

**CITY AND COUNTY OF SAN FRANCISCO  
BOARD OF SUPERVISORS  
BUDGET AND LEGISLATIVE ANALYST**

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## **Budget Overview Report**

To: Budget and Finance Committee  
From: Budget and Legislative Analyst's Office  
Re: Overview of the Mayor's Proposed FY 2019-21 Budget  
Date: June 10, 2019

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### **Growth in the City's Budget**

#### **Budget Growth Outstrips Population Growth and Inflation**

The City's budget has grown by 37.2 percent over the past five years, from \$8.9 billion in FY 2015-16 to \$12.3 billion in the Mayor's proposed FY 2019-20 budget, as shown in Table 1 below. The average annual growth rate in total budgeted expenditures during this period was 8.2 percent.

At the same time, as seen in Table 1 below, the City's population increased at a much slower rate of 2.0 percent from 866,320 as of July 1, 2015 to 883,305 as of July 1, 2018. Notably, the City's population declined by 1,058 residents from July 1, 2017 to July 1, 2018, from 884,363 to 883,305.

The consumer price index for the San Francisco area also grew at a slower rate than the City budget, averaging 3.4 percent growth per year from 2015 to 2018.

#### **General Fund Growth also Faster than Population Growth and Inflation**

The City's General Fund budget has grown by 32.8 percent over the past five years from \$4.6 billion in FY 2015-16 to \$6.1 billion in the Mayor's proposed FY 2019-20 budget, as shown in Table 1 below. The average annual growth rate in General Fund budgeted expenditures during this period was 7.4 percent.

**Table 1: Comparison of Growth in City Budget to Population Growth and Inflation - FY 2015-16 to FY 2019-20**

	FY 2015-16 Budget	FY 2016-17 Budget	FY 2017-18 Budget	FY 2018-19 Budget	FY 2019-20 Proposed	% Increase FY 2015-16 to FY 2019-20
<i>General Fund</i>						
Expenditures	4,587,552,026	4,859,781,042	5,147,557,828	5,511,633,982	6,091,353,796	32.8%
Annual Growth Rate	n/a	5.9%	5.9%	7.1%	10.5%	
<i>Non General Fund</i>						
Expenditures	4,351,222,057	4,727,695,408	4,971,520,172	5,527,561,088	6,169,512,021	41.8%
Total Expenditures	<b>8,938,774,083</b>	<b>9,587,476,450</b>	<b>10,119,078,000</b>	<b>11,039,195,070</b>	<b>12,260,865,817</b>	<b>37.2%</b>
Annual Growth Rate	n/a	7.3%	5.5%	9.1%	11.1%	
City Population <sup>a</sup>	866,320	876,103	884,363	883,305	n/a	2.0%
Annual Growth Rate	n/a	1.1%	0.9%	-0.1%	n/a	
Annual CPI Increase <sup>b</sup>	2.6%	3.0%	3.2%	3.9%	n/a	

Expenditures Source: Adopted Annual Appropriation Ordinances (FY 2015-16 & 2016-17 through FY 2018-19 & 2019-20) and FY 2019-20 & 2020-21 Mayor's Proposed Budget Book.

<sup>a</sup> Source: U.S. Census Bureau <https://www.census.gov/quickfacts/sanfranciscocountycalifornia>; population as of July 1

<sup>b</sup> Consumer Price Index (CPI) Source: U.S. Department of Labor, Bureau of Labor Statistics Historical CPI report (San Francisco-Oakland-Hayward): [https://www.bls.gov/regions/west/data/consumerpriceindex\\_sanfrancisco\\_table.pdf](https://www.bls.gov/regions/west/data/consumerpriceindex_sanfrancisco_table.pdf)

## Position Growth

The City's budgeted full time equivalent (FTE) positions<sup>1</sup> have grown by 7.7 percent over the past five years, from 29,552.57 in FY 2015-16 to 31,830.35 in the Mayor's proposed FY 2019-20 budget as shown in Table 2 below. The average annual rate of growth in positions over this period was 1.9 percent.

**Table 2: Growth in Citywide Positions - FY 2015-16 to FY 2019-20 <sup>a</sup>**

	FY 2015-16 Budget	FY 2016-17 Budget	FY 2017-18 Budget	FY 2018-19 Budget	FY 2019-20 Proposed	% Increase FY 2015-16 to FY 2019-20
Position Count	29,552.57	30,626.47	30,834.61	31,320.62	31,830.35	7.7%
Annual Increase	n/a	1,073.90	208.14	486.01	610.72	
Annual Growth Rate	n/a	3.6%	0.7%	1.6%	2.0%	

Source: Approved Annual Appropriation Ordinances (FY 2015-16 & 2016-17 through FY 2018-19 & 2019-20) and FY 2019-20 & 2020-21 Mayor's Budget Book.

<sup>a</sup> Positions include all authorized FTEs in the operating budget, less attrition due to turnover and vacancies. These positions do not include off-budget positions allocated to capital and other off-budget projects.

<sup>1</sup> This represents the total authorized operating positions, less attrition due to position turnover and vacancies. Off-budget positions that are funded as part of multi-year capital projects or outside agencies are not included.

### Total Salary and Fringe Benefit Growth

Budgeted salaries and mandatory fringe benefits have grown at a higher rate than the total number of positions. Total budgeted salary and mandatory fringe benefits have grown by 25 percent over the last five years from \$4.5 billion in FY 2015-16 to \$5.6 billion in the Mayor’s proposed FY 2019-20 budget, shown in Table 3 below, compared to 7.7 percent growth in positions. The average annual growth rate of citywide salary and fringe costs over this period was 5.8 percent.

**Table 3: Growth in Citywide Salary and Fringe Benefit Budgets - FY 2015-16 to FY 2019-20**

	<b>FY 2015-16 Budget</b>	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Proposed</b>	<b>% Increase FY 2015-16 to FY 2019-20</b>
Salaries	3,125,339,766	3,334,097,142	3,456,800,600	3,604,408,481	3,843,110,821	23.0%
Annual Growth Rate	n/a	6.7%	3.7%	4.3%	6.6%	n/a
Mandatory Fringe Benefits	1,330,216,698	1,408,839,584	1,506,639,742	1,574,371,877	1,727,323,931	29.9%
Annual Growth Rate	n/a	5.9%	6.9%	4.5%	9.7%	n/a
<b>Total</b>	<b>4,455,556,464</b>	<b>4,742,936,726</b>	<b>4,963,440,342</b>	<b>5,178,780,358</b>	<b>5,570,434,752</b>	<b>25.0%</b>
Total Growth Rate	n/a	6.4%	4.6%	4.3%	7.6%	n/a

Source: Approved Annual Appropriation Ordinances (FY 2015-16 & 2016-17 through FY 2018-19 & 2019-20); FY 2019-20 & 2020-21 Mayor’s Budget Book; FY 2019-20 & 2020-21 Proposed Annual Appropriation Ordinance

### General Fund Salary and Fringe Benefit Growth

General Fund budgeted salary and mandatory fringe benefits have grown at a higher rate over five years than overall budgeted salary and mandatory fringe benefits: 27.9 percent for General Fund salary and fringe benefits compared to 25 percent overall. The average annual growth rate of citywide General Fund salary and fringe costs over this period was 6.4 percent. Table 4 below shows budgets and growth rates for General Fund salaries and mandatory fringe benefits.

**Table 4: Growth in Citywide General Fund Salary and Mandatory Fringe Benefit Budgets - FY 2015-16 to FY 2019-20**

	<b>FY 2015-16 Budget</b>	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Proposed</b>	<b>% Increase FY 2015-16 to FY 2019-20</b>
Salaries	1,493,905,280	1,611,668,310	1,658,267,335	1,739,679,663	1,860,670,388	24.6%
Annual Growth Rate	n/a	7.9%	2.9%	4.9%	7.0%	N/A
Mandatory Fringe Benefits	586,289,616	634,090,122	679,078,064	721,181,397	799,045,003	36.3%
Annual Growth Rate	n/a	8.2%	7.1%	6.2%	10.8%	N/A
<b>General Fund Total</b>	<b>2,080,194,896</b>	<b>2,245,758,432</b>	<b>2,337,345,399</b>	<b>2,460,861,060</b>	<b>2,659,715,391</b>	<b>27.9%</b>
Total Growth Rate	n/a	8.0%	4.1%	5.3%	8.1%	N/A

Source: Approved Annual Appropriation Ordinances (FY 2015-16 & 2016-17 through FY 2018-19 & 2019-20); FY 2019-20 & 2020-21 Mayor's Budget Book; FY 2019-20 & 2020-21 Proposed Annual Appropriation Ordinance

### General Fund Position Growth in FY 2019-20

The Mayor's proposed budget in FY 2019-20 increases the number of General Fund positions by 1.5 percent, from 19,752.31 FTE positions in FY 2018-19 to 20,052.88 FTE positions in FY 2019-20. Almost all of the City's General Fund departments increased the number of FTE positions in the FY 2019-20 budget, either through adding new positions or reducing the amount of budgeted attrition.<sup>2</sup> The City departments with the largest proposed increases in General Fund supported positions in FY 2019-20 are Police (73 positions), Human Services Agency (64 positions), and Administrative Services (45 positions).

### Salary Savings

City departments spend from two percent to three percent less in General Fund salaries and mandatory fringe benefits than budgeted each year. In FY 2017-18, these salary savings totaled \$34.7 million. Projected salary savings in FY 2018-19 are \$45.5 million, shown in Table 5 below. Some salary savings are offset by reductions in federal, state, or other reimbursements.

<sup>2</sup> As noted above, the number of positions authorized in the City's Annual Salary Ordinance is greater than the number of budgeted positions; the City subtracts from the total amount of salaries in the budget to account for position vacancies and turnover (attrition). City departments reduce their budgeted attrition (i.e., include a smaller negative number, or subtract less) to allow for more hiring.

**Table 5: General Fund Salary and Fringe Benefit Savings –  
FY 2017-18 to FY 2018-19**

	<b>FY 2017-18 Actual</b>	<b>FY 2018-19 Projected</b>
Salary and Fringe Benefit Savings	34,714,491	45,535,816

Source: FSP reports YTD Salary & Benefit Budget vs. Projection Summary for FY 2017-18 (year-end) and FY 2018-19 (as of May 17, 2019 pay period)

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## Discretionary General Fund

The citywide General Fund budget increased by 10.5 percent from \$5.5 billion in FY 2018-19 to \$6.1 billion in FY 2019-20, as noted above. Not all General Fund revenues are discretionary. Some General Fund revenues have been set aside for specific uses by the voters.<sup>3</sup> After subtracting General Fund revenues set aside for specific General Fund purposes, the Mayor’s proposed budget includes \$3.7 billion in discretionary General Fund revenues in FY 2019-20.

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## Budgetary Reserves

The City’s Administrative Code sets policies for budgetary reserves. These include:

- Rainy Day Reserve, in which General Fund revenues in the budget year exceeding five percent of prior year General Fund revenue are deposited; 75 percent of these excess revenues go to the City and 25 percent go to the San Francisco Unified School District.
- General Reserve, which equals 2.75 percent of General Fund revenues in FY 2019-20.
- Budget Stabilization Reserve, which augments the Rainy Day Reserve, and receives deposits of real property transfer taxes in excess of average annual receipts for the prior five fiscal years and unassigned General Fund balances in a given fiscal year.

According to the Mayor’s Budget Book, these reserves totaled \$459.0 million at the end of FY 2017-18, equal to 9.2 percent of General Fund revenues, and are projected to reach their target levels of 10 percent of revenues during FY 2018-19.

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## Impact of November 2018 Ballot Propositions

The Mayor’s proposed FY 2019-20 and FY 2020-21 budget includes programs in the Department of Homelessness and Supportive Housing to be funded by Proposition C, which would impose a 0.5 percent gross receipts tax on businesses with revenue above \$50 million to fund homeless programs. Although this legislation is currently held up in litigation, the Board adopted additional legislation to allow companies to waive their rights to a refund if Proposition C is

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<sup>3</sup> The City currently has 19 budget set-asides approved by the voters.

deemed unconstitutional, in exchange for a 10 percent tax credit on the funds paid under Proposition C. The proposed FY 2019-20 budget includes \$110.3 million in expenditures funded with Proposition C Waiver revenues, of which \$90.3 million will be advanced through a transfer from the General Fund. The departments with allocations from Proposition C funds include the Department of Public Health, the Department of Homelessness & Supportive Housing, and the Mayor’s Office of Housing. Table 6 below shows the proposed related budgets for each department.

**Table 6: Proposed Proposition C Waiver Fund Expenditures**

<b>Department</b>	<b>FY 2019-20 Expenditures</b>
Public Health	19,700,000
Homelessness and Supporting Housing	33,800,000
Mayor’s Office of Housing	56,790,000
<b>Total Proposed Expenditures</b>	<b>110,290,000</b>

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## **ERAF Surplus Allocations**

The Mayor’s FY 2019-20 Proposed Budget includes the recognition of additional reimbursements for “excess” contributions to the Educational Revenue Augmentation Fund (ERAF). These reimbursements include \$109.5 million in discretionary revenue for additional reimbursements for FY 2016-17 and \$142.3 in discretionary revenue for reimbursements for FY 2019-20. Additional allocations of \$39.6 million and \$43 million will be spent on mandated baselines and reserves from the FY 2016-17 and FY 2019-20 excess ERAF, respectively.

As shown in Table 7 below, the Mayor proposes to spend the majority of the discretionary excess ERAF revenue on affordable housing, with additional allocations to homelessness, behavioral health, childcare facilities, educator subsidies, Vision Zero, and emergency response equipment.

**Table 7: Proposed Excess ERAF Sources and Uses- FY 2019-20**

<b>Sources</b>	
FY 2016-17 Excess ERAF	109,500,000
FY 2019-20 Excess ERAF	142,300,000
<i>Total ERAF Sources</i>	<i>251,800,000</i>
<b>Proposed Uses</b>	
Affordable Housing Preservation, Production and Subsidies	179,500,000
Homelessness and Behavioral Health Services and Facilities	35,000,000
Childcare Facilities, SFUSD Stipends, and City College	30,800,000
Vision Zero and Emergency Response Equipment	6,500,000
<i>Total Proposed ERAF Uses</i>	<i>251,800,000</i>

Source: FY 2019-20 & 2020-21 Mayor’s Budget Book

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## Use of One-time Funds to Balance the Budget

The *Five Year Financial Plan Update for General Fund Supported Operations FY 2019-20 through FY 2023-24*<sup>4</sup> noted that projected revenue growth over the next five years is insufficient to match the projected growth in expenditures. In order to balance the budget in FY 2019-20, the Mayor has allocated \$154.4 million in prior year fund balance as a source of funds. While the use of one-time fund balance allows the City to avoid short-term budget deficits, over the long-term the City’s structural deficit continues to increase.

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## The Board’s Budget Priority Areas and the Proposed Budget

In April and May 2019 the Board of Supervisors adopted three resolutions, which urged the Mayor to incorporate budget priority issues in the proposed budget. The citywide budget priorities adopted by the Board are:

- (1) Homelessness and Affordable Housing (Resolution 224-19), including
  - prevention, problem solving, and speedy exits from homelessness;
  - resources for permanent housing solutions;
  - specialized strategies for vulnerable populations, including seniors, people with disabilities, veterans, transitional age youth, transgender people, and individuals with mental health and substance abuse needs; and
  - production and preservation of affordable housing, including capacity – building for small site acquisition, with geographic balance in districts across the City.
- (2) Public Safety and Behavioral Health (Resolution 249-19), including

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<sup>4</sup> Update to the Joint Report by the Controller’s Office, Mayor’s Office, and Budget and Legislative Analyst’s Office, released March 19, 2019.

- key public safety investments, including an increase in officers assigned to foot patrols and traffic enforcement, language access strategies for police officers, gun violence and property crime prevention, and technology and infrastructure investments;
  - key policy changes within the Police Department, particularly with the Department's staffing model, including civilianization efforts and scheduling changes, to maximize investments for public safety; and
  - key behavioral health investments, including additional resources and coordination to realize true treatment on demand, additional beds for long-term care, step-down beds for individuals released from acute psychiatric in-patient care, community-based treatment for forensically-involved and dual-diagnosis individuals with complex health challenges, diversion from Psychiatric Emergency Services where applicable, mobile outreach with diagnosis and referral capacity, more medical respite and psychiatric respite shelter beds to prevent the cycle of hospital to street, and investment to acquire cooperative living units for individuals with chronic mental health needs.
- (3) Clean and Green Streets, Small Business Support, and Minimum Compensation Ordinance Increases for Nonprofit Workers (Resolution 262-19), including
- key clean and green streets investments, including tree replacement for trees that Public Works has removed and expansion of the canopy and other greening efforts, redesign and innovative strategies for street trash cans, increased staffing for street cleaning, and expansion of pit stop staffing and locations;
  - key small business support investments, including support to prevent the closure of brick and mortar small businesses, support for small family-owned grocers, construction mitigation, expanded language capacity, on-site business development, strengthening merchant associations, supporting employees after small business closures, streamlining of licenses and permits for small businesses, and stronger evaluation metrics to assess success for the department's small business support services;
  - investments for vulnerable populations, including employment services for homeless individuals, and comprehensive programming to support sex workers in the Mission; and
  - investments to address direct impacts of the Minimum Compensation Ordinance on nonprofit organizations, as well as consider funding to sufficiently address wage compaction and equity pressures.