



MAYOR'S 2014-2015 & 2015-2016

# PROPOSED BUDGET

Mayor Edwin M. Lee



# EXECUTIVE SUMMARY



## Batkid

Make-A-Wish Foundation, John and Marcia Goldman Foundation,  
San Francisco Giants, Autodesk, Residents & Volunteers, City Departments

On November 15, 2013, numerous local and national governmental organizations teamed up with the Make-A-Wish Foundation to transform San Francisco into Gotham City for the day, on behalf of Miles Scott, a five-year-old Tulelake resident who had undergone treatment for lymphoblastic leukemia. Miles's wish was to be "BatKid", and throughout the day, he worked with Batman to rescue a damsel in distress, free the San Francisco Giants' mascot Lou Seal from the clutches of the evil Penguin, and stop a heist in progress at a vault in the Financial District. In front of a large crowd gathered in Civic Center at the end of the day, Mayor Lee gave Miles a key to the City, which had been created and donated by Autodesk. The events of the day would not have been possible without the Make-A-Wish Foundation for organizing the event; the John and Marcia Goldman Foundation, which donated over \$100,000 to cover costs incurred by the City; and the donations of goods, services, and time by countless volunteers, business owners, and private individuals.



# MAYOR'S LETTER

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June 2, 2014

Dear Residents of San Francisco,

It is with tremendous pride that I present the Proposed Budget for the City and County of San Francisco for Fiscal Years 2014-15 and 2015-16. This year's budget reflects a lot of hard work between City government and the people we serve. This year, I had the pleasure of meeting with constituents over coffee in every district of the City to discuss budget priorities, walk neighborhood commercial corridors, and visit important community facilities. I also worked closely with our elected city family, and with community leaders and service providers who are equally committed to San Francisco's well-being and success. It's because of this consensus approach that I am able to propose a balanced two-year budget that reflects fiscal and social responsibility, investment in our City's future, and my affordability agenda.

When I first came into office, the City's financial outlook was very different than it is today. The unemployment rate was 9.5 percent, revenues were mostly stagnant, and we faced budget deficits of nearly \$400 million. We had to make many difficult decisions during those challenging economic times to balance the City's budget, and I am pleased to say that today with the release of my two year proposed budget, the City's financial condition has greatly improved. The unemployment rate has dropped to 4.4 percent, the first year budget deficit was under \$100 million for the first time in over 6 years, and construction is booming across the City.

However, this economic growth, which no one would have thought possible even a few years ago, has also led to rising prices for homes and other goods and services across the City. I recognize that many San Franciscans are feeling anxiety about how to make a living and a life in this great City, and I believe that City government has an important role to play in making the lives of all people better. Through this budget I believe we are making smart, responsible and targeted investments to ensure that San Francisco is a more affordable and better place to live for everyone.

## Directly Addressing Our Affordability Crisis

No matter who I talk to, the number one issue I hear about is the affordability of housing in San Francisco. I believe the success of our City will continue to be based on our



commitment to making sure that San Francisco remains a place that people from every background and income level can call home. The shortage of housing that is affordable to working and low- and middle-income people has become a genuine crisis and demands solutions. Earlier this year, we set an aggressive goal to complete 30,000 new and rehabilitated homes by 2020, with at least one-third of those permanently affordable to low and moderate income families.

Two years ago, we worked together on the Housing Trust Fund to create a \$1.5 billion dollar stream of funding for affordable housing for low- and middle-income residents over the next 30 years. But given the challenges we face, I believe we must do more now. In this budget, I am including \$50 million in additional new funding to expedite affordable housing projects over the next two years. These additional funds represent a meaningful infusion to fill gap funding on projects and seed new projects throughout San Francisco. In addition to creating more housing for low- and middle-income residents, my budget focuses on re-envisioning and transforming our public housing sites, reducing obstacles and red tape that slow down construction, and continuing funding for eviction prevention and rapid rehousing, as well as the successful right-to-civil-council pilot.

## Service Increases to Make San Francisco More Livable

In addition to the availability of housing, receiving reliable, quality public service is an important aspect of how San Franciscans feel about living in our great City. Over the coming two years, San Franciscans will benefit from a 10 percent service increase at Muni which will help to address crowding and reliability. Building on the progress we made with the Road Repaving and Street Safety Bond, this two-year budget fully funds our City's street repaving program, which will allow us to repave 1,700 blocks over the next two years. We will expand services at DPW and our Recreation and Park departments 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 300 new police officers, 96 firefighters, 30 paramedics and 10 911 dispatchers to enhance community safety.

## Strengthening Civic Engagement

As San Francisco's economy recovers and grows, I believe the success of our City is dependent on our ability to work with each other to ensure that everyone benefits. In particular, I will continue to encourage and challenge our private sector to strengthen our spirit of civic engagement. Over the last few months, I have brought together non-profit leaders, business leaders and consulted with leaders from philanthropy to create and enhance public private partnerships. In the coming year, building on these efforts, I am launching an Office of Strategic Partnerships in the Mayor's Office to work more deliberately with foundations, non-profits, and the private sector to do more good for more people.

## Long-Term Financial Sustainability

My proposed budget also balances the need for increased and enhanced services for City residents with the need to ensure long-term financial stability. Coming to agreement with our labor unions, making strategic one-time investments in capital and information technology, and maintaining strong reserves are all part of this approach to fiscal discipline.

In February 2014, the City began negotiations with 27 of its employee organizations to craft new labor contracts, and I am pleased to note that these negotiations are nearly complete. The new contracts cover more than 24,000 employees for the next three years. These settlements provide a fair wage increase for the City's greatest resource—its workforce—and provide better financial stability for the City in the form of known labor cost increases for the next three years.

In past budget cycles, when the City faced significant budgetary shortfalls, we prioritized direct services to the most vulnerable over critical one-time investments in capital and information technology. Now that we are in better financial times, my proposed budget prioritizes these smart investments that save us money in the long run while reducing long-term financial obligations.

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 \$213 million in General Fund support for the recommendations of our City's Ten-Year Capital Plan.

In addition to making strategic one-time investments, this budget also continues to grow the City's reserves to offset the impact if an economic downturn does occur. By the end of FY 2015-16 the City should have \$234.9 million across its General Reserve, Budget Stabilization Reserve and Rainy Day Reserve. These reserves function as the City's savings accounts; protecting us from economic uncertainty and helping us upgrade our credit rating, resulting in reduced borrowing costs for City projects.

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) 2014-15 and FY 2015-16 is \$8.6 billion in each year. Roughly half of the budget is comprised 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. The remaining 50 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 the City's budget 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 next two years in the City's 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 29,000 employees. This represents a 5.1 percent growth in labor force over the two-year period, which is largely due to the opening of the new San Francisco General Hospital at the Department of Public Health; implementing the Affordable Care Act at the Human Services Agency and

Total Department Uses by Major Service Area	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
Public Protection	1,327.8	1,341.0
Public Works, Transportation & Commerce	3,303.9	3,345.4
Human Welfare & Neighborhood Development	1,089.8	1,097.1
Community Health	1,982.0	1,972.8
Culture & Recreation	330.3	335.2
General Administration & Finance	875.1	871.1
General City Responsibilities	1,555.6	1,555.1
Less Transfer Adjustments	(1,897.5)	(1,959.1)
<b>Total Budget</b>	<b>8,567.0</b>	<b>8,558.6</b>

the Department of Public Health; the hiring of additional staff to improve fleet reliability and implement a 10 percent service increase 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. As in prior years, the City will spend approximately 50 percent 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 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 Mayor's

FY 2014-15 and 2015-16 proposed budget, these four early-implementation departments – as well as Library, Retirement, and Child Support Services – are budgeting for the next fixed two-year budget. These departments will only be required to open their budgets for re-approval next year if updated revenues or expenditures are 5

percent above or below the levels adopted in this year. All other departments will retain a rolling two-year budget while they adjust to the new system. For these departments, the Mayor's FY 2014-15 and FY 2015-16 proposed budget will be the third year of producing a two-year budget.

## SAN FRANCISCO'S FY 2014-15 AND FY 2015-16 BUDGET INSTRUCTIONS SHORTFALL

In December of 2013, the Mayor's Office projected a General Fund deficit of \$100.7 million for FY 2014-15 and \$118.3 million for FY 2015-16. The projected shortfalls were primarily due to growth in City costs such as wage and fringe benefit costs and the one-time and ongoing operating costs of new large scale capital projects including the Public Safety Building and the new San Francisco General Hospital. To help balance the projected shortfalls, the Mayor issued budget instructions to departments to reduce their General Fund Support by 1.5 percent the first year and an additional 1 percent the second year. If fully

realized, a 1.5 percent reduction in discretionary General Fund Support would generate approximately \$21.5 million in ongoing savings to the General Fund.

Budget Instructions General Fund Shortfall	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
Sources	63.1	196.3
Uses	(163.8)	(314.6)
Projected General Fund Deficit	(100.7)	(118.3)

## JOINT REPORT

In March 2014, the Mayor's Office, Controller's Office, and the Board of Supervisor's Budget and Legislative Analyst updated the City's budget projection in the Joint Report, a report that provides a four year forward looking projection of revenue and expenditure trends, and updates any projected shortfall over the four-year horizon. The Joint Report updated the City's shortfall projections to project a General Fund deficit of \$66.7 million in FY 2014-15 and \$133.4 million in FY 2015-16. The projections reflect updated positive revenue information (including current year-end fund balance) in FY 2014-15, but greater projected

expenditure increases for salary and benefit costs and information technology investments in FY 2015-16.

Joint Report General Fund Shortfall	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
Budget Instructions - Projected Shortfall	(100.7)	(118.3)
Changes Reflected in the Joint Report	34.0	(15.1)
Updated Projected Shortfall	(66.7)	(133.4)

# 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 11 district-based budget outreach meetings across the City; hosted a city-wide online Town Hall; 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 previously adopted 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 the local economy continues to grow, the budget addresses structural issues, while making targeted, smart investments to increase and improve service to the public. The table below reflects the combination of cost increases and solutions since the Joint Report that the Mayor includes in his proposed balanced budget. The figures in the table represent changes from FY 2013-14 to FY 2014-15 in the first column, and then cumulative changes from FY 2013-14 to FY 2015-16 in the second column to show the City’s balanced budget over the next two years:

Projected Shortfall	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
Joint Report Projected Shortfall	(66.7)	(133.4)

  

Changes and Solutions	2014 (\$ millions)	FY 2015-16 (\$ millions)
Revenue and Fund Balance	140.4	78.2
Citywide Changes and Solutions	(31.1)	62.4
Departmental Changes and Solutions	(42.5)	(7.2)
Final Balance After All Changes	0.0	0.0

**REVENUES AND FUND BALANCE** reflect continued improvement in local tax revenues, additional prior year fund balance, better than expected revenues at the Department of Public Health, an increase in state Public Safety Realignment revenues, and other one-time sources. Sources are increasing by \$140.4 million and \$78.2 million over the revenue projections in the Joint Report compared to FY 2013-14. The table below outlines the major changes since the Joint Report:

Revenues & Fund Balance	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
General Fund Revenues	18.3	14.0
Changes in One-Time Sources	64.1	34.5
Public Health Revenues	53.9	28.2
Other Revenue Changes	4.2	1.5
<b>Subtotal Revenues &amp; Fund Balance</b>	<b>140.4</b>	<b>78.2</b>

**CITYWIDE CHANGES AND SOLUTIONS** reflect changes to citywide costs and prior assumptions for personnel costs, capital spending, baselines, and inflationary costs on non-personnel spending, and projected changes in the City’s fringe benefit costs:

Citywide Costs & Solutions	FY 2014-15 (\$ millions)	FY 2015-16 (\$ millions)
Baselines and Deposits to Reserves	(3.6)	(2.2)
Additional Labor Costs	(44.6)	(58.5)
Health and Pension Savings	38.5	75.9
1.5% COLA for direct service providers only	(6.8)	14.8
Minimum Wage Reserve	(1.3)	(5.9)
Capital, Equipment and IT	(19.4)	36.5
Other Citywide Costs and Solutions	6.1	1.6
<b>Subtotal Citywide Costs &amp; Solutions</b>	<b>(31.1)</b>	<b>62.4</b>

Overall, citywide costs are \$31.1 million higher in FY 2014-15 and \$62.4 million lower in FY 2015-16 compared to projections in the Joint Report. Citywide personnel costs are increasing by \$44.6 million and \$58.5 million over the Joint Report projections. However, savings on health and pension costs are largely offsetting these cost increases with \$38.5 million and \$75.9 million in savings in each year. In addition, the Proposed Budget includes higher costs for capital, equipment and IT in FY 2014-15 to fully fund the Capital Plan and increase necessary one-time investments, and these areas decrease the next year, which represents a balancing solution in FY 2015-16.

The proposed budget also includes a minimum wage reserve and a 1.5 percent cost-of-doing-business increase for the City's nonprofit providers, which are discussed in greater detail later in this section. Finally, additional balancing solutions in this section include debt savings in both years and a decision not to fully fund a cost-of-living adjustment (COLA) on non-personnel inflationary costs in FY 2015-16.

#### **DEPARTMENTAL CHANGES AND SOLUTIONS**

represent cost increases and savings proposals that are

specific to City departments. The Mayor's Proposed Budget includes no reductions in services, and in many cases includes additional investment to increase service levels to the public.

Overall, departmental costs are growing by \$42.5 million in FY 2014-15 and \$7.2 million in FY 2015-16 over the projections in the Joint Report. Major drivers of these changes include:

- One-time and ongoing operating costs of the new San Francisco General Hospital, opening in December 2015;
- Additional funding to support higher staffing levels for emergency medical transports;
- Restoration of mental health and substance abuse treatment services and of federal HIV and AIDS cuts;
- Increases to the Human Services Agency's County Aid budget offset by increasing state and federal revenues; and
- Various service increases across departments which are detailed below and throughout departmental sections.

## HIGHLIGHTS FROM THE FY 2014-15 AND 2015-16 BUDGET

### **An Affordable and Livable City for All San Franciscans**

When Mayor Lee came to office in January 2011, San Francisco's financial outlook was very different than it is today. The unemployment rate was 9.5 percent, revenues were mostly stagnant, and the City's pension system had suffered significant losses from the economic downturn. Facing ongoing budget deficits of \$300-500 million and rising, the Mayor was forced to make many difficult decisions to balance the budget including service reductions, furlough days for City employees, and the deferral of critical capital and information technology investments.

Today, the City's financial condition has changed dramatically. The unemployment rate has dropped to 4.4 percent, the FY 2014-15 budget deficit was under \$100 million for the first time in over 6 years, and construction is booming across the City. Revenues are up: the budget includes revenue growth of 8.8 percent from FY 2013-14 to FY 2014-15 and additional growth of 2.6 percent from FY 2014-15 to FY 2015-16. This economic growth and activity, which few envisioned a few years ago, has also led to rising prices for homes, rental properties, and other goods

and services. This budget balances the prosperity of the economic boom with realities faced by San Franciscans by proposing smart, responsible, and targeted investments to make San Francisco a better and more affordable place to live and work for everyone.

### **Housing Opportunities for All San Francisco Residents**

The proposed budget addresses needs across the housing spectrum, including more housing available at all income levels, homeownership opportunities, increased tenant protections, and reinvestment in the City's public housing stock.

To reach the Mayor's goal of creating 30,000 new and rehabilitated housing units by 2020, including 10,000 units affordable for low- and moderate-income San Franciscans, this budget includes a landmark \$50 million in new funding for affordable housing and supports process improvements and increased staffing to speed up the creation of all forms of housing. In addition, the In-Law Legalization Program will bring thousands of existing, naturally-affordable units into the formal housing market, and additional down payment assistance

funding will provide opportunities for residents, including first responders and teachers, to purchase their first home. Long-time tenants evicted through the Ellis Act will receive preference in City-sponsored affordable housing developments, while additional resources at the Rent Board will be available to protect the City's tenants. This budget also continues the City's commitment to its public housing residents through steady support for the rebuild of the most distressed public housing sites and for the rehabilitation of a portfolio of nearly 3,500 units scattered across the City.

### Supporting a Living Wage for Everyone

In the current environment of increasing costs, there are active discussions among representatives of the business, non-profit and labor communities about increasing the City's minimum wage. This budget reflects the Mayor's commitment to a responsible minimum wage increase by including a minimum wage reserve to pay for increased wages for both internal and contracted City-funded staff.

### Maintaining and Improving Our City's Social Safety Net

Affordable housing and a higher minimum wage address critical needs of San Francisco residents, but many of the City's most vulnerable residents are also in need of additional social services. This budget reflects this need by containing an additional \$51 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:

- \$21.6 million in increased investments in homeless and eviction prevention, in shelter and in other homeless supports, and in supportive housing for veterans, transitional aged youth, and seniors;
- \$6.2 million in enhanced mental health services for the chronically homeless;
- \$2.8 million in investments for seniors including additional food security and meal support as well as investments to prevent and address elder abuse; and
- \$20.8 million in increased aid assistance.

In addition, the proposed budget includes the restoration of \$3 million annually in federal cuts to HIV/AIDS prevention and services, and \$8.8 million to the Department of Public Health's community partners to provide primary care, substance abuse, mental health, and other vital public health services.

As the City 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 1.5 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 addition, over the next three years, the City will disburse \$4.5 million in non-profit rent stabilization services and also launch a non-profit sector initiative to provide strategic, technical assistance to ensure long-term stability and viability of the sector and the people it serves.

### Safe, Reliable, and Affordable Transportation

An affordable and reliable transportation system is critical to ensuring the livability and success of any great city. San Francisco needs a transportation system that serves the needs of all users by providing efficient and low-cost travel options to the public. The Municipal Transportation Agency's (MTA) proposed FY 2014-15 and 2015-16 budget addresses this need through a combination of service increases, reliability improvements, and reduced or free fares for targeted populations.

The MTA's proposed budget includes funding for a 10 percent service increase over the next two years to add additional hours of service while addressing crowding and reliability issues. These increases will result in service that is more frequent, rapid, and dependable.

The budget also contains measures to ensure that Muni is accessible to all. Currently, Muni's fares are among the lowest of peer transit agencies across the region and country. A recent survey of 22,000 Muni riders revealed that more than half are low-income, with approximately a quarter living in households making less than \$15,000 annually. In order to address the needs of all of its customers, the MTA's operating budget includes the continuation of the free Muni for low and moderate income youth program, which will be funded over the next two years through a \$6.8 million grant from Google.

### Improving the Urban Environment

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

- A new alley cleaning crew for trash pick-up, steam cleaning, and graffiti abatement;
- Additional landscape maintenance gardeners, laborers, and arborist apprentices to green the City and maintain the urban forest;
- Additional park patrol staff and the redeployment of Candlestick Park patrol officers to neighborhood parks to improve park safety;
- An additional urban forestry maintenance crew to manage and maintain the park canopy and \$1 million

in funding to replace aging and diseased trees;

- Expansion of aquatics and outdoor recreation programming at the Recreation and Park Department; and
- Expansion of free Wi-Fi access across the City, specifically targeting commercial corridors.

### Ensuring a Safe San Francisco

The Mayor's Proposed Budget makes meaningful investments in the public safety of the City by fully funding the City's public safety hiring plan over the next two years, which puts 300 new police officers on the street and 96 new firefighters on duty. This budget also funds one Deputy Sheriff and one 911 Dispatcher academy class, as well as the hiring of additional EMS staff at the Fire Department.

The proposed budget also increases support for the workforce component of the Mayor's IPO (Interrupt, Predict and Organize for a Safer San Francisco) violence prevention strategy. Participants in the 13-month job-readiness program, started in FY 2012-13, are 18-25 year olds identified as being at-risk or in-risk by Police and Adult Probation. The first cohort graduated in the current fiscal year with 74 percent of participants having received a GED or high school diploma, and 78 percent exiting with long term employment. The second and third cohorts are currently underway, with a fourth cohort scheduled to start in the fall of 2014.

### Putting Kids First

This November, the reauthorization of the Children's Amendment and the Public Education Enrichment Fund, which provide significant support to San Francisco's children and families, will be on the ballot. The Fiscal Year 2014-15 and 2015-16 proposed budget assumes reauthorization of these measures and includes \$291.1 million between the two funds, of which \$126.3 million will be in direct funding to the San Francisco Unified School District; \$55.9 million for Preschool for All, which will provide 4,100 children with subsidized, quality early education; and \$108.9 million will flow into the Children's Fund.

The budget also supports the Mayor's Summer Jobs+ initiative, which will help 7,000 young San Franciscans get a job or paid internship in the public, private, or non-profit sector. For many of these youth, this is their first professional experience.

### Transportation 2030

In January 2013, Mayor Lee called for a Transportation Task Force to develop a coordinated set of priorities and actionable recommendations for funding the City's transportation infrastructure between now and the year 2030. On May 13, 2014 the Mayor and all 11 members

of the Board of Supervisors introduced one of the key recommendations of the Transportation Task Force, a proposed \$500 million General Obligation bond for the November 2014 ballot. This bond will increase Muni reliability and travel speed, upgrade transit stops and stations, improve pedestrian and bicycle safety, and prepare for growth on the City's busiest travel corridors, all without raising property taxes.

Additionally, the Mayor's Proposed Budget includes full funding of \$83.5 million over the next two years for the City's street repaving program. Paving in excess of 1,700 blocks over the next two years will continue to move our streets towards a "good" Pavement Condition Index (PCI), which will prevent more expensive street repaving costs in the future, reduce repair expenses for Muni, and lower car maintenance costs for San Francisco drivers. These investments will help ensure that the City's transit system is faster, more accessible, and reliable for the long term.

## 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.

### Investing in Capital and Infrastructure Assets

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. Critical investments include:

- \$647.5 million in capital investments over the next two years, supporting approximately 6,000 construction and related industry jobs;
- \$213 million in General Fund support for capital and infrastructure, including full funding of the recommended level in the first year of the budget;
- Investments in City-owned assets to extend their useful life and make them less expensive to maintain and operate;
- Funds for planning efforts for future large scale capital projects to ensure project budgets and timelines are accurate and attainable; and
- Investments 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 2015-16 the City projects to have \$234.9 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. In 2013, the ratings for City's General Obligation bonds were upgraded by Standard & Poor, Fitch, and Moody's; all three agencies noted the City's strong financial performance, growing reserves, and increasingly responsible financial practices as the reasons for their upgrades.

## Managing Labor Costs

In February 2014, the City began negotiations with 27 of its employee organizations to craft new labor contracts. The new contracts cover over 24,000 employees for the next three years. The City is now in the final stage of negotiations, as the majority of the open contracts have been settled or arbitrated. With a few small exceptions, the

agreements include raises of 3 percent in October 2014, 3.25 percent in October 2015, and between 2.25-3.25 percent (depending on inflation) in July of 2016. These settlements provide a fair wage increase for the City's workforce and provide better financial stability for the City in the form of known labor cost increases for the next three years.

Although wage costs will increase beyond the City's prior projections, these costs are largely offset over the next two years by lower-than-expected growth of the City's employee and retiree health and pension costs. Over the past several years, the City and its Health Service System (HSS) have collaborated to begin to reduce health care costs. The City has also worked with its employee labor organizations to address employee wellness, and in June 2014 the City will release and implement its new Wellness Plan. The overall savings from employee and retiree health and pension costs represent a savings from of \$38.5 million in FY 2014-15 and \$75.9 million in FY 2015-16 from the Joint Report's projections.