



# Fiscal Outlook & Department Budget Instructions

December 2025

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# 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:

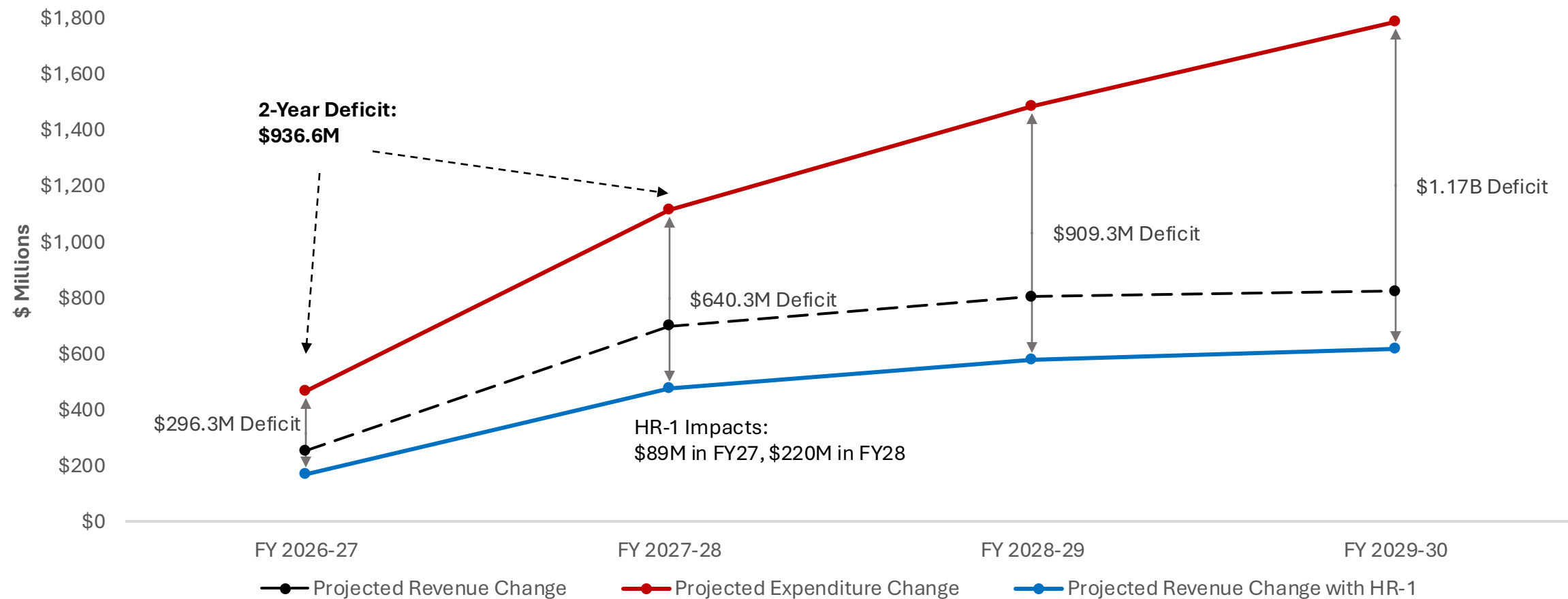
- **Reduce General Fund spending by \$400M ongoing** through restructured service delivery and targeted program elimination



# 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<br>AAO Budget<br>2026-27 | Projection<br>2026-27 | Projection<br>2027-28 | Projection<br>2028-29 | Projection<br>2029-30 |
|-------------------------------------------------------------|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>SOURCES Increase / (Decrease)</b>                        | <b>(125.6)</b>                       | <b>252.4</b>          | <b>697.7</b>          | <b>803.0</b>          | <b>822.0</b>          |
| <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>                           | <b>(86.2)</b>                        | <b>(464.2)</b>        | <b>(1,116.2)</b>      | <b>(1,486.3)</b>      | <b>(1,785.6)</b>      |
| <b>Cumulative Projected Surplus / (Shortfall)</b>           | <b>(211.8)</b>                       | <b>(211.8)</b>        | <b>(418.5)</b>        | <b>(683.3)</b>        | <b>(963.7)</b>        |
| <b>State &amp; Federal Policy Impacts</b>                   | <b>(84.5)</b>                        | <b>(84.5)</b>         | <b>(221.8)</b>        | <b>(226.0)</b>        | <b>(204.8)</b>        |
| <b>Projected Cumulative Projected Surplus / (Shortfall)</b> | <b>(296.3)</b>                       | <b>(296.3)</b>        | <b>(640.3)</b>        | <b>(909.3)</b>        | <b>(1,168.5)</b>      |
| <b>Two-Year Deficit</b>                                     |                                      | <b>(936.6)</b>        |                       |                       |                       |



# 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

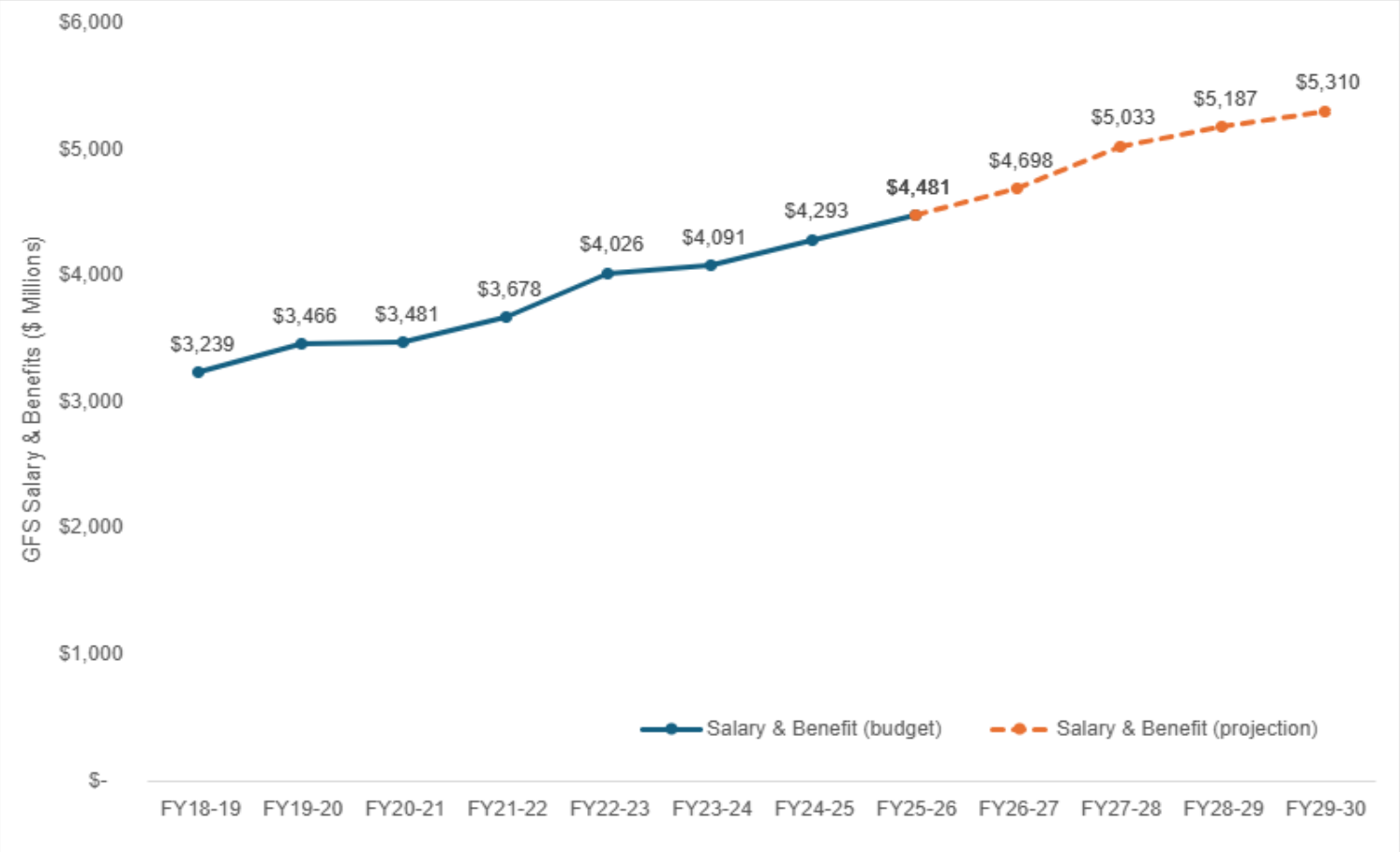


## Fiscal Outlook: Risks

- **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.