



October 11, 2023

Dear Department Heads:

We just concluded a long budget process and were able to make critical investments while using creative ways to close our deficit. Unfortunately, San Francisco's economic reality remains challenging. We continue to see significant delays in reimbursement from the Federal Emergency Management Agency for expenses incurred during the COVID-19 crisis, employee health care costs are escalating much faster than expected, and slow growth in business tax revenue has been exacerbated by an increasing amount of litigation and disputes over those business taxes.

At the same time, I remain steadfast in my commitments to confront our City's challenges, including advancing our public safety, economic recovery, homelessness and behavioral health responses, and supporting clean and thriving neighborhoods.

In order to do this, we simply cannot wait until next year's budget process to begin to address our growing structural deficit, which at this time, we project to be least \$500 million in Fiscal Year 2025-26 alone. We also need to ensure that every dollar our City departments spend, either directly, or through contracted parties, is done so responsibly and with accountability.

In order for us to begin planning for a budget that allows us to continue to invest in our top priorities, while also being financially responsible, I am instructing departments to work with our budget office to propose reductions of at least 3% of General Fund support in the current fiscal year and take the following actions:

- 1) Limit the expansion of existing contracts and programs;
- 2) Pause new programs that have not started;
- 3) Review current vacancies and identify vacant positions that can be eliminated;
- 4) Pause the use of temporary exchanges (upward "TX's");
- 5) Identify items funded in the recently adopted State budget or new non-city funds that can offset current General Fund investments;
- 6) Identify all currently open or planned procurements and their associated values;
- 7) Identify all current contracts including their total value, estimated spend rate, and whether contractors are currently meeting required performance metrics;
- 8) Propose reductions to existing contracts and projects that are not performing or are not essential;
- 9) Restrict employee travel expenses to only essential domestic travel;
- 10) Eliminate or deactivate unused cell phone lines, email licenses, or other employee devices that are no longer being used or maintained.



Please submit proposals for current year savings and the information requested above to the Mayor's Budget Office by October 26th.

My budget team is working with the Controller's Office and the Budget and Legislative Analyst to release a more detailed financial forecast in the coming month and additional budget instructions will follow in December. However, it is imperative that you begin taking the above-mentioned steps to ensure we can meet the needs of our residents while also being financially responsible. We remain in a dynamic recovery, and we must adapt to changing circumstances as we move our city forward.

Sincerely,

A handwritten signature in blue ink that reads "London Breed".

London N. Breed

Mayor



Budget Update

October 11, 2023

Mid-Year Budget Cuts: Why Now?



- Structural deficit is too significant to wait to resolve during usual Spring budget process
- FY 23 year-end revealed continued weakness in major General Fund revenues – exacerbated by growing number of disputes over City’s business taxes and further delays in FEMA
- Departments with declining revenues in special funds should also start planning now



Fall Budget Instructions

- Proposals & information for mid-year General Fund budget reductions due Thursday, October 26
- Target is 3% of General Fund support and must include eliminating vacant FTE
- Final cuts will be determined in November, followed by budget instructions in early December for two-year budget process
- Detailed instructions and targets will be shared with departments later today



Fall Budget Instructions

- Prioritize only filling positions essential to core department operations and propose other vacancies to eliminate: *Mayor's Budget Office will start reviewing additional positions and will not approve upward TX's*
- Pause new or expanded programs
- Propose reductions to current contract budgets based on spend rate, performance, or if non-essential
- Identify all open or planned procurements and other information for Mayor's Office to review
- Take other common sense cost-cutting measures now

Budget Timeline



