



Meeting Date: February 12, 2024

To: Public Works Commission

Through: Carla Short, Public Works Director
Bruce Robertson, Deputy Director of Finance and Administration

From: Victoria Chan, Public Works Budget Manager

Subject: Approval of the Proposed Fiscal Year (FY) 2024-25 Operating and Capital Budget and FY 2025-26 Operating Budget

Director's Recommendation:

Approve the proposed FY 2024-25 operating and capital budget of \$402.7 million and the FY 2025-26 operating budget of \$332.8 million.

FY 2024-25 and FY2025-26 Budget Background:

The San Francisco City Charter requires the Public Works Commission to approve the department's budget following a public hearing and subject to the Mayor's final authority to initiate, prepare and submit the annual proposed budget on behalf of the executive branch and the Board of Supervisors' authority. (Charter § 4.103; Administrative Code § 9.103.)

On December 13, 2023, the Mayor's Office issued a fiscal outlook and a five-year financial plan update for the City, which included budget development instructions for City departments. This document describes the current financial landscape for the City and County of San Francisco and does not forecast a positive financial position.

The five-year financial plan update shows the City's financial forecast is projected to worsen, with the City's deficit projected to grow to \$1.3 billion in FY 2027-28. The plan projects San Francisco will see a decline or nominal growth in key tax revenue, including a slower hospitality sector rebound. High office vacancies continue to negatively impact property, business and transfer tax revenue. These softening revenues are compounded by a loss of one-time federal sources through FY 2026-27, and local and state sales tax growth is slower than previously forecasted.

Compounding the weak revenue projections, City expenditures are projected to increase by 18% through FY 2027-28. The main drivers for the increased costs are significant increases in City staff salaries and benefits of approximately \$500 million. Apart from public safety employees, all labor agreements expire at the end of this fiscal year on June 30, 2024. The outcome of those negotiations is unknown and could impact the budget deficit. Additional costs include required baselines in the City's budget, including the Tree Maintenance Fund. Citywide operations costs

are increasing for other items, such as debt service payments and implementation of required multiyear inflation on nonprofit grants.

The City is projecting a budget shortfall of approximately \$799.2 million over the next two budget cycles and increasing to \$1.3 billion in FY 2027-28. These deficit projections led the Mayor’s Office to require City departments to make General Fund reductions of 10%, or approximately \$9.7 million, in both FY 2024-25 and FY 2025-26 for Public Works. The Mayor’s Office requested an additional contingency reduction of 5%, or approximately \$4.8 million for Public Works. The instructions also included no new position requests, as well as a continued focus on core departmental operations and services and to eliminate costs supporting non-essential or redundant services. The Mayor’s Office also emphasized the administration’s policy priorities, of which many are core functions provided by Public Works. These priorities include improving street cleanliness, prioritizing citywide economic vitality, and accountability and equity in services and spending.

FY 2024-25 and FY2025-26 Budget Proposal

The proposed FY 2024-25 and FY 2025-26 Public Works budget meets the General Fund reduction target and prioritizes policies highlighted by the Mayor’s Office. The department proposed a budget for FY 2024-25 and FY 2025-26 that is aligned with Public Works’ mission and vision and the budget will provide the necessary resources to meet the departmental priorities in making San Francisco cleaner and more beautiful, keeping public spaces clean, green and resilient, and promoting diversity, equity and inclusion.

The FY 2024-25 proposed operating and capital budget of \$402.7 million represents a \$50.5 million, or 11%, decrease over the FY 2023-24 operating and capital budget of \$453.2 million. The decrease is primarily driven by reductions in street cleaning programs, grant funding and the department’s overhead spending plan. Since the capital budget is not yet finalized at the citywide level, that also represents a large percentage of the reduction.

Division/Bureau (\$ in Millions)	FY 2023-24 Approved Budget	FY 2024-25 Proposed	% Change Prior Year	FY 2025-26 Proposed	% Change Prior Year
Building Design and Construction	46.7	30.2	-35%	33.3	10%
Infrastructure Design and Construction	144.7	116.5	-19%	56.4	-52%
Street-Use and Mapping	31.9	32.3	1%	31.4	-3%
Building & Street Repair	58.3	57.2	-2%	49.1	-14%
Urban Forestry	52.1	50.5	-3%	50.9	1%
Street Environmental Services	120.1	110.1	-8%	106.7	-3%
Commission	0.4	0.4	3%	0.4	3%
General Administration	(1.0)	5.6	-657%	4.7	-16%
Total Budget	453.2	402.7	-11%	332.8	-17%

Division/Bureau	FY 2023-24 Total Positions	FY 2024-25 Total Positions	% Change vs. Prior Year	FY 2025-26 Total Positions	% Change vs. Prior Year
Building Design and Construction	276.00	276.00	-	276.00	-
Infrastructure Design and Construction	385.00	385.00	-	385.00	-
Street-use and Mapping	121.58	122.00	0.42	122.00	-
Building & Street Repair	210.00	211.00	1.00	211.00	-
Urban Forestry	201.00	200.00	(1.00)	200.00	-
Street Environmental Services	371.29	371.50	0.21	351.50	(20.00)
Commissions	12.00	12.00	-	12.00	-
General Administration	213.50	213.50	-	213.50	-
Grand Total	1790.37	1791.00	0.63	1771.00	-20.00

Similar to the FY 2023-24 approved budget, the FY 2024-25 proposed operating and capital budgets minimize staffing-level reductions to ensure Public Works can continue to provide critical core services that benefit the public. The focus of the proposed budgetary positions ensure that frontline employees have sufficient staffing for adequate coverage. The only position changes in the FY 2024-25 budget are the annualization of new positions from prior year and, in FY 2025-26, the reduction of the termed \$16.9 million supplemental appropriation in the FY2023-24 approved budget.

Target Reduction

The FY 2024-25 proposed operating and capital budget reduction of \$9.66 million in General Fund expenditure includes FY 2023-24 midyear ongoing reductions (\$2.0 million), primarily salary savings, cleaning programs, an uninitiated employment services program and addback projects. Additional reductions include street operations funding (\$2.3 million), temporary suspension of the sidewalk repair and abatement capital program (\$1.3 million), indirect cost plan savings/various reductions (\$1.5 million), grant cleaning program funding (\$1.1 million) and addback funding (\$0.5 million). The reduction target is offset by estimated revenue increases (\$0.9 million).

	FY 2024-25 Proposed	FY 2025-26 Proposed
\$ in Millions		
Reduction Target	9.66	9.66
Revenue Increase	<u>0.97</u>	<u>1.01</u>
Revised Reduction Target	8.69	8.65
Expenditure Decrease	8.69	8.65
Target Achieved	9.66	9.66

Budget Adjustments

To comply with the City and County of San Francisco budget process, which includes changes to labor agreements, requests, changes to the proposed budget by the Capital Planning Committee, the Mayor’s Office and the Board of Supervisors, and potential revenue changes, Public Works will need to adjust the proposed budget for FY 2024-25 and FY 2025-26 after its initial approval to ensure the proposed budget remains balanced in the overall City budget. Given the uncertainty of downtown recovery and office vacancies, impact of high inflation and interest rates, incoming revenue and State budget uncertainties, among other factors, changes to the proposed budget are certain over the coming months. Staff will report back with an update on the final budget once approved by the Board of Supervisors and signed by the Mayor in August 2024.

Budget Calendar

The next steps of the budget process and key dates are outlined below:

- Submission of the Proposed Budget to the Mayor’s Office and Controller February 21, 2024
- Review of the Budget by the Mayor’s Office and Controller March-May 2024
- Submission of the Mayor’s Budget to the Board of Supervisors June 1, 2024
- Board of Supervisors review and consideration of the City Budget June-July 2024
- Mayor Signs and approved the City Budget August 2024