



Fiscal Outlook & Department Budget Instructions

December 2025

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Summary

Fiscal Outlook:

- Rate of expenditure growth far outpaces City's General Fund revenues – creating an **\$936M two-year deficit** (**\$296M** deficit in FY 2026-27, **\$640M** in FY 2027-28)
- **Expenditure growth of \$1.8B far surpasses revenue growth of \$617M** over the next five years

Budget Instructions to Departments:

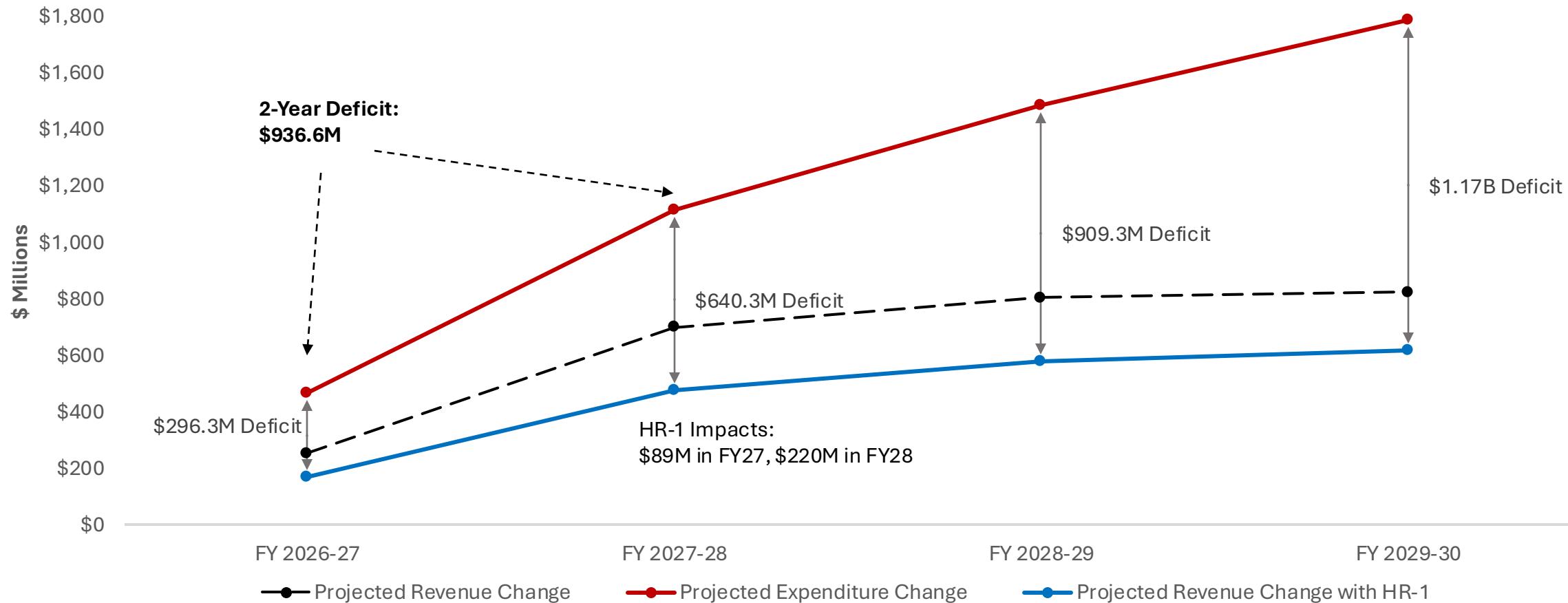
- **Reduce General Fund spending by \$400M ongoing** through restructured service delivery and targeted program elimination



Fiscal Outlook with Five-Year Financial Plan Update



Fiscal Outlook: Spending Outpaces Revenue





Fiscal Outlook: Major Assumptions in the Five-Year Forecast

- **Strong business tax growth; modest local tax growth**, does not assume a recession
- **Revenue loss from H.R.1**: Assumes \$300 million over two years
- **Salary & benefits**: CPI growth on all open contracts assumed July 1 from FY 2028-29 onward; 7.2% rate of return on pension investments; 9% health rate cost growth
- **Citywide & departmental costs**: Full funding of Ten-Year Capital & ICT Plans by FY 2027-28; 3% CODB
- **City funded baseline growth**: Assumes all baseline growth is funded in each year



Fiscal Outlook: Five-Year Report Summary

	Change from AAO Budget 2026-27	Projection	Projection	Projection	Projection
		2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	(125.6)	252.4	697.7	803.0	822.0
Uses					
Baselines & Reserves	(17.2)	(118.8)	(220.2)	(259.0)	(274.3)
Salaries & Benefits	(47.0)	(216.5)	(551.5)	(705.9)	(828.9)
Citywide Operating Budget Costs	(11.0)	(50.4)	(179.5)	(232.4)	(302.2)
Departmental Costs	(11.0)	(78.5)	(165.1)	(289.0)	(380.3)
USES Decrease / (Increase)	(86.2)	(464.2)	(1,116.2)	(1,486.3)	(1,785.6)
Cumulative Projected Surplus / (Shortfall)	(211.8)	(211.8)	(418.5)	(683.3)	(963.7)
State & Federal Policy Impacts	(84.5)	(84.5)	(221.8)	(226.0)	(204.8)
Projected Cumulative Projected Surplus / (Shortfall)	(296.3)	(296.3)	(640.3)	(909.3)	(1,168.5)
Two-Year Deficit		(936.6)			



Fiscal Outlook: Key Expenditures in the Five-Year Projection

- **Salaries and benefits:** Increase by over \$820 million over next five fiscal years
- **Required baseline contributions:** Grow by over \$270 million by 2030
- **Citywide operating costs:** Real estate, capital, debt payments, PUC rates, and inflation on non-personnel services and multiyear nonprofit grants
- **Other major costs:** inflation on public health operating costs, IHSS program growth, shelter costs due to expiring state grants



Fiscal Outlook: What's Changed Since July?

- **Tax revenue projections revised upward**, driven primarily by Gross Receipts tax
- **Inflationary pressure** on contracts, leases, CBO grants, and materials & supplies costs
- **Revenue loss due to H.R. 1** exceeds \$300 million over two-year period, driven by both administrative cost shifts to local government, and eligibility policy changes
- **Use of fund balance** shifted to FY28 to smooth deficit

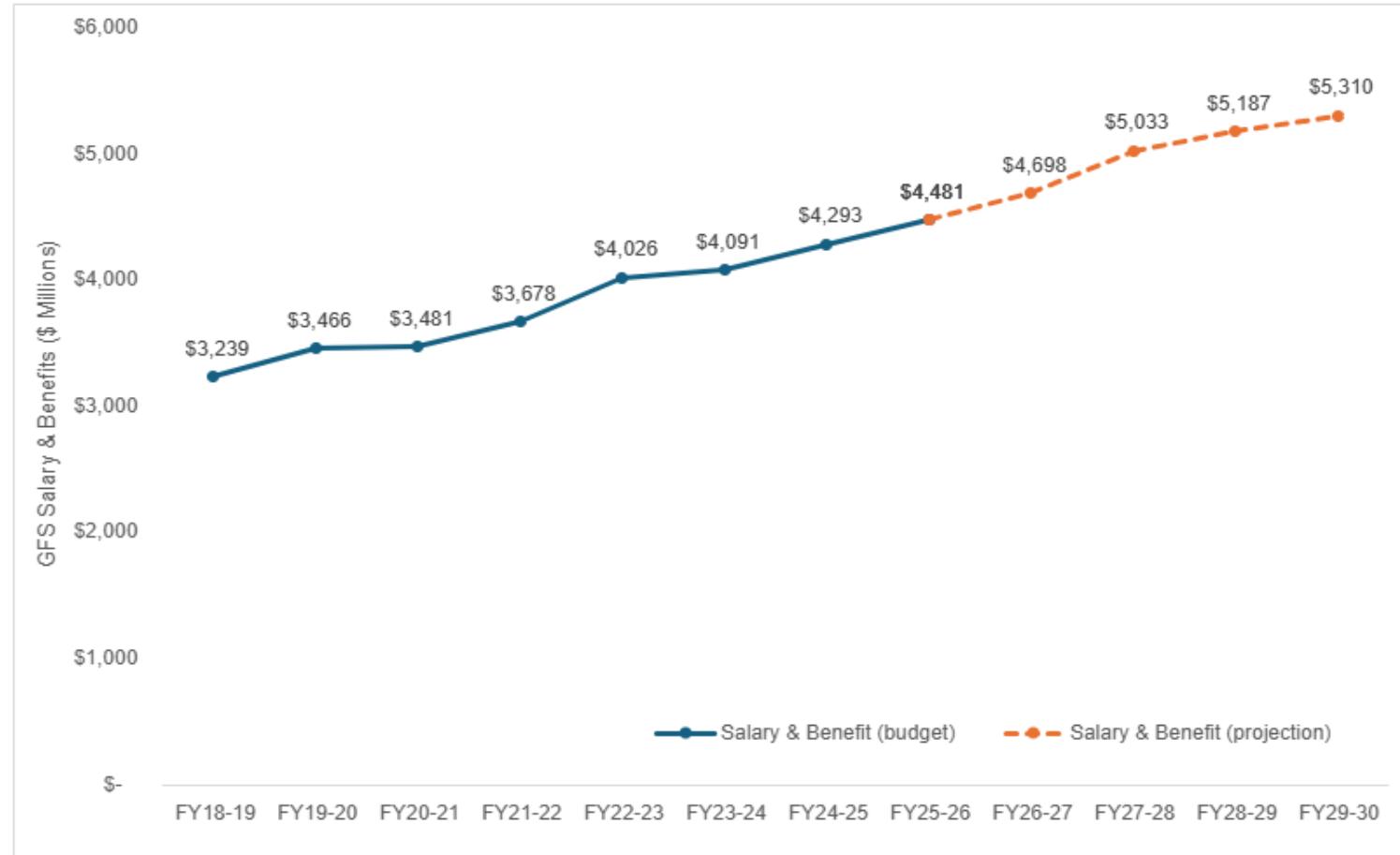


Fiscal Outlook: Risks

- **State Budget Shortfall:** Potential revenue loss if proposals like cuts to education-related property taxes return
- **Federal Policies:** Federal economic policies have unknown future impacts to the City and National economies. The Joint Report assumes a modest scenario of revenue loss and graduated disenrollment; additional losses are likely
 - **Uncertain Federal Grant Disbursement:** Policy shifts pose additional threats to grant revenues, which may affect both current- and budget-year revenues
- **Assessment Appeals:** Declining property values risk lowering tax revenue, with at-risk revenue tied to appeal outcomes



Fiscal Outlook: Key Expenditures – Salaries & Benefit Costs



- GFS Salary and Benefits costs have increased by over \$1.2 B since FY19
- Projected to grow by over \$820M by 2030
- Projections reflect total ASO reduction from last year's budget



Mayor's Priorities & Department Budget Instructions



Budget Instruction Overview

- Reorient city spending towards **2026 priority core services**
- Continue to **reduce structural deficit**
- **Invest** in long-term operational efficiencies



Mayor Lurie's 2026 Priorities

Safe and Clean Streets

Keep Our City Safe

Keep all San Franciscans safe through coordinated and proactive public safety efforts

Transform Our Health and Homelessness Systems

Ensure positive long term health outcomes for San Franciscans, including those in crisis on our streets or vulnerable in our communities

Maintain Clean, Safe, and Welcoming Public Spaces

Provide clean streets, inviting parks, and reliable mobility options so people feel comfortable being out in the city

Economic Revitalization

Revitalize Downtown San Francisco

Rebuild a vibrant, mixed-use downtown by bringing people, jobs, housing, and cultural activity back to the city's core

Make the City More Affordable and Livable for Families

Improve quality of life and access to opportunities so children and families can thrive

Strengthen the City's Economy, Arts & Culture

Grow San Francisco's broader economy by supporting key industries, creating good jobs, expanding tourism and cultural activity, and increasing economic opportunity citywide

Effective Common-Sense Government

Modernize the systems and structures that shape how we work, and build the data, technology, and talent capabilities we need to innovate, improve services, and deliver results within our financial means



Budget Instructions: Programming & Structure

- **\$400M total** in ongoing savings
- **Eliminate** discretionary programs
- **Restructure** departments around current staffing levels
- **Reduce** Citywide workorders and / or overhead by 10%
- **Shift** duplicative or common services toward a centralized model
- Propose near-term investments for long-term cost savings



Budget Instructions: Contracts & Grants

- Identify **Technology & Procurement** Savings
 - Integrate Core IT functions (Network, Infrastructure, etc).
 - Purchase through enterprise agreements;
 - Review license usage and eliminate duplicative systems
- Review grants and contracts for measurable outcomes and financial efficiency
- **Federal Funding:** Prioritize funding essential social safety net programs



Outcome Based Budgeting: Alignment phase

Step 1: due January 20

Work with MBO to identify:

- Core Operational Services
 - Should include admin services
- Strategic, Discretionary, and legally mandated programs
 - Outline current metrics (if any), funding, and alignment to Mayoral Priorities

Step 2: Due February 21

Implement shared decisions in budget system

- Develop phase-out timeline for eliminated programs
- Present mayoral decisions to relevant commissions



Budget Instructions: Calendar

December 2025	Five Year Financial Plan Update (Joint Report)
January 16, 2026	Capital Planning Budget due
January 20, 2026	Programming Worksheet due to MBO
January 23, 2026	COIT Budget request due
February 2026	Controller's 6-Month Report
February 23, 2026	Department budget submissions due*
March 2026	March Update to the Joint Report
May 1, 2026	Mayor proposes 'May 1 Department' budgets
May 2026	Controller's 9-Month Report; Governor's May Revise
June 1, 2026	Mayor proposes a balanced budget to the Board of Supervisors
June 2026	Budget and Appropriations Committee hearings

**Charter mandated deadline is Feb 21, which falls on a Saturday.*



Thank you.