FY27-FY28
Fiscal Outlook &
Budget Instructions

February 2026

Summary

Fiscal Outlook:

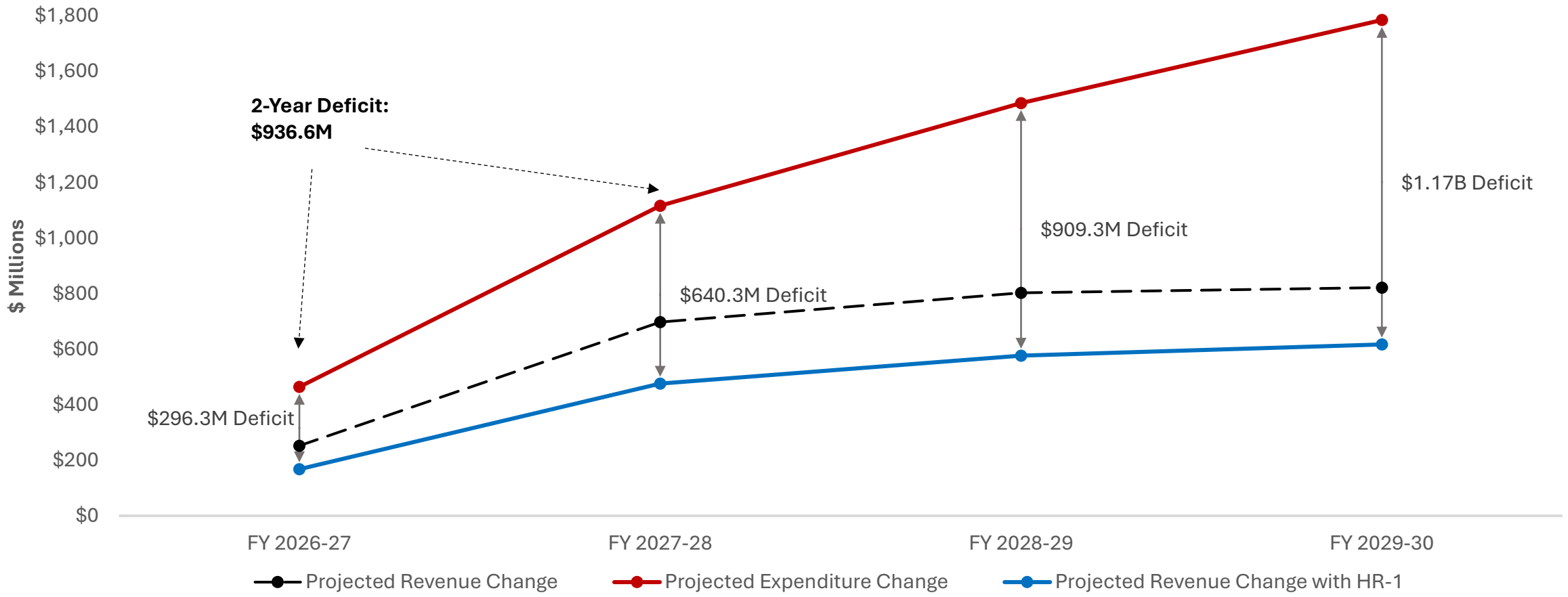
- Rate of expenditure growth far outpaces City's General Fund revenues – creating an **$936M two-year deficit** (**$296M** deficit in FY 2026-27, **$640M** in FY 2027-28)
- **Expenditure growth of $1.8B far surpasses revenue growth of $617M** over the next five years

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 ICT Plan by FY 2027-28; $30M annual growth in Capital Plan; 3% CODB for grants and contracts
- **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
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 / (Shor	**(296.3)**	**(296.3)**	**(640.3)**	**(909.3)**	**(1,168.5)**
Two-Year Deficit		**(936.6)**			

Fiscal Outlook: H. R. 1 Impacts

25,000-50,000 San Franciscans are estimated to lose Medi-Cal or CalFresh coverage.
Estimates as high as $400M revenue loss annual by 2030

Deficit assumes ~$300M in lost revenue over 2 years

- **Eligibility Loss** (assumed $195M annualized)
  - Expanded work requirement (approx. 35k individuals)
  - "Unsatisfactory Immigration Status" disallowance (Approx. 7-8K individuals)
  - 6-month redeterminations
- **Administrative Cost Share** (assumed $26M loss annualized)
- **Increased eligibility workers** (200 FTE requested)

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

Budget instructions

Mayor's Budget Instructions

- **Cut $400M** annualized spending
- **Reorganize Department Staffing** using existing personnel
- Eliminate **non-core programming**
- **Enforce Span of Control** for management and supervisory positions
- **Establish pooled shared services** for IT, HR, Contract administration
- **Reduce non-personnel contract spending**
- **Revisit capital, fleet, equipment, technology spend**

Thank you.