

Section I

MAYOR'S OFFICE POLICY INSTRUCTIONS

1. OVERVIEW

The Mayor's Office is currently projecting a \$229 million General Fund shortfall for fiscal year 2008-2009. The budget deficit continues into FY 2009-2010.

In recent years, the City's General Fund has made a number of changes to reduce spending, but we have still had to use one-time fund balances from the prior year to close budget gaps. The City is also experiencing an imbalance of sources and uses in the upcoming budget year for a variety of reasons:

- Voter-Approved mandated spending requirements, including the recent passage of Proposition A, which improves the revenue sources for MUNI but cost the overall general fund almost \$28 million, directly affecting the funding available to address all uses. Increases to mandated spending totals \$72 million.
- Loss of one-time sources, totaling \$110 million.
- Previously anticipated MOU cost increases and position annualizations total \$133 million. This includes investment in new frontline service positions such as additional Police, Nurses and Park maintenance staff.

General revenues for fiscal year 2008-2009 are projected to grow from 2007-2008 budgeted levels by approximately 5%. Any growth over the 5% would require deposits to the Rainy Day Reserve and very little would be available for general fund spending.

Moreover, we assume no additional deposits to pre-fund our retiree health benefit liability, which is a future liability valued at approximately \$4 billion.

Finally, we expect additional bad news for the city's budget at the beginning of next year, when the Governor's budget is announced. The State is addressing an estimated \$10 billion shortfall for next year.

The table below shows a summary of the projected budget deficit over the next two years.

**GENERAL FUND
SOURCES AND USES**

(\$ in millions)

	FY 09	FY 10
Net Loss of One-Time Sources	(\$110)	(\$14)
Revenue Growth	\$119	\$85
<i>Sources Subtotal</i>	\$9	\$71
MOU Costs and Annualization of Positions	(\$111)	(\$86)
Health, Dental, Pension and Other Benefits	(\$22)	(\$29)
Mandated Spending Requirements	(\$72)	(\$30)
Other Operating Costs	(\$34)	(\$45)
<i>Uses Subtotal</i>	(\$238)	(\$190)
Shortfall Projection	(\$229)	(\$118)

This projection is influenced by a number of variables that are likely to change over the course of the current fiscal year. Updates on the fiscal year 2008-2009 General Fund shortfall will be provided on a periodic basis as new information becomes available.

2. FINANCIAL TARGETS AND POLICY INSTRUCTIONS

As in previous years, the Mayor's Office is requesting that departments complete a number of forms providing information about their proposed budgets. In prior years, departments have been asked to submit a budget narrative. As with last year, that requirement will be satisfied by submission of the department's annual efficiency plan, due February 1st. In this plan, departments should explicitly discuss the relationship between resource allocations and their ability to meet departmental service goals. Each form in the following sections of this booklet is accompanied by detailed instructions for its completion.

Instruction #1: Budget Savings Equal to 8% of Current General Fund Support

The Mayor asks all departments to submit 8% target reductions, in a combination of on-going and one-time solutions.

- A. All General Fund departments are to reduce their on-going General Fund Support by at least 5%.**

Departments are instructed to submit budget requests for 2008-2009 that reflect at least a 5% reduction in General Fund support. One-time solutions will not count towards this target. However, your target could be adjusted depending on optional mid-year cuts (see Instruction #2, below). Departments should contact their assigned analyst in the Mayor's Budget Office to obtain their specific base budget reduction targets.

The reduction targets are only anticipated to resolve approximately 20% of next year's problem.

B. All General Fund departments are to reduce their General Fund Support by a maximum of 3% in one-time savings.

Departments should submit one-time expenditure reductions of no more than 3% of their General Fund Support.

- **Non-General Fund departments are instructed to absorb all known costs increases within their proposed budget submissions by increasing revenues and/or reducing expenditures.**
- **All departments are instructed to prioritize operating efficiencies, especially reductions in administrative staffing and overhead costs ahead of reductions in core services to the public.**
- **Departments should consider the cost increases facing non-profit contractors when putting together their budgets. Departments may need to reallocate funds within their base budgets in order to supplement funding for contracts with those nonprofit agencies that would otherwise be unable to continue service delivery, or to reduce the units of service required under a status quo budget.**

Using Budget Form 1A, which is a new form, departments should provide a summary of major changes in operations including resource allocations assumed in the proposed budget. Examples of these highlights include new or increased budget investments, any programmatic improvements, new initiatives, changes in staffing levels as well as service reductions. Please indicate whether your savings are to meet your on-going or one-time target.

Instruction #2: Propose On-going Savings in the Current Year

To the extent that departments provide on-going solutions in the current year, departments will get credit towards your one-time and on-going targets, where applicable. **Please contact your Mayor's Budget Analyst to discuss any savings proposal in the current year.**

Instruction #3: Submit Additional Contingency Savings of 5%

Departments should submit a prioritized contingency plan with their budget submission equal to 5% of their reduced General Fund base on Form 6. Contingency plans may include both one-time and ongoing solutions. Contact your Mayor's Budget Analyst to receive this figure for your department.

In cooperation with each department, the Mayor's Budget Office will evaluate the need for these reductions as improved information regarding revenues available to fund the FY 2008-2009 budget are known. The Mayor's Budget Office may need to work with your department to find savings beyond the target and contingency.

Instruction #4: Budget Submission Should Not Exceed the Department Target

Do not load expenditures into the budget system that exceed your target. Use two new budget forms: Form 7A for position expenditures and Form 7B for non-position expenditures that exceed budget target. Provide justification of why these expenditures should prevent departments from meeting their budget reduction targets.

Instruction #5: Request Funding for Efficiency Measures

The Mayor's Office invites proposals for one-time grants to implement efficiency measures that result in long-term General Fund savings or revenue enhancement. If the efficiency investment is projected to generate savings or revenues in FY 2009-10, partial credit may be provided to offset target reductions that may be issued in FY 2009-10, pending verification by the Mayor's Budget Office and/or the Controller's Office.

Proposals may be submitted by individual General Fund or enterprise departments, groupings of departments, or by City contractors via a City department. Clusters and SFStat policy area groups are particularly encouraged to discuss and recommend interdepartmental efficiency proposals.

All requests should be submitted on Form 12. One example of an efficiency measure might be a technology systems investment that is anticipated to result in labor cost savings.

Instruction #6: Identify Position Deletions Separately, and Justify Enhanced Staffing Requests

Form 8 requires that departments list all proposed new positions and all existing unfunded positions proposed to be in the FY 2008-09 budget. In cases where the new hiring is approved by the Mayor's Office, departments will be required to fund existing vacant positions through an attrition adjustment before adding new positions.

Form 9 is for any new position deletions. Please note all proposed deletions on this form, however, do not implement any layoffs until we finalize the FY 2008-09 budget.

Instruction #7: Submit Functional and Position Level Organization Charts

Departments are to submit two versions of the department's organization chart. The first should be a one-page high-level display of the major divisions or functional areas within the department. The second should provide position-level detail (job class, title, and FTEs) and should identify those positions that have been eliminated in the proposed budget, as well as those that are vacant as of February 1st. Please include three copies of the detailed organization charts with your budget submission