility	1,798.7	1,793.9
Less Transfer Adjustments	(2,237.6)	(2,206.3)
<b>Total Budget</b>	<b>8,919.1</b>	<b>8,959.9</b>

- Opening of the new San Francisco General Hospital and implementation of the Electronic Health Record system at the Department of Public Health;
- Implementation of the Affordable Care Act at the Human Services Agency and the Department of Public Health;
- Hiring of additional bus and train drivers, mechanics, janitors, and cleaning crews at the Municipal Transportation Agency to improve operations, maintenance, and cleanliness, while launching the largest service increases in decades; and
- The continued implementation of the Mayor's six-year public safety hiring plan at the Police and Fire departments.

As in prior years, the City will spend approximately half of its budget on staff to deliver core public services over the next two years.

## 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 the first business day in June 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 signature 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 beginning in FY 2012-13. Last year, for the Mayor’s FY 2014-15 and FY 2015-16 proposed budget, seven departments adopted fixed two-year budgets. The departments with fixed two-year budgets (the Municipal Transportation Agency, the Public Utilities Commission, the Airport, the Port, Child Support Services, the Retirement System, and the Public Library) will remain closed in Fiscal Year 2015-16 and will be revisited next year for another two-year cycle. All other departments retain a rolling two-year budget while they adjust to the new system. For these departments, the Mayor’s FY 2015-16 and FY 2016-17 proposed budget will be the fourth year of producing a two-year budget.

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## THE FIVE YEAR FINANCIAL PLAN AND BUDGET INSTRUCTIONS FOR FISCAL YEARS 2015-16 AND 2016-17

In December of 2014, the Mayor’s Office, along with the Controller’s Office and the Board of Supervisor’s Budget and Legislative Analyst, released the City’s third Five-Year Financial Plan, which projected a General Fund deficit of \$15.9 million for FY 2015-16 and \$88.3 million for FY 2016-17. The projected shortfalls were primarily due to growth in City costs such as wage and fringe benefits; the one-time and ongoing operating costs of new large-scale capital and information technology projects such as the opening of the new San Francisco General Hospital; and increases to new and existing dedicated funding (or set asides) and baselines such as the Children’s Fund and the Municipal

Transportation Agency. This deficit projection was smaller than the City had seen in at least 15 years; therefore, the Mayor’s Budget Instructions to departments this year included no reductions in FY 2015-16 and a modest reduction of 1.0 percent in FY 2016-17.

Five Year Financial Plan General Fund Shortfall	FY 2015-16 (\$ millions)	FY 2016-17 (\$ millions)
Sources	139.9	252.8
Uses	(155.9)	(341.1)
Projected General Fund Deficit	(15.9)	(88.3)

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## UPDATE TO PRIOR PROJECTIONS

In May 2015, the Controller’s Office released the City’s Nine-Month Report, which provides the most recent overall revenue growth and expenditure savings for the current fiscal year. This update affects how much additional current year fund balance may be available

to use as starting fund balance to support the upcoming two year budget. After applying additional projected fund balance, the City projected a \$7.1 million budget shortfall over the next two fiscal years.

# MAKING STRATEGIC INVESTMENTS THROUGH THE FISCAL YEARS 2015-16 AND 2016-17 BUDGET

San Francisco's economy has changed rapidly in the past few years. The City's economic growth and activity has attracted more people to the City, increased the availability of jobs and lowered the overall unemployment rate, increased occupancy rates of retail and commercial buildings, and led to a major construction boom. The City is experiencing population growth not seen since the 1940s, adding nearly 50,000 new residents between 2010 and 2014, while the unemployment rate in April was 3.4 percent; when the Mayor took office in January of 2011, it was 8.9 percent.

This economic expansion has led to significant revenue growth for the City; the proposed budget includes overall revenue growth of 5.2 percent from FY 2014-15 to FY 2015-16 and an additional 1.1 percent from FY 2015-16 to FY 2016-17. As a result, the City has the ability this year to make strategic investments to address San Francisco's challenges and priorities. The budget invests these resources in the City's most vulnerable residents as well as in public safety and improvements to support the livability and affordability of San Francisco for all of its residents. San Francisco continues to lead by example—increasing the minimum wage, re-envisioning public housing, increasing services for children, seniors, veterans, transitional aged youth, families, and the homeless.

To help determine where to make the most impactful and strategic investments through the budget, Mayor Lee undertook an extensive outreach and engagement process leading up to the release of this two-year budget. The Mayor partnered with members of the Board of Supervisors to hold 11 district-based budget outreach meetings across the City, and met with hundreds of residents, community organizations, City commissioners, labor organizations, business owners, and activists to hear their priorities for how San Francisco can use these good economic times to ensure that San Francisco remains a City where everyone can prosper.

## A Safe City

Mayor Lee's proposed budget makes a meaningful investment in public safety staffing, programs, and equipment that will ensure the City's long-term safety. This includes accelerating the public safety hiring plan, following through on the recommendations of the Ambulance Working Group, and making necessary investments in equipment and technology to support San Francisco's first responders, including:

- Five Police Academy classes of 50 recruits in FY 2015-16 and three classes in FY 2016-17. This will result in a total of 400 new police officers being hired over the next two fiscal years. This aggressive hiring will backfill retirements and bring the number of full-duty sworn staff to the Charter-mandated 1,971 by June 2017, a full year ahead of schedule. This plan will cost \$10.6 million in FY 15-16 and an additional \$11.0 million in FY 2016-17;
- \$6.0 million to initiate a comprehensive body camera program over the next two years to acquire 1,800 body cameras and pay for ongoing costs such as software, video storage, and staffing. This technology will ensure maximum accountability for both officers and the public; and
- \$47.3 million in investments in the San Francisco Fire and Emergency Management departments over the next two years to hire and train 55 new paramedics, 198 firefighters, and 36 9-1-1 dispatchers.

In addition, capital and technology investments in fire stations, connectivity, and emergency communications ensure first responders are equipped to meet the demands of a growing city and improve real time communications across all public safety personnel. The proposed budget funds infrastructure improvements at fire stations as well as public safety radios for the Fire, Police, and Sheriff departments. New technology, including a data initiative to analyze 9-1-1 call data and other emergency service metrics, improves planning, preparedness, and responsiveness to emergencies.

## A Caring City

Many of the City's most vulnerable residents are in need of additional social services. This budget makes significant new investments to address these needs by committing an additional \$161.1 million over the next two years in enhanced aid and targeted new investments to prevent crisis and to stabilize and transition struggling individuals and families towards self-sufficiency. This includes:

- \$32.0 million in new City funding to support the most vulnerable San Franciscans in getting and staying stably housed. This includes funding for 500 new units of supportive housing, continuation of the Navigation Center, rental subsidies for homeless families and transitional age youth, as well as an expansion of medical respite services for homeless individuals with chronic medical conditions;
- \$6.7 million in increased resources for seniors and persons with disabilities, including new funding for senior centers, the Community Living Fund, and clearing the waitlist for home delivered meals;
- Nearly \$60 million to open the new San Francisco General Hospital, including increased services in the Emergency Department, improvements to decrease wait times, and services increases;
- \$14.0 million in new aid resources to support the growing Medi-Cal caseload and the addition of 45 new eligibility workers to provide expanded outreach and enrollment for benefits programs; and
- \$2 million in new funding to continue San Francisco's leadership in the fight against HIV and AIDS for the "Getting to Zero" initiative, which focuses on achieving zero new HIV Infections, zero AIDS deaths, and zero stigma.

As San Francisco relies on its non-profit partners to deliver many of the critical services that protect the City's most vulnerable, this budget also includes a 2.5 percent cost-of-doing-business increase for all non-profit contractors to ensure the continued delivery of quality, effective services in the face of rising costs in each of the next two years. In addition, the City will work with the non-profit providers to address the challenge of sustainability and accountability.

## An Educated City

This budget continues to demonstrate San Francisco's commitment to its children, youth, and families. Over the next two years, the City will invest \$690.4 million on services and programs for children in San Francisco. This represents a 23 percent growth and includes:

- Expanding the Preschool for All program to achieve universal enrollment for four year olds;
- \$3.6 million for the "Summer for All" initiative, which will eliminate the waitlist for summer programs for children in San Francisco;
- \$5.0 million to fund 820 new after school program slots; and
- Summer Jobs+ will continue to provide over 7,000 paid positions for youth from low-income families, in addition to additional workforce investments for transitional age youth.

## A Livable City

In addition to ensuring that the City remains affordable for all, the urban environment must be livable and enjoyable as well. This budget proposes to expand services that improve livability and directly benefit the general public, including:

- A new residential corridor cleaning crew for trash pick-up, steam cleaning, and graffiti abatement;
- Additional landscape maintenance gardeners, laborers, and arborists to green the City and maintain the urban forest;
- Additional park patrol staff to improve park safety and help maintain parks to the highest possible standards;
- Investments in the arts to expand art programing, promote diversity and inclusion, and increase preventive maintenance of the Civic Art Collection; and
- Expansion of the "Pit Stop" attended public toilet program to improve neighborhood cleanliness.

## A City that Moves

The proposed budget focuses on keeping San Franciscans moving. It will improve service and reliability, promote safety, and invest in the future. The budget includes the following key initiatives and investments:

- \$683.3 million in infrastructure investments in FY 2015-16 that support all modes of travel—pedestrians, bicycles, transit, and private vehicles—of which \$66.2 million will fund streetscape, pedestrian, and bicycle projects that support the City's Vision Zero goal of eliminating all traffic fatalities by 2024;
- Implementation of Muni Forward, which focuses on improving travel speeds and reliability on the system's most heavily-traveled lines;
- 244 new drivers, mechanics, and maintenance staff to support a 10 percent service increase, the largest in decades;



- \$320 million in FY 2015-16 for new rolling stock;
- Congestion management strategies and more efficient enforcement through eCitations, which will allow the City to more effectively reduce travel delays across all modes of transport; and
- Initiatives to plan for the City's future transportation needs.

## **A City that Meets Our Affordability Challenges**

The proposed budget is focused on ensuring that all San Franciscans share in the City's prosperity. It includes increased services for seniors and persons with disabilities, implementation of an increased minimum wage, free Muni for income-qualified youth, seniors, and disabled persons, investments in workforce development, and a cost-of-living adjustment (COLA) for non-profit organizations that contract with the City to provide services. Over the next two years, the budget includes:

- \$36.9 million to account for the impact of the increased minimum wage on City employees and contracted non-profit staff;
- \$9.1 million for expanded local programming to engage San Franciscans in job training and placements, including the continuation of the Interrupt, Predict, and Organize program, which targets young people at risk of involvement in the criminal justice system; and
- \$36.5 million to implement a 2.5 percent cost-of-doing-business increase to the City's non-profit partners in each of the next two fiscal years.

This budget also tackles the housing affordability issue head-on, using complementary approaches including the Housing Trust Fund, General Fund resources, a legislative approach at the State level, and a proposed General Obligation bond for \$250 million to produce more affordable housing in San Francisco.

The proposed budget continues Mayor Lee's commitment to the production of affordable housing with a number of important new investments, which will enable the City and its partners to build more housing more quickly, including the following investments over the next two fiscal years:

- \$79 million from the Housing Trust Fund to address affordable housing production and neighborhood stabilization;
- \$5 million will be invested to seed a housing accelerator fund, which will leverage an additional \$20 million in private capital to provide a new fast-acting financing source targeted toward

neighborhood stabilization, site acquisition, and middle income housing;

- Anticipated changes at the State level are expected to allow the Office of Community Investment and Infrastructure (OCII) to speed up construction of its 1,800 unit pipeline;
- A new housing portal will simplify the process of applying for affordable housing, expanding access to those programs; and
- Additional City resources will be targeted toward eviction prevention, and the City is backfilling \$3.4 million in cuts to federal programs such as HOPWA and CDBG, which serve vulnerable populations across the City.

## **Ensuring the Long-Term Stability of the City's Finances**

The proposed budget balances the need for increased and enhanced services for City residents with the need to ensure long-term financial stability. This budget continues to invest responsibly to ensure stability over the long term while reducing the impact of economic changes.

In past budget cycles, when revenues declined, the City prioritized direct services to the most vulnerable over important one-time investments in capital and information technology. During this time of economic expansion, the proposed budget prioritizes smart one-time investments that save money in the long run by reducing long-term financial obligations and guard against the need for service cuts during the next downturn. Over the next two years, San Francisco will invest \$681 million in capital improvements, supporting approximately 5,700 construction and related industry jobs. This includes:

- \$253.4 million in General Fund support for capital and infrastructure, exceeding full funding of the recommended level in the first year of the budget, funding projects such as:
  - » \$98 million for street resurfacing, which will move the City toward its goal of a good Pavement Condition Index (PCI) level of 70;
  - » \$17.6 million for parks and recreational facilities, including a new boat house at Stow Lake, playfield enhancements, facilities maintenance, and reduced water usage;
  - » \$9.7 million for arts and cultural institutions, including repairs and replacements of key building systems at the Academy of Sciences, the Asian Art Museum, the DeYoung Museum, and Legion of Honor, the cultural centers, and others; and

- » \$28.5 million for improvements to curb ramps, sidewalks, streetscapes, and street trees across the City.
- \$186.6 million in critical IT investments including the replacement of the citywide financial system, public safety radios, and the citywide fiber network;

This budget makes smart investments that improve infrastructure, enhance service delivery, reduce long-term costs and liabilities, and better insulate the City from the effects of future economic downturns. This includes investing in City-owned resources to extend their useful life, making them less expensive to maintain and operate; funding planning efforts for future large-scale capital projects to ensure project budgets and

timelines are accurate and attainable; and ensuring the safety of citizens by investing in seismic improvements and new facilities for first responders and health care providers.

### **Strengthening Reserves**

Consistent with the City's Financial Policies, the City's reserves for economic stabilization will also grow over the next two years. By the end of FY 2016-17, the City projects to have \$297.4 million across its General Reserve, Budget Stabilization Reserve, and Rainy Day Reserve. These reserves function as the City's savings account, protecting the City's budget and service levels from economic uncertainty.