


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

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**Budget Overview Report**

To: Budget and Appropriations Committee  
From: Budget and Legislative Analyst's Office   
Re: Overview of the Mayor's Proposed FY 2020-22 Budget  
Date: August 17, 2020

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**Mayor's General Fund Balancing Solutions**

In May 2020 the Mayor's Budget Office, the Controller's Office, and Budget and Legislative Analyst's Office released an update to the City's Five Year Financial Plan also known as the Joint Report. This report projected a two-year General Fund deficit of approximately \$1.5 billion (\$753.9 million in FY 2020-21 and \$735.4 million in FY 2021-22) resulting from the economic effects of the COVID-19 emergency and the City's response to the health crisis.

Following the release of the Joint Report, the Controller's Office further downgraded General Fund revenue projections for FY 2020-21 as a result of worse than expected economic impacts of COVID-19. Better than projected revenues from the Department of Public Health (DPH) and the state budget offset some of these revenue losses, resulting in a net downgrade of \$153 million. As a result of these updates, the projected total shortfall increased to \$1.6 billion over the two years (\$911 million in FY 2020-21 and \$733 million in FY 2021-22).

The Mayor has utilized six primary solutions to close the projected General Fund shortfalls in the two budget years as shown in Exhibit 1 and described below.

- The two solutions with the greatest impact, \$842 million over two years, are citywide and departmental reductions as detailed further below.
- \$340 million of the two-year shortfall solutions (\$157 million in FY 2020-21 and \$183 million in FY 2021-22) is from the use of the City's reserves to the full extent allowed under relevant Charter and Administrative Code provisions.
- \$300 million of the two-year shortfall solutions (\$100 million in FY 2020-21 and \$200 million in FY 2021-22) is from the assumed passage by voters in November 2020 of a charter amendment to overall the City's business taxes.
- Assumed wage increase deferrals are proposed to close \$270 million of the shortfall over the two budget years (\$55 million in FY 2020-21 and \$215 million in FY 2021-22).

- An assumption that the City will continue to receive excess Education Revenue Augmentation Fund (ERAF) revenues makes up \$198 million of the two-year shortfall (\$117 million in FY 2020-21 and \$81 million in FY 2021-22).

These balancing solutions reduce the General Fund shortfall in FY 2020-21 to \$54 million. However, additional General Fund investments (including for behavioral health and homelessness, reinvestment of public safety funding and other equity initiatives, and COVID-19 response costs) as described later in this report represent an additional cost of \$207 million. The adjusted General Fund shortfall for FY 2020-21 after these investments is \$261 million. The Mayor proposes to close this shortfall by shifting the use of prior year fund balance from FY 2021-22 to FY 2020-21.

**Exhibit 1: Mayor's Proposed Solutions to Closing General Fund Shortfall  
FY 2020-21 and FY 2021-22**

	<b>FY 2020-21 (\$ millions)</b>	<b>FY 2021-22 (\$ millions)</b>	<b>Two-Year Total</b>
<b>Shortfall Projection:</b>			
May Projected Shortfall	(758)	(733)	(1,491)
July Revenue Update	(153)	0	(153)
<b>Total Shortfall</b>	<b>(911)</b>	<b>(733)</b>	<b>(1,644)</b>
<b>Mayor's Balancing Solutions:</b>			
Citywide: Debt, Real Estate, Capital, and Inflationary Savings	179	242	421
Departmental: Meet Target Reductions and Other Cost Changes	249	172	421
Use of Reserves	157	183	340
Revenue: November 2020 Business Tax Measure	100	200	300
Salaries and Benefits: Wage Increase Deferral	55	215	270
Revenue: Assume Ongoing Excess ERAF	117	81	198
<b>Total Solutions</b>	<b>857</b>	<b>1,092</b>	<b>1,949</b>
<b>General Fund Investments:</b>			
Behavioral Health and Homelessness (non-Prop C)	(35)	(27)	(62)
Reinvestment of Public Safety Funding and Other Equity Initiatives	(79)	(71)	(150)
COVID-19 Response Costs	(93)	0	(93)
<b>Total General Fund Investments</b>	<b>(207)</b>	<b>(98)</b>	<b>(305)</b>
<b>Adjusted Shortfalls</b>	<b>(261)</b>	<b>261</b>	
<b>Fund Balance Adjustment</b>	<b>261</b>	<b>(261)</b>	
<b>Total Remaining Shortfall</b>	<b>0</b>	<b>0</b>	

**Reductions to Citywide and Departmental Expenditures**

The Mayor's proposed budget achieves \$421 million in General Fund savings (\$179 million in FY 2020-21 and \$242 million in FY 2021-22) through various citywide cost reductions. These include: (a) departments absorbing inflationary

cost increases such as not including a supplemental cost of living adjustment (COLA) above the FY 2019-20 budget for community based organizations; (b) not fully funding capital and technology investments as recommended by the Capital Planning Commission and Committee on Information Technology (COIT); (c) changes to health and pension rates; and, (d) savings in debt, real estate, and one-time move costs<sup>1</sup> due to project delays and more favorable market conditions.

The Mayor's proposed budget achieves an additional \$421 million in General Fund savings (\$249 million in FY 2020-21 and \$172 million in FY 2021-22) through a number of departmental budget reductions. The Mayor's budget instructions requested departments to submit proposals for 10 percent reductions in General Fund support in FY 2020-21, growing to 15 percent reductions in FY 2021-22. The savings are intended to be minimally impactful on services to the public and include elimination of vacant positions, reductions to grant allocations, and other efficiencies, such as salary and benefits savings by holding positions vacant as well as shifting position funding sources from General Fund to non-General Fund sources; absorbing cost increases in non-personnel services (especially in systems consulting services and professional & specialized services) and materials and supplies; not funding any replacement vehicles for departments with large vehicle fleets through the discretionary general fund; and, savings in IT projects through spending down project balances and re-scoping continuing projects. The Mayor's proposed budget also assumes significant one-time General Fund revenues<sup>2</sup> from the Department of Public Health, which somewhat offsets these reductions.

### **Drawdown of Budgetary Reserves**

The Mayor's proposed budget fully draws down the City's economic reserves as permitted by City Charter and Administrative Code provisions. These include the Rainy Day Reserve and the Budget Stabilization Reserve as governed by Administrative Code Section 10.60 and Charter Section 9.113.5. The proposed budget draws prior year General Fund reserves of \$156,500,000 in FY 2020-21 and \$331,590,000 in FY 2021-22 for a total of \$488,090,000 over the two budget years.

In addition, the proposed budget utilizes \$370,924,749 of prior year General Fund balance over the two budget years. Of this amount, about \$361.2 million (97

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<sup>1</sup> Savings were achieved for the move costs for DPH staff from 30 Van Ness to 333 Valencia by negotiating lower lease and tenant improvement costs at 333 Valencia. Project delays also resulted in fewer rent dollars needed in FY 2020-21. In addition, due to the City's new remote work policies resulting from the COVID-19 emergency, DPH will not need to pay any lease holdover costs to enable staff to work in the 30 Van Ness building space during the months after the 30 Van Ness lease expires but before the move-in date at 333 Valencia.

<sup>2</sup> This includes one-time revenue from Medi-Cal settlements. As part of any new waiver negotiation between California and the Centers for Medicare & Medicaid Services (CMS), CMS has mandated that all open waivers be closed and settled. The Department of Public Health anticipated that the process of closing multiple fiscal years will likely result in recognition of an additional \$61.8 million in prior-year one-time revenue between now and December 2020. Additionally, DPH updated its assumptions of the CARES Act Provider Relief Revenues in this budget, with an additional \$16.7 million more than originally projected. This funding offsets costs and other anticipated revenue losses related to COVID-19.

percent) is utilized in FY 2020-21 and approximately \$9.8 million (3 percent) is utilized in FY 2021-22.

### **Business Tax Overhaul before Voters in November**

The Mayor's proposed budget assumes additional revenues from the passage of a business tax overhaul measure slated for the November 2020 ballot. The overhaul includes modifying and increasing tax rates, ending the Payroll Expense Tax, and consolidating or replacing other specific business taxes.

The Mayor's revenue enhancements assumptions include the "unlocking" of approximately \$300 million over the two budget years (\$100 million in FY 2020-21 and \$200 million in FY 2021-22) by creating a "backstop tax" for two legally contested taxes (June 2018 Prop C and November 2018 Prop C) that are currently being assessed.

### **Wage Increase Deferral**

The Mayor's proposed budget assumes a two-year deferral of wage increases for all City employees. The deferrals are estimated to save approximately \$270 million for the General Fund over the two years (\$55 million in FY 2020-21 and \$215 million in FY 2021-22). Importantly, this assumption relies on a successful re-negotiation of previously negotiated labor contracts for City employees.

### **Continued Excess ERAF Surplus Funds**

The Mayor's proposed budget assumes ongoing surplus revenue from the Educational Revenue Augmentation Fund (ERAF) and uses those assumed revenues to balance the two-year budget. The Mayor assumes \$198 million in excess ERAF revenue over the two-year period (\$117 million in FY 2020-21 and \$81 million in FY 2021-22). An additional \$53.9 million of ERAF revenue is appropriated to continue education, mental health, and homeless services previously funded on a temporary basis.

In previous years the City's policy has been to recognize and appropriate excess ERAF revenue on an annual basis due to the uncertainty around the revenue source. In late June the Legislature adopted a budget that affirms that the City will continue to recognize excess ERAF revenue. The use of ERAF revenues for ongoing purposes represents a change in the City's approach to appropriating excess ERAF revenue.

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

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

The City's budget has grown by 29.9 percent over the past five years, from \$9.6 billion in FY 2016-17 to \$13.7 billion in the Mayor's proposed FY 2020-21 budget, as shown in Table 2 below. The average annual growth rate in total budgeted expenditures during this period was 8.9 percent.

At the same time, as seen in Exhibit 2 below, the City's population increased at a much slower rate of 0.6 percent from 876,103 as of July 1, 2016 to 881,549 as of

July 1, 2019. Notably, the City's population declined by 2,814 residents from July 1, 2017 to July 1, 2019, from 884,363 to 881,549.

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 2016 to 2019.

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

The City's General Fund budget has grown by 21.6 percent over the past five years from \$4.9 billion in FY 2016-17 to \$6.2 billion in the Mayor's proposed FY 2020-21 budget, as shown in Exhibit 2 below. The average annual growth rate in General Fund budgeted expenditures during this period was 6.3 percent. Notably, the proposed General Fund budget would represent the slowest rate of growth (0.9 percent from FY 2019-20), by far, over the last five years.

**Exhibit 2: Comparison of Growth in City Budget to Population Growth and Inflation –  
FY 2016-17 to FY 2020-21**

	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Budget</b>	<b>FY 2020-21 Proposed</b>	<b>% Increase FY 2016-17 to FY 2020-21</b>
<i>General Fund</i>						
Expenditures	4,859,781,042	5,147,557,828	5,511,633,982	6,142,885,797	6,196,345,961	21.6%
Annual Growth Rate	5.9%	5.9%	7.1%	11.5%	0.9%	
<i>Non General Fund</i>						
Expenditures	4,727,695,408	4,971,520,172	5,527,561,088	6,170,802,434	7,486,039,443	36.8%
Total Expenditures	<b>9,587,476,450</b>	<b>10,119,078,000</b>	<b>11,039,195,070</b>	<b>12,313,688,231</b>	<b>13,682,385,404</b>	<b>29.9%</b>
Annual Growth Rate	7.3%	5.5%	9.1%	11.5%	11.1%	
City Population <sup>a</sup>	876,103	884,363	883,305	881,549	N/A	0.6%
Annual Growth Rate	1.1%	0.9%	-0.1%	-0.2%	N/A	
Annual CPI Increase <sup>b</sup>	3.0%	3.2%	3.9%	3.3%	N/A	

Expenditures Source: Adopted Annual Appropriation Ordinances (FY 2016-17 & 2017-18 through FY 2019-20 & 2020-21) and FY 2020-21 & 2021-22 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://data.bls.gov/timeseries/CUURS49BSA0&output\\_view=pct\\_12mths](https://data.bls.gov/timeseries/CUURS49BSA0&output_view=pct_12mths)

## Position Growth

The City's budgeted full time equivalent (FTE) positions<sup>3</sup> have grown by 4.0 percent over the past five years, from 30,626.47 in FY 2016-17 to 31,852.77 in the Mayor's proposed FY 2020-21 budget as shown in Exhibit 3 below. The average annual rate of growth in positions over this period was 1.0 percent.

<sup>3</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.

**Exhibit 3: Growth in Citywide Positions - FY 2016-17 to FY 2020-21 <sup>a</sup>**

	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Budget</b>	<b>FY 2020-21 Proposed</b>	<b>% Increase FY 2016-17 to FY 2020-21</b>
Position Count	30,626.47	30,834.61	31,320.62	31,784.40	31,852.77	4.0%
Annual Increase	N/A	208.14	486.01	463.78	68.37	
Annual Growth Rate	N/A	0.7%	1.6%	1.5%	0.2%	

Source: Approved Annual Appropriation Ordinances (FY 2016-17 & 2017-18 through FY 2019-20 & 2020-21) and FY 2020-21 & 2021-22 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.

**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 20.1 percent over the last five years from \$4.7 billion in FY 2016-17 to \$5.7 billion in the Mayor's proposed FY 2020-21 budget, shown in Exhibit 4 below, compared to 4.0 percent growth in positions. The average annual growth rate of citywide salary and fringe costs over this period was 4.7 percent.

**Exhibit 4: Growth in Citywide Salary and Fringe Benefit Budgets -  
FY 2016-17 to FY 2020-21**

	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Budget</b>	<b>FY 2020-21 Proposed</b>	<b>% Increase FY 2016-17 to FY 2020-21</b>
Salaries	3,334,097,142	3,456,800,600	3,604,408,481	3,835,197,575	3,873,317,376	16.2%
Annual Growth Rate	N/A	3.7%	4.3%	6.4%	1.0%	N/A
Mandatory Fringe Benefits	1,408,839,584	1,506,639,742	1,574,371,877	1,725,598,438	1,822,516,057	29.4%
Annual Growth Rate	N/A	6.9%	4.5%	9.6%	5.6%	N/A
<b>Total</b>	<b>4,742,936,726</b>	<b>4,963,440,342</b>	<b>5,178,780,358</b>	<b>5,560,796,013</b>	<b>5,695,833,433</b>	<b>20.1%</b>
Total Growth Rate	N/A	4.6%	4.3%	7.4%	2.4%	N/A

Source: Approved Annual Appropriation Ordinances (FY 2016-17 & 2017-18 through FY 2019-20 & 2020-21); FY 2020-21 & 2021-22 Mayor's Budget Book; FY 2020-21 & 2021-22 Proposed Annual Appropriation Ordinance

**General Fund Salary and Fringe Benefit Growth**

General Fund budgeted salary and mandatory fringe benefits have grown at a lower rate over five years than overall budgeted salary and mandatory fringe benefits: 18.6 percent for General Fund salary and fringe benefits compared to 20.1 percent overall. This is largely due to the General Fund hiring freeze put in place by the Mayor in FY 2019-20 in response to the revenue effects stemming from the COVID-19 emergency. The average annual growth rate of citywide General Fund salary and fringe costs over this period was 5.1 percent compared to

a 4.7 percent average annual growth rate citywide. Exhibit 5 below shows budgets and growth rates for General Fund salaries and mandatory fringe benefits.

**Exhibit 5: Growth in Citywide General Fund Salary and  
Mandatory Fringe Benefit Budgets - FY 2016-17 to FY 2020-21**

	<b>FY 2016-17 Budget</b>	<b>FY 2017-18 Budget</b>	<b>FY 2018-19 Budget</b>	<b>FY 2019-20 Budget</b>	<b>FY 2020-21 Proposed</b>	<b>% Increase FY 2016-17 to FY 2020-21</b>
Salaries	1,611,668,310	1,658,267,335	1,739,679,663	1,852,424,937	1,829,297,032	13.5%
Annual Growth Rate	7.9%	2.9%	4.9%	6.5%	-1.2%	N/A
Mandatory Fringe Benefits	634,090,122	679,078,064	721,181,397	796,793,824	834,904,693	31.7%
Annual Growth Rate	8.2%	7.1%	6.2%	10.5%	4.8%	N/A
<b>General Fund Total</b>	<b>2,245,758,432</b>	<b>2,337,345,399</b>	<b>2,460,861,060</b>	<b>2,649,218,761</b>	<b>2,664,201,725</b>	<b>18.6%</b>
Total Growth Rate	8.0%	4.1%	5.3%	7.7%	0.6%	N/A

Source: Approved Annual Appropriation Ordinances (FY 2016-17 & 2017-18 through FY 2019-20 & 2020-21); FY 2020-21 & 2021-22 Mayor's Budget Book; FY 2020-21 & 2021-22 Proposed Annual Appropriation Ordinance

### General Fund Position Changes in FY 2020-21

The Mayor's proposed budget in FY 2020-21 decreases the number of General Fund positions by 0.5 percent, from 20,016.69 FTE positions in FY 2019-20 to 19,920.84 FTE positions in FY 2020-21. Most City departments have lower authorized General Fund supported FTE positions in the FY 2020-21 budget, either through the deletion of positions or by increasing the amount of budgeted attrition.<sup>4</sup> 30 departments have less General Fund supported positions in FY 2020-21 and 12 departments are gaining General Fund supported positions. City departments lost an average of 2.28 General Fund supported FTEs in FY 2020-21 vs. FY 2019-20.

The City departments with the largest decreases in General Fund supported positions are Police (150.31 less FTEs), Fire (35.47 less FTEs), Recreation and Parks (25.17 less FTEs), Sheriff (25.08 less FTEs), and Juvenile Probation (22.05 less FTEs). The City departments with the largest proposed increases in General Fund supported positions in FY 2020-21 are Public Health (232.69 FTEs) and Homelessness and Supportive Housing (26.06 FTEs).

### Salary Savings

Aggregated citywide, departments have spent from one percent to four percent less in General Fund salaries and mandatory fringe benefits than budgeted each

<sup>4</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.

year. As shown in Exhibit 6 below, in FY 2017-18, these salary savings totaled \$34.7 million. In FY 2018-19 the salary savings totaled \$48.9 million. In FY 2019-20 salary savings total is projected to be \$9,469,213.

**Exhibit 6: General Fund Salary and Fringe Benefit Savings –  
FY 2017-18 to FY 2019-20**

	<b>FY 2017-18 Actual</b>	<b>FY 2018-19 Actual</b>	<b>FY 2019-20 Projected</b>
Salary and Fringe Benefit Savings	34,714,491	48,884,976	9,469,213

Source: FSP reports YTD Salary & Benefit Budget vs. Projection Summary for FY 2017-18 (year-end); FY 2018-19 (year end); and FY 2019-20 (year-end)

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## Discretionary General Fund

The citywide General Fund budget increased by 0.9 percent from \$6.1 billion in FY 2019-20 to \$6.2 billion in FY 2020-21, as noted above. Not all General Fund revenues are discretionary. Some General Fund revenues are in the form of transfers, charges for services (which have to be spent on specific purposes), and federal and state monies. Further, some General Fund revenues have been set aside for specific uses by the voters.<sup>5</sup> After subtracting General Fund revenues set aside for specific General Fund purposes, the Mayor's proposed budget includes \$2.4 billion in discretionary General Fund revenues in FY 2020-21.

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## Budgetary Reserves

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

- **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.
- **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.
- **General Reserve**, which equals 1.5 percent of General Fund revenues in FY 2020-21. The General Reserve is intended to address revenue and expenditure issues not anticipated during budget development. The General Reserve is typically used to fund supplemental appropriations or to offset significant revenue losses following the adoption of the budget.

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<sup>5</sup> The City currently has 20 budget baselines set-asides approved by the voters that fund libraries, parks, children's services, housing, homeless and mental health services, services for seniors, street trees, the San Francisco Municipal Transportation Agency, the San Francisco Symphony, and the City Services Auditor.



According to the Controller's August 2020 Revenue Letter, the Rainy Day and Budget Stabilization reserves totaled \$521.7 million at the end of FY 2018-19, equal to 10 percent of General Fund revenues. These reserves are projected to equal seven percent of General Fund revenues at the end of FY 2020-21 and 3.5 percent of General Fund revenues at the end of FY 2021-22 due to drawdowns to help balance the two-year proposed budget.

The General Reserve had a projected ending balance in FY 2019-20 of \$76.4 million, which is projected to remain unchanged at the end of FY 2020-21. The projected balance at the end of FY 2021-22 is \$77.3 million due to a required deposit to comply with the City's financial policies.

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## Impact of 2018 Ballot Propositions

The Mayor's proposed FY 2020-21 and FY 2021-22 budget includes funding for two financial baselines that had not been previously measured: the Early Care and Education Baseline (June 2018 Prop C) and the Our City, Our Home Baseline (November 2018 Prop C). Both of these ballot measures have been contested by litigation.

As previously stated, the Mayor's budget assumes voter approval of a November 2020 ballot measure to increase the gross receipts tax on certain taxpayers and impose new replacement general taxes on the gross receipts from the lease of certain commercial space or larger businesses if the two contested 2018 ballot measures are struck down by the courts. Should the November 2020 ballot measure fail, it would result in the loss of a \$330.8 million of assumed new transfers into the General Fund over the two budget years.

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## ERAF Surplus Allocations

As mentioned above, the Legislature adopted a budget in late June that affirms that the City will continue to recognize excess ERAF revenue. While future revenues will depend on the final contents of ERAF calculation and allocation procedures established by the State Controller's Office in December 2020, excess ERAF revenue was not eliminated wholesale. Therefore, the City now recognizes excess ERAF revenues as a General Fund source with expenditures co-mingled in the fund to support General Fund activities citywide.

The Mayor's FY 2020-22 proposed two-year budget includes the use of \$330 million of excess ERAF property tax revenues (\$187 million in FY 2020-21 and \$143 million in FY 2021-22). Of the \$252.1 million available after baseline allocations, \$53.9 million is spent to continue education, mental health, and homelessness services previously funded on a temporary basis and \$198.3 million is used to balance other revenue shortfalls.

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

The May update to the *City's Five-Year Financial Plan* ("May Joint Report")<sup>6</sup> noted that projected revenue over the next four years is insufficient to match the projected expenditures. This projection represents an escalation, due to the COVID-19 emergency and related economic impacts, of systemic General Fund shortfalls. Expenditure growth projections had outpaced revenue growth projections for several years before the COVID-19 emergency.

In order to balance the General Fund budget in FY 2020-21, the Mayor has allocated \$361.2 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.

### Violation of City Policies on Use of Non-Recurring Revenue

According to the Controller's FY 2020-21 and FY 2021-22 Revenue Letter, the Mayor's proposed two-year budget is in violation of the City's non-recurring revenue policy as codified in Administrative Code Section 10.61. In order to adopt the budget, the Board of Supervisors will need to temporarily suspend the City's financial policies by a two-third's vote. The Controller's Office has notified the Mayor's Budget Office of the need to propose a resolution to suspend the financial policies in FY 2021-22.

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## Historical and Proposed General Fund by Major Service Area

The Mayor's proposed FY 2020-21 and FY 2021-22 budget proposes to make additional General Fund investments in advancing equity and addressing mental health and homelessness. This includes redirecting \$120 million over the two budget years from law enforcement to the African American community. The funds are proposed to be allocated in the Department of Public Health, the Office of Economic and Workforce Development, and the Human Rights Commission budgets.

According to the Mayor's proposed budget, the specific allocations will be determined through a community process, to be led by the Human Rights Commission and guided by the Department's report on the reinvestment of law enforcement resources into the African American community. The Mayor proposes to give responsibility to the Human Rights Commission to track and evaluate the disbursement of funds through a continuing process of community engagement.

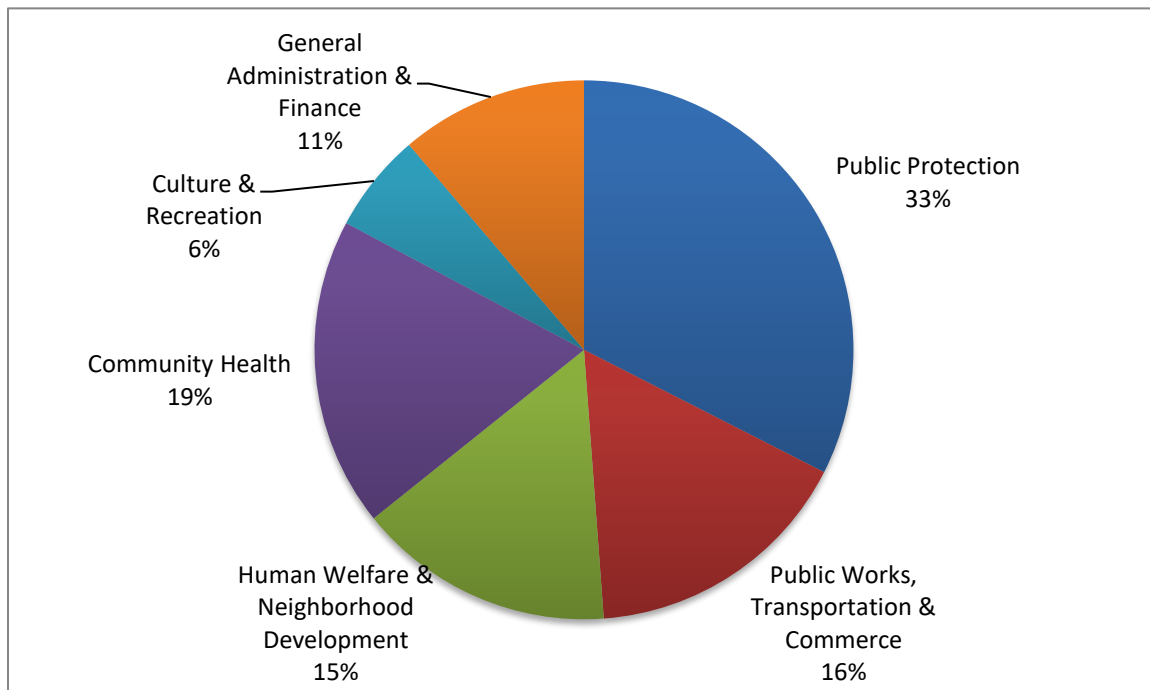
As shown in Exhibits 7, 8, 9, and 10 below, the Mayor is proposing a two-year budget that decreases General Fund support for the (1) public protection; (2) public works, transportation, and commerce; (3) culture and recreation; and, (4)

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<sup>6</sup> Update to the Joint Report by the Controller's Office, Mayor's Office, and Budget and Legislative Analyst's Office, released May 13, 2020 as part of the *Budget Outlook Update FY 2019-20 through FY 2023-24*.

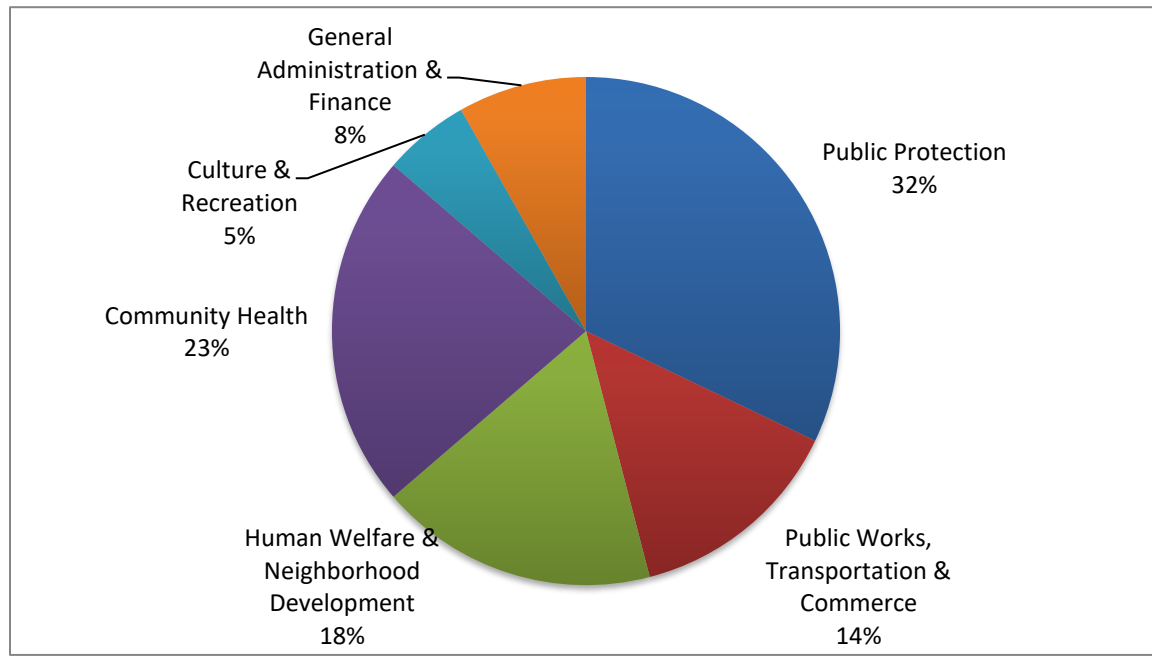
general administration and finance major service areas. The two-year budget proposes to increase General Fund support for the (a) community health and (b) human welfare and neighborhood development major service areas. Exhibit 11 further below, lists the City departments that fall within each major service area. Note that total General Fund revenues and expenditures are estimated at \$6.1 billion in FY 2020-21 and \$5.8 billion in FY 2021-22. The difference between the total General Fund revenues and expenditures vs. the allocated General Fund shown in the exhibits below is mostly due to General City Responsibilities, including baseline transfers, a \$208 million Prop C revenue stabilization reserve deposit, the General Fund portion of Health Service System administrative costs and retiree health, and work orders.

**Exhibit 7: Allocated General Fund Support by Major Service Area  
FY 2019-20 Original Budget**



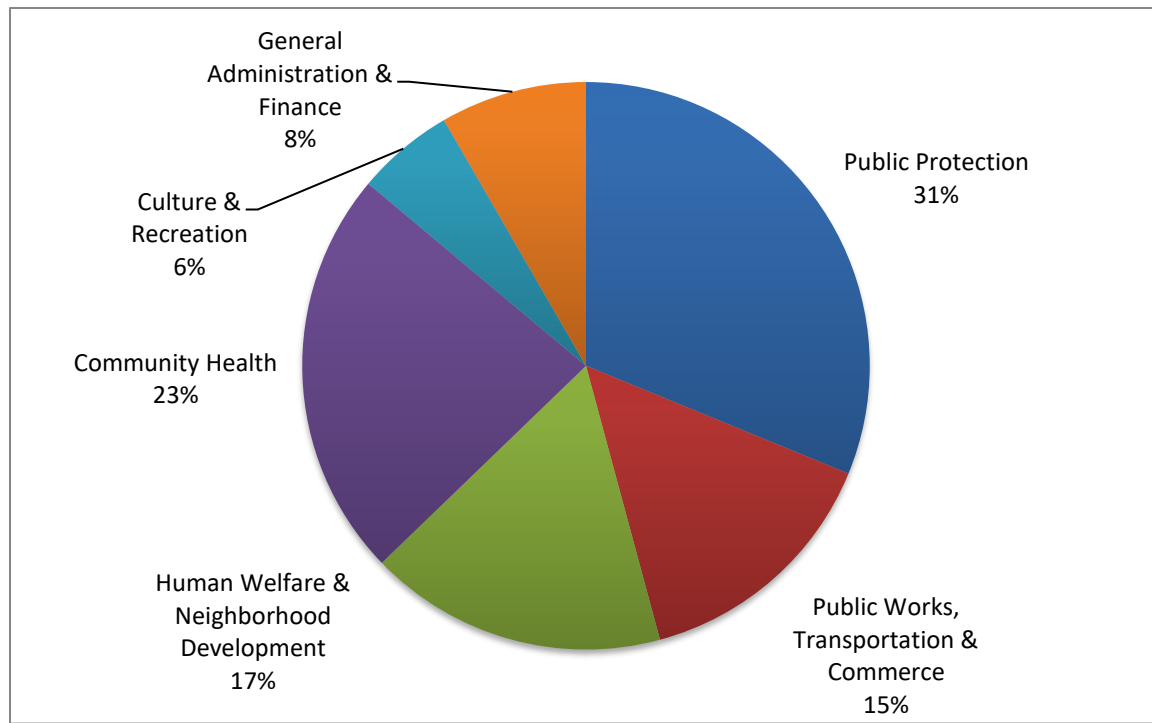
Source: FY 2019-20 & FY 2020-21 Annual Appropriation Ordinance

**Exhibit 8: Allocated General Fund Support by Major Service Area  
FY 2020-21 Proposed Budget**



Source: FY 2020-21 & FY 2021-22 Proposed Annual Appropriation Ordinance

**Exhibit 9: Allocated General Fund Support by Major Service Area  
FY 2021-22 Proposed Budget**



Source: FY 2020-21 & FY 2021-22 Proposed Annual Appropriation Ordinance

**Exhibit 10: Allocated General Fund Support by Major Service Area  
FY 2019-20 Original Budget and FY 2020-21 & FY 2021-22 Proposed Budgets**

<b>Service Area</b>	<b>FY 2019-20 Original Budget</b>	<b>Percent</b>	<b>FY 2020-21 Proposed</b>	<b>Percent</b>	<b>FY 2021-22 Proposed</b>	<b>Percent</b>
Public Protection	1,280,696,695	32.5%	1,253,649,984	32.1%	1,243,316,116	31.2%
Public Works, Transportation & Commerce	643,484,613	16.3%	540,999,054	13.9%	581,797,033	14.6%
Human Welfare & Neighborhood Development	607,645,362	15.4%	692,106,449	17.7%	676,662,357	17.0%
Community Health	730,831,980	18.5%	883,385,800	22.6%	928,596,353	23.3%
Culture & Recreation	234,750,190	6.0%	214,789,914	5.5%	221,807,236	5.6%
General Administration & Finance	443,198,964	11.2%	319,479,095	8.2%	332,712,154	8.3%
<b>Total Allocated General Fund Support</b>	<b>3,940,607,804</b>	<b>100%</b>	<b>3,904,410,296</b>	<b>100%</b>	<b>3,984,891,249</b>	<b>100%</b>

Sources: FY 2019-20 & FY 2020-21 Annual Appropriation Ordinance; FY 2020-21 & FY 2021-22 Proposed Annual Appropriation Ordinance

**Exhibit 11: List of Departments within each Major Service Area**

Public Protection	Public Works, Transportation & Commerce	Human Welfare & Neighborhood Development
Adult Probation	Airport*	Children & Families Commission*
Superior Court	Board of Appeals*	Children; Youth & Families
District Attorney	Building Inspection*	Child Support Services*
Emergency Management	Public Works	Environment*
Police Accountability	Economic & Workforce Development	Homelessness Services
Fire	Municipal Transportation Agency	Human Rights Commission
Juvenile Probation	Port*	Human Services Agency
Public Defender	Public Utilities Commission*	Rent Arbitration Board*
Police		Status of Women
Sheriff		
Community Health	Culture & Recreation	General Administration & Finance
Public Health	Asian Art Museum	City Administrator's Office
	Arts Commission	Assessor/Recorder
	Fine Arts Museum	Board of Supervisors
	Public Library	City Attorney
	Law Library	Controller
	Recreation & Parks	City Planning
	Academy of Sciences	Civil Service Commission
	War Memorial	Ethics Commission
		Human Resources
		Health Service System*
		Mayor
		Elections
		Retirement System
		Technology
		Treasurer/Tax Collector

Sources: FY 2019-20 & FY 2020-21 Annual Appropriation Ordinance; FY 2020-21 & FY 2021-22 Proposed Annual Appropriation Ordinance

\*Indicates a department that does not receive General Fund support