


Budget Analysis Report

To: Budget and Appropriations Committee
From: Budget and Legislative Analyst's Office 
Re: Summary and Analysis of Mayor's Proposed Interim Budget
Date: June 9, 2020

Executive Summary

- Due to the significant revenue and budgetary impacts of the COVID-19 pandemic, the interim budget for the coming year has been expanded from one month (July) to three months (July, August, and September). The delay will allow more time to assess the revenue impacts of the COVID-19 pandemic and make the difficult policy choices to balance the FY 2020-22 two-year budget.
- The proposed interim budget for FY 2020-21 and FY 2021-22 serves as a “continuity” budget to allow essential City spending and operations to continue on July 1, 2020 until the final budget is adopted by the Mayor and the Board of Supervisors by October 1, 2020. The three main exceptions to this are: (1) a six month delay in wage increases for City workers; (2) no inclusion of appropriation for the gross hourly increase for the In-Home Supportive Services (IHSS) Minimum Compensation Ordinance (MCO) on July 1, 2020; and, (3) no July 1st implementation of the 2.5 percent cost-of-doing business increase for non-profit providers.
- Other major non-personnel changes include: (1) a \$4.7 million (3 percent) decrease in aid payments for IHSS program under the Human Services Agency budget due to a decrease in services, and (2) a decline in General Fund support for the General Reserve and certain baselines as permitted in the Charter and Administrative Code.
- Other major personnel changes include: (1) General Fund spending on fringe benefits is increasing by \$12.3 million (1.1 percent), which is partially offset by \$8 million in reductions to unfunded liability payments, as the City will not make an additional payment for the CalPERS unfunded liability as planned in FY 2020-21.
- A new¹ 0941 Manager VI position to act as the City's Chief Privacy Officer has been reassigned to the City Administrator's Office (ADM) budget. The position has a total proposed FY 2020-21 budget of \$280,214 (\$202,061 in salary and \$78,153 in fringe benefits). Given that the Mayor has established a policy to freeze all non-essential hiring and this position has not been previously approved as part of the ADM budget, we recommend that the Board either delete the position or put the salary and fringe benefits for this position on reserve until it can be reviewed as part of the two-year FY 2020-22 budget proposal.

¹ The position was approved as part of the FY 2019-21 budget, but assigned to General City Responsibility pending a decision on where to assign the position.

Recommendations

1. *We recommend the Board of Supervisors either:*
 - a. *Delete 1.00 FTE 0941 Manager VI position reassigned to the City Administrator's Office (ADM) from General City Responsibility (GEN) for total ongoing General Fund savings of \$280,214; or*
 - b. *Place the appropriation for salary and benefit costs (\$202,061 and \$78,153 respectively) for 1.00 FTE 0941 Manager VI position in the ADM budget on reserve so that it can be reviewed as part of the FY 2020-22 two-year budget proposal to better determine if this position is necessary given the current revenue difficulties and/or whether a Manager VI classification is appropriate to carry out the responsibilities of this position.*

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Background

One-Time Expansion of Interim Budget and Delay of AAO & ASO

Administrative Code Section 3.3 establishes the City's budget timetable, including approval of the interim (one month) appropriation and salary ordinances no later than June 30 each year. The interim budget allows for City functions to continue with certain exceptions² until the Board of Supervisors and Mayor are able to adopt the Annual Appropriations Ordinance (AAO) and Annual Salary Ordinance (ASO) by July 31 each year.

Due to the significant revenue and budgetary impacts of the COVID-19 pandemic, the interim budget has been expanded from one month (July) to three months (July, August, and September) to allow more time to assess the revenue impacts of the COVID-19 pandemic and to make the difficult policy choices to balance the FY 2020-22 two-year budget.

Overview of Mayor's Proposed Three-Month Interim Budget

The Mayor's Office released the proposed three-month interim budget on June 1st to the Board of Supervisors. The proposed interim budget for FY 2020-21 and FY 2021-22 serves as a "continuity" budget to allow essential City spending and operations to continue on July 1, 2020 until the final budget is adopted by the Mayor and the Board of Supervisors by October 1, 2020.

According to the Mayor's Interim Budget Transmittal Letter, the interim budget is based on the previously adopted FY 2020-21 budget, adopted by the Mayor and the Board of Supervisors in August 2019. However, as the Transmittal Letter notes, the interim budget contains three key changes from the previously adopted budget:

1. Wage delays for City employees, as triggered by the March Joint Report and consistent with language in negotiated memorandums of understanding (MOUs);
2. No inclusion of appropriation for the gross hourly increase for the In-Home Supportive Services (IHSS) Minimum Compensation Ordinance (MCO) on July 1, 2020. The Mayor's transmittal letter further states that an ability to fund a wage increase in FY 2020-21 will be determined with August budget deliberations and subject to October appropriation levels; and,

² The Administrative Code includes exceptions limiting certain expenditures during the time the interim budget is in effect, including equipment, capital improvements, new positions of employment, and any other proposed expenditures that may be placed on reserve until released by the Board.

3. No July 1st implementation of the 2.5 percent cost-of-doing business (CODB) increase for non-profit providers. The Mayor’s transmittal letter further states that any ability to fund a CODB increase in FY 2020-21 will be contemplated with August budget deliberations and subject to October appropriation levels.

General Fund Expenditure Changes in FY 2020-21

As shown in Exhibit 1 below, the Mayor’s proposed interim General Fund budget for FY 2020-21 includes reductions to gross expenditures totaling \$85.2 million (1.3 percent) and reductions to reserves totaling \$19.2 million (35 percent) compared to the FY 2020-21 budget adopted on August 1, 2019. The proposed interim budget does not include any changes to capital projects or facilities maintenance projects. Major changes in non-personnel and personnel expenditures are detailed in the following subsections below Exhibit 1.

Exhibit 1: Summary of Mayor’s Proposed General Fund Interim Budget, FY 2020-21*

General Fund Expenditures	Original Budget (Adopted 8/1/2019)	Mayor Proposed Interim Budget	Change	Percent Change
Gross Expenditures	\$6,477,577,939	\$6,392,390,938	(\$85,187,001)	-1.3%
Capital Projects	126,122,048	126,122,048	0	0.0%
Reserves	54,920,019	35,721,019	(19,199,000)	-35.0%
Facilities Maintenance	13,821,575	13,821,575	0	0.0%
Total General Fund (Four Expenditure Types)*	\$6,672,441,581	\$6,568,055,580	(\$104,386,001)	-1.6%

Source: Analysis of Proposed Interim General Fund Budget

* Excludes interdepartmental recoveries and transfers from the General Fund

Non-Personnel Changes in Proposed Interim Budget

Our review of the proposed interim non-personnel budget has found that it largely serves as a “continuity” budget as described in the Mayor’s transmittal letter. Our review of the non-personnel General Fund budget found that relative to the FY 2020-21 budget adopted on August 1, 2019:

- Aid payments for the In-Home Supportive Services program (IHSS) are declining by \$4.7 million (3 percent) due to a decrease in services, resulting in decreases to the Human Services Agency’s budget, as discussed in the May Budget Outlook Report.

In addition, General Fund support is declining for the following selected baselines and reserves, as projected in the May Budget Outlook Report:

- Contributions to the General Reserve are declining by \$12.4 million due to declines in General Fund revenues as permitted under Administrative Code Section 10.60 (b).³
- Contributions to the Recreation and Parks Baseline are declining by approximately \$3 million due to the Charter provision (Section 16.107) that allows suspension of growth in General Fund support when the budget deficit exceeds \$200 million. This is reflected in decreased department overhead expenditures in the Department's budget.
- Contributions to the Mission Bay Transportation Improvement Fund⁴ are declining by \$1.8 million due to declines in anticipated revenue associated with the Golden State Warriors stadium, resulting in corresponding reductions to expenditures to the Mission Bay Transportation Improvement project.

Personnel Changes in Proposed Interim Budget

Our review of the proposed interim personnel budget has found that it largely serves as a "continuity" budget as described in the Mayor's transmittal letter. Our review of the personnel budget found that:

- General Fund spending on salaries is declining by \$35.3 million (1.4 percent) due to the six-month delay of wage increases for City employees, consistent with the projected budget deficit in the March Joint Report and language in negotiated memorandums of understanding (MOUs).
- General Fund spending on fringe benefits is increasing by \$12.3 million (1.1 percent) largely due to increases in retirement and health benefits costs, as projected in the January Joint Report and the May Budget Outlook Report. Increases to retirement and health benefit costs are partially offset by \$8 million in reductions to unfunded liability payments,

³ Section 10.60(b) of the Administrative Code establishes the General Reserve, which is "intended to address revenue weaknesses, expenditure overages, or other programmatic goals not anticipated during the annual budget process." The Code established a schedule for the City to increase its required funding level of the General Reserve to reach three percent of budgeted regular General Fund revenues by FY 2020-21 ("regular General Fund revenues" is further defined in the code)

⁴ As provided under Administrative Code Section 10.100-364, the Mission Bay Transportation Improvement Fund is used to pay for public infrastructure improvements, equipment, and public services to address the community's transportation needs and other impacts in connection with events at the Golden State Warriors event center located at 16th Street and 3rd Street in Mission Bay.

as the City will not make an additional payment for the CalPERS unfunded liability in FY 2020-21.

- The Mayor's proposed interim budget contains no net increase in the number of authorized full time equivalent (FTE) positions⁵ from the FY 2020-21 base budget that was adopted on August 1, 2019.
- A new⁶ 0941 Manager VI position to act as the City's Chief Privacy Officer⁷ has been reassigned to the City Administrator's Office (ADM) budget. The position has a total proposed FY 2020-21 budget of \$280,214 (\$202,061 in salary and \$78,153 in fringe benefits). The Mayor's Budget Office has stated that this position was previously budgeted under General City Responsibility (GEN) apparently from an add-back from last year. We were unable to locate this add-back funding from a review of the Board's FY 2019-21 funding plan.
 - Given that the Mayor has established a policy to freeze all non-essential hiring and this position has not been previously approved as part of the ADM budget, we recommend that the Board either delete the position or put the salary and fringe benefits for this position on reserve until it can be reviewed as part of the two-year FY 2020-22 budget proposal.
 - The Deputy City Administrator, Mr. Ken Bukowski, has stated to our office that, as of Monday (June 8), the position has not been filled. Mr. Bukowski has stated that the City Administrator's Office has identified a candidate, but no formal offer has been made. Regardless, we recommend that the new reassigned position either be deleted or put on reserve so it can be reviewed as part of the FY 2020-22 two-year budget proposal to better determine if this position is needed and/or whether a Manager VI classification is necessary to carry out the responsibilities of this position.
 - Previous analysis conducted by our office for a proposed ordinance to implement the Privacy First Policy that was subsequently withdrawn found that the proposed activities of the Office of Data Privacy and the Chief Privacy Officer are closely aligned with the existing activities of the Cybersecurity Office, DataSF, Committee on Information

⁵ 20,039.70 FTE positions were approved in 2019 as the base budget for FY 2020-21. The Mayor's proposed interim budget includes 20,039.70 FTE positions.

⁶ The position was approved as part of the FY 2019-21 budget, but technically assigned to General City Responsibility pending further decision on where to assign the position.

⁷ On November 6, 2018, San Francisco voters amended the charter to establish the City's Privacy First Policy, which laid out guiding principles for the adoption of privacy-protective laws, regulations, policies, and practices that relate to the collection, storage, sharing, and use of personal information.

Technology (COIT), and the Chief Data Officer with responsibility for coordinating the City's Open Data Policy. Our analysis also found that the Department of Technology's Cybersecurity Office, DataSF in the Mayor's Office, and COIT in the City Administrator's Office have policies and procedures in place for protecting privacy related to City information resources. A combined total of 22 FTE authorized personnel are employed in the three offices listed above.

- There are 108.50 General Fund supported positions in the Department of Public Health (DPH) that are being technically exchanged to different job classifications with increased salary and benefits. These changes are being made to reflect MOU agreements with SEIU and were previously approved as part of the FY 2019-21 two-year budget. These include:
 - 96.50 FTEs at Zuckerberg San Francisco General Hospital in job classes 2467, 2468, 2470 being exchanged to 2471, 2472, 2473, and 2474;
 - 10 FTEs at Laguna Honda Hospital in job classes 2302, CNA being exchanged to 2303, PCA; and
 - 2 FTEs at Laguna Honda Hospital in job classes 2468 and 2469 being exchanged to 2471 and 2472.
- There are 89.57 FTE new Municipal Transportation Agency (MTA) positions in the interim budget, but are net revenue-generating (i.e. parking control officers and taxi inspectors who bring in more revenue in citations than they cost in salaries and benefits). These new positions were approved by the SFMTA Board in April 2020, but will not be filled until after the SFMTA's final updated two-year budget is submitted to the Board of Supervisors on August 1st.

Recommendations

1. *We recommend the Board of Supervisors either:*
 - a. *Delete 1.00 FTE 0941 Manager VI position reassigned to the City Administrator's Office (ADM) from General City Responsibility (GEN) for total ongoing General Fund savings of \$280,214; or*
 - b. *Place the appropriation for salary and benefit costs (\$202,061 and \$78,153 respectively) for 1.00 FTE 0941 Manager VI position on reserve so that it can be reviewed as part of the FY 2020-22 two-year budget proposal to better determine if this position is needed and/or whether a Manager VI classification is appropriate to carry out the responsibilities of this position.*