

File No. 260144

Committee Item No. 8

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date February 25, 2026

Board of Supervisors Meeting Date \_\_\_\_\_

#### Cmte Board

- Motion
- Resolution
- Ordinance
- Legislative Digest
- Budget and Legislative Analyst Report
- Youth Commission Report
- Introduction Form
- Department/Agency Cover Letter and/or Report
- MBO Fiscal Outlook and Department Budget Instructions
- MOU
- Grant Information Form
- Expenditure Schedule
- Subcontract Budget
- Contract/Agreement
- Form 126 – Ethics Commission
- Notice of Award/Award Letter
- Application
- Public Correspondence

**OTHER** (Use back side if additional space is needed)

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Completed by: Brent Jalipa Date February 19, 2026

Completed by: Brent Jalipa Date \_\_\_\_\_



# Fiscal Outlook & Department Budget Instructions

December 2025

# Content



1. Summary
2. Fiscal Outlook with Five-Year Financial Plan Update
3. Mayor's Priorities & Budget Instructions



# 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:

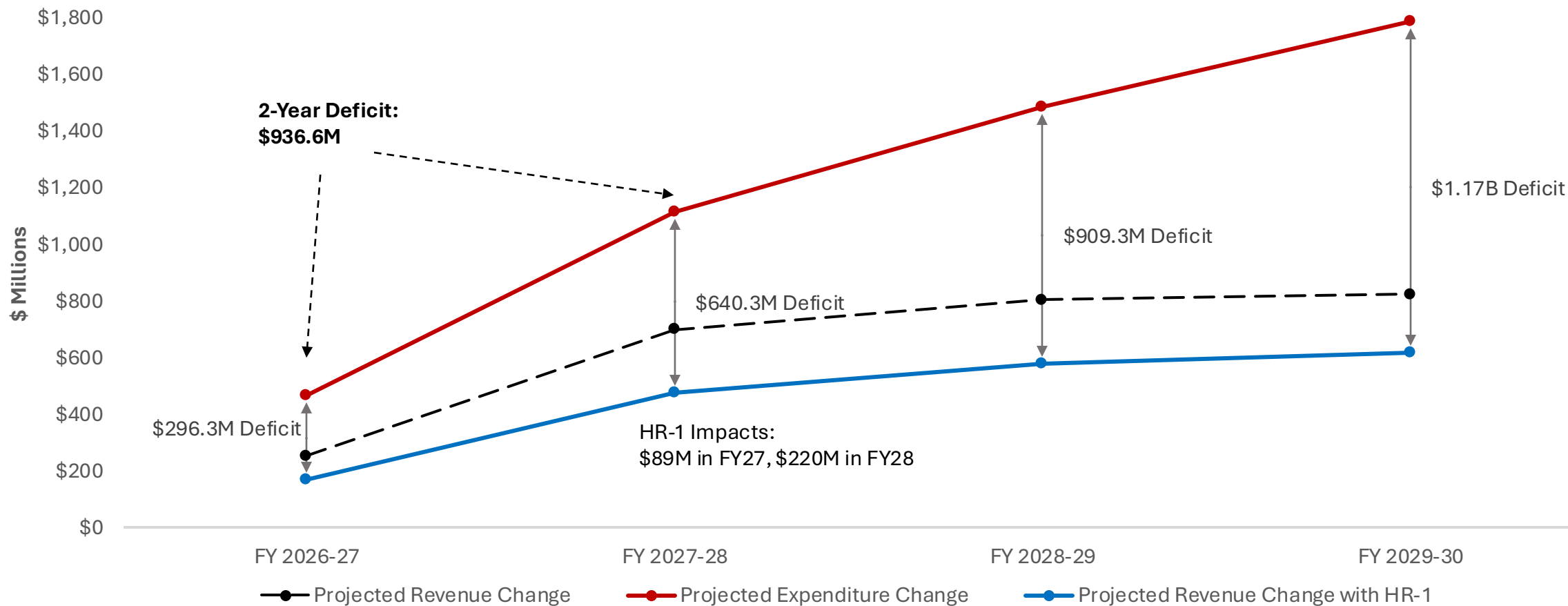
- **Reduce General Fund spending by \$400M ongoing** through restructured service delivery and targeted program elimination



# 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 2026-27	Projection 2027-28	Projection 2028-29	Projection 2029-30
<b>SOURCES Increase / (Decrease)</b>	(125.6)	252.4	697.7	803.0	822.0
<b>Uses</b>					
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)
<b>USES Decrease / (Increase)</b>	(86.2)	(464.2)	(1,116.2)	(1,486.3)	(1,785.6)
<b>Cumulative Projected Surplus / (Shortfall)</b>	(211.8)	(211.8)	(418.5)	(683.3)	(963.7)
<b>State &amp; Federal Policy Impacts</b>	(84.5)	(84.5)	(221.8)	(226.0)	(204.8)
<b>Projected Cumulative Projected Surplus / (Shortfall)</b>	(296.3)	(296.3)	(640.3)	(909.3)	(1,168.5)
<b>Two-Year Deficit</b>		(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

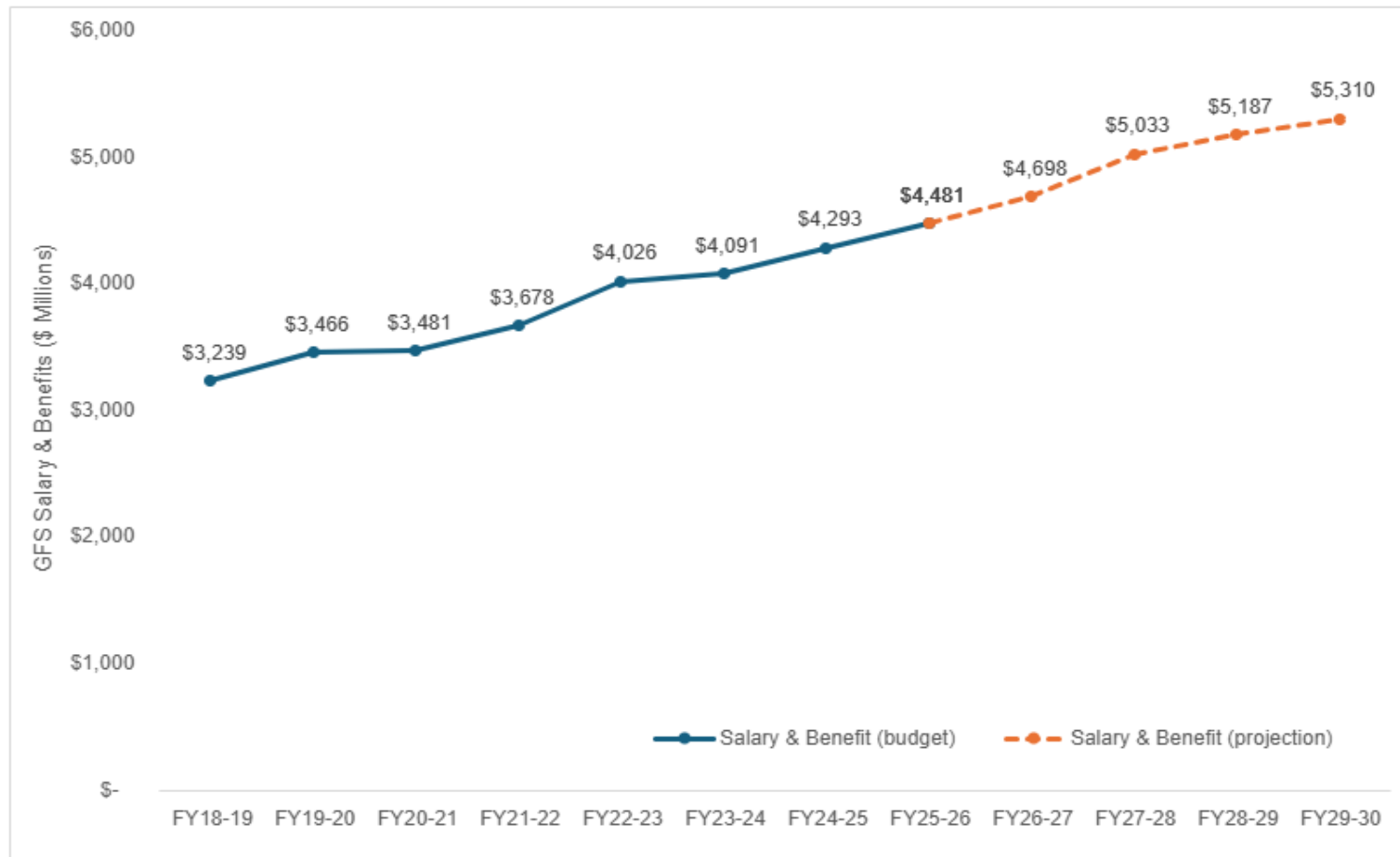


# Fiscal Outlook: Risks

- **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
<b>February 23, 2026</b>	<b>Department budget submissions due*</b>
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
<b>June 1, 2026</b>	<b>Mayor proposes a balanced budget to the Board of Supervisors</b>
June 2026	Budget and Appropriations Committee hearings

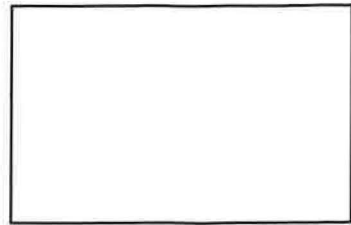
*\*Charter mandated deadline is Feb 21, which falls on a Saturday.*



# Thank you.

**Introduction Form**

(by a Member of the Board of Supervisors or the Mayor)



I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee (Ordinance, Resolution, Motion or Charter Amendment)
- 2. Request for next printed agenda (For Adoption Without Committee Reference)  
*(Routine, non-controversial and/or commendatory matters only)*
- 3. Request for Hearing on a subject matter at Committee
- 4. Request for Letter beginning with "Supervisor \_\_\_\_\_ inquires..."
- 5. City Attorney Request
- 6. Call File No. \_\_\_\_\_ from Committee.
- 7. Budget and Legislative Analyst Request (attached written Motion)
- 8. Substitute Legislation File No. \_\_\_\_\_
- 9. Reactivate File No. \_\_\_\_\_
- 10. Topic submitted for Mayoral Appearance before the Board on \_\_\_\_\_

The proposed legislation should be forwarded to the following (please check all appropriate boxes):

- Small Business Commission     Youth Commission     Ethics Commission
- Planning Commission     Building Inspection Commission     Human Resources Department

General Plan Referral sent to the Planning Department (proposed legislation subject to Charter 4.105 & Admin 2A.53):

- Yes                       No

(Note: For Imperative Agenda items (a Resolution not on the printed agenda), use the Imperative Agenda Form.)

Sponsor(s):

Chan

Subject:

Hearing - Mayor's Budget Instructions for FY 2025-26 and 2026-27

Long Title or text listed:

Hearing on the Mayor's Budget Instructions for FY 2025-26 and 2026-27 and requesting the Mayor's Budget Director to report.

Signature of Sponsoring Supervisor: