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Budget Outlook and Current Year Updates

March 2019



Agenda

- Five-Year Financial Plan & Fiscal Outlook
- Budget Instructions for Departments
- State & Federal Budget Updates
- Six-Month Report



Summary

- In the short-term, fiscal picture is similar to last year
- Cost pressures – near-term & uncertainty
 - Near-term pressures:
 - Growing employee costs, particularly pension costs
 - IHSS cost shift from state
 - Large number of baselines and set-asides
 - Uncertainty related to:
 - Labor negotiations
 - SF Housing Authority financial obligations
 - Recession risks
 - Potential budgetary and legislative changes from state and federal government
- ERAF windfall: One-time unexpected revenue recognized in FY 2018-19. Due to significant risks, we cannot assume availability as ongoing source.



Summary

- Need to continue responsible fiscal policies:
 - Build our reserves
 - Limit on-going cost growth
 - Fund strategic one-time investments
 - “Make every dollar count”



Five-Year Financial Plan



Five-Year Financial Plan – Assumptions

- “Base case” projection
- Revenue
 - Continued strong revenue growth
- Salary and Benefits
 - Benefit cost increases – pension and health
 - Inflation increase on personnel (average of Moody’s & CA DOF)
- Citywide Costs
 - IHSS cost increases from the State
 - Debt and capital expenditures
 - Inflation on non-personnel (including grants for nonprofits)



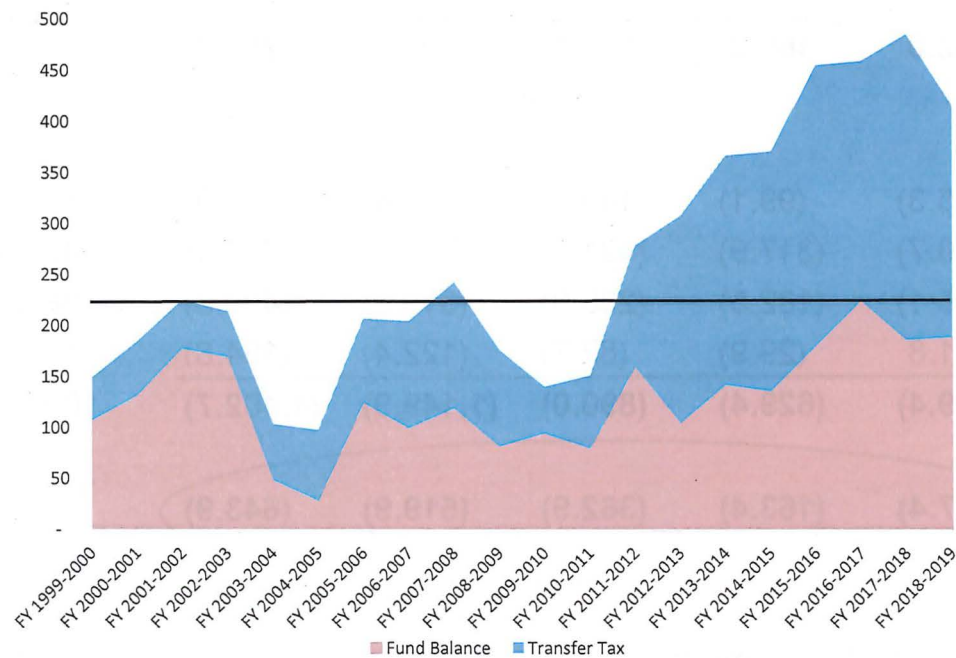
Five-Year Financial Plan Projection

	<u>FY 19-20</u>	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>% of Uses</u>
<i>SOURCES Increase / (Decrease)</i>	182.0	466.0	527.1	630.0	758.7	
Uses						
Baselines & Reserves	(55.3)	(99.1)	(149.3)	(179.4)	(238.9)	17.0%
Salaries & Benefits	(180.7)	(317.9)	(421.9)	(529.2)	(598.4)	42.7%
Citywide Operating Budget Costs	(55.1)	(182.5)	(236.0)	(319.0)	(400.6)	28.6%
Departmental Costs	1.8	(29.9)	(82.7)	(122.4)	(164.8)	11.7%
<i>USES (Increase) / Decrease</i>	(289.4)	(629.4)	(890.0)	(1,149.9)	(1,402.7)	100.0%
Projected Cumulative Surplus / (Shortfall)	(107.4)	(163.4)	(362.9)	(519.9)	(643.9)	

Approx. \$270.8 million for the upcoming two-year budget. Mayor must introduce a balanced budget each year.



Five-Year Financial Plan – Reliance on One-Time Sources

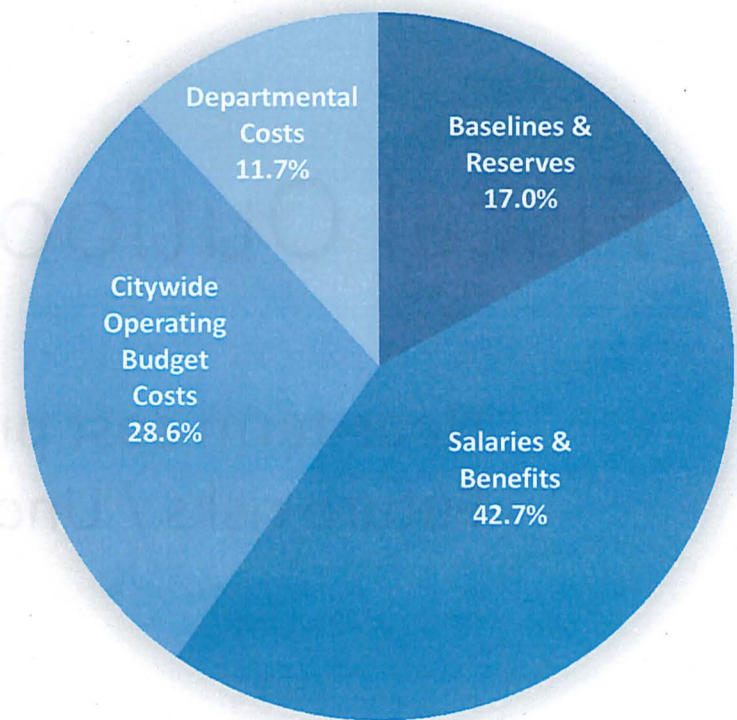


- Recent budgets have included significantly higher levels of fund balance and real property transfer tax as compared to 20 year average
- The use of one-time and volatile revenue sources are a driver of the structural deficit



Five-Year Financial Plan - Projected Expenditure Growth

- Total projected expenditure growth over the four year period is \$1.4 billion
- The salaries and benefits section is driven by inflation on wages, and pension and health cost increases
- For Citywide operating costs, 40% of this growth is inflation on non-personnel & grants to nonprofits
- For baselines and set asides, MTA and the Children's Fund/PEEF make up 66% of the growth
- For Departmental costs, 57% of the growth is related to the IHSS cost shift from the state



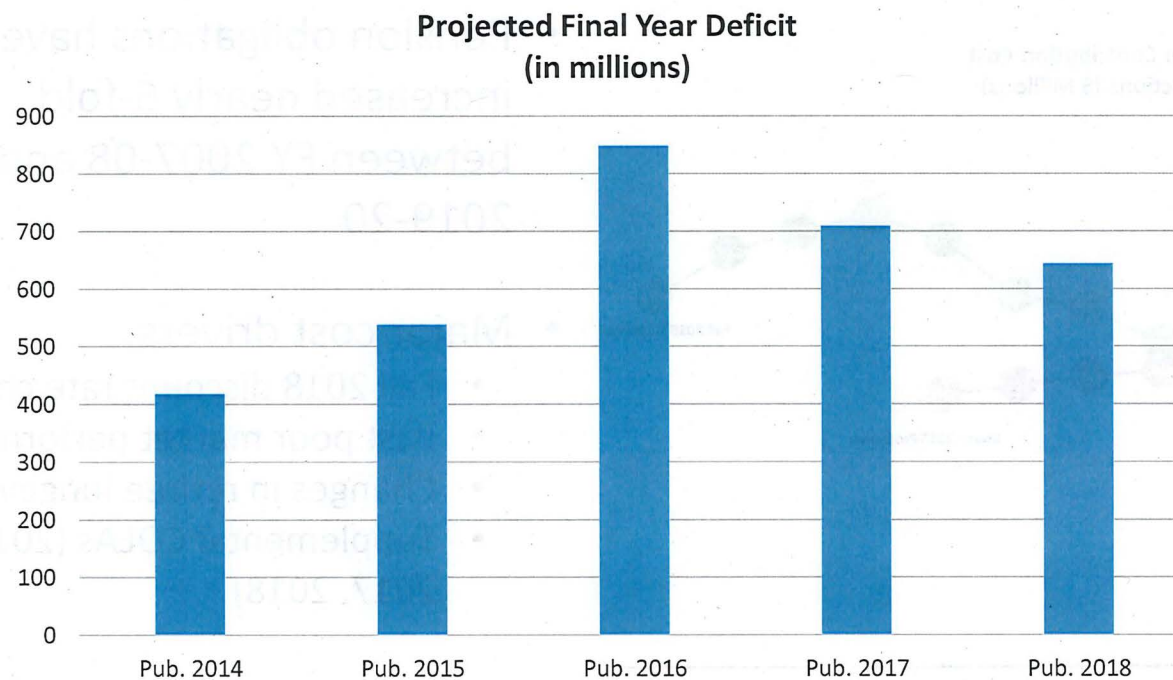


Fiscal Outlook

Near-term cost pressures
Future risks / Uncertainty



Structural Long-term Deficit

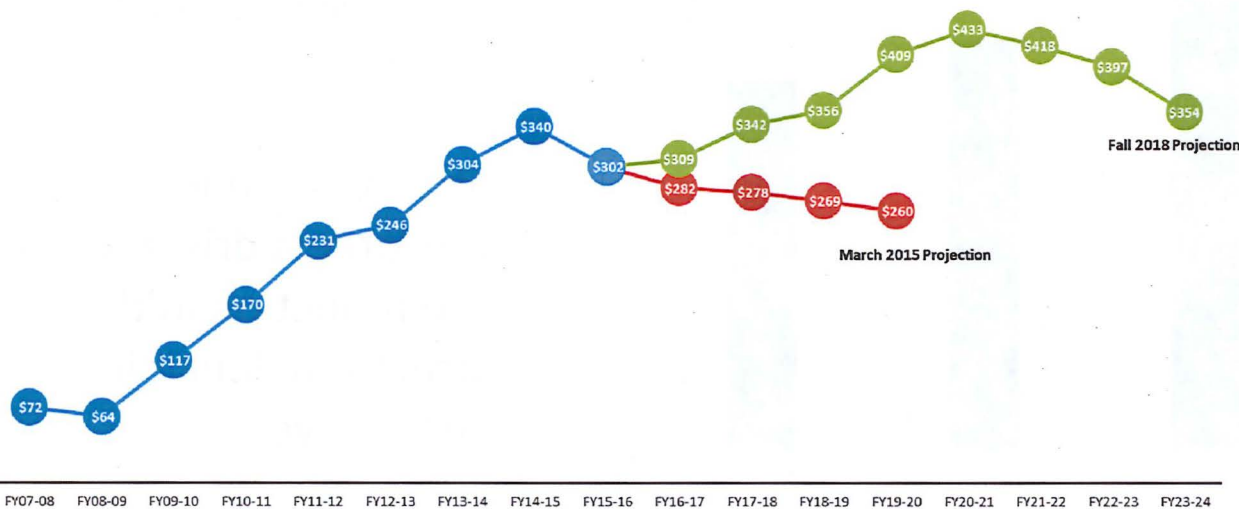


- Long-term deficit is higher than post-recession recovery levels
- Strong revenue is the largest driver of the reduction in the structural deficit in last two years



Looking Forward – Employee Pension Cost Growth

Projected Employer Pension Contribution Cost
Increases from Prior Projections (\$ Millions)



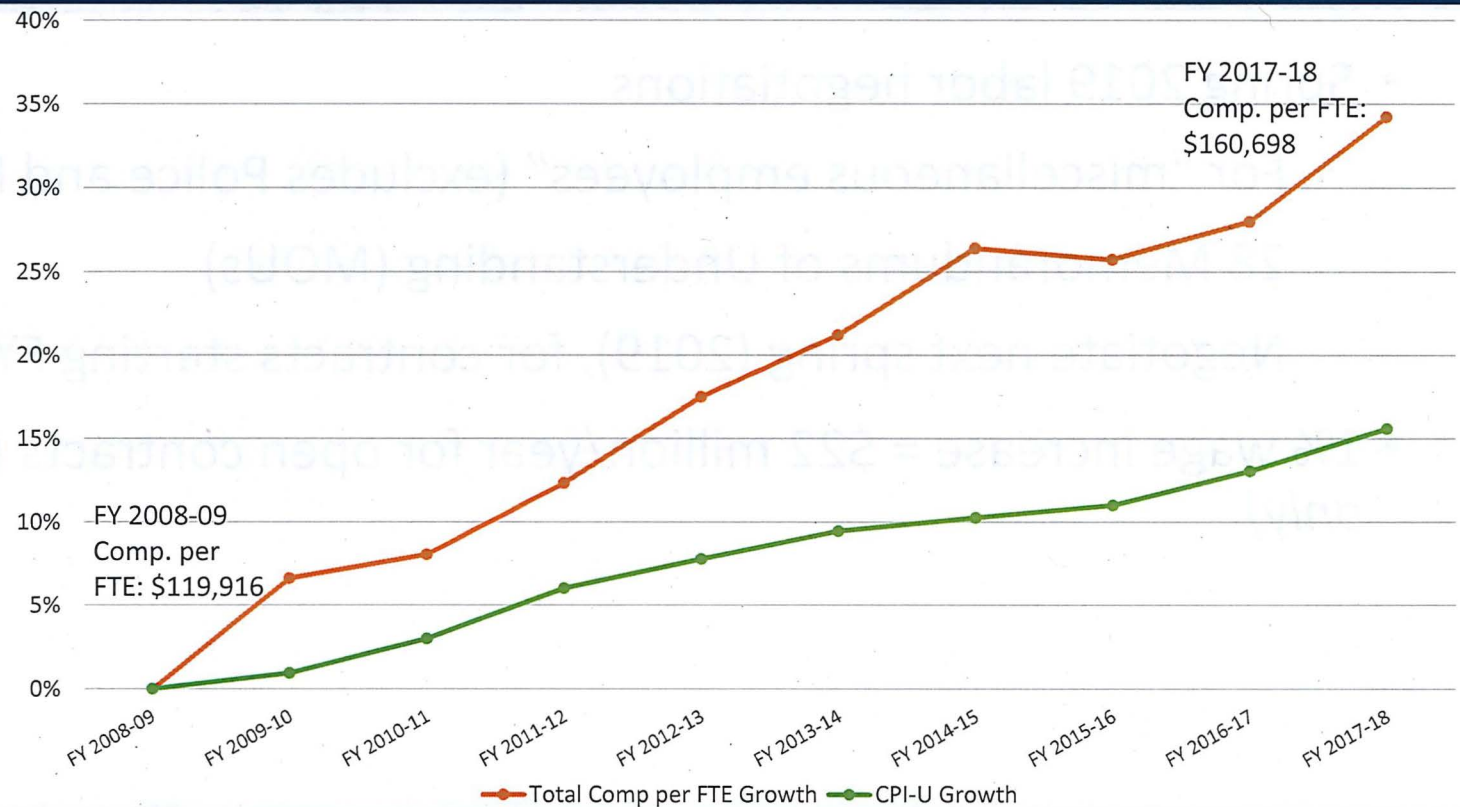
Note: FY07-08 to FY18-19 figures were budgeted pension costs

- Pension obligations have increased nearly 6-fold between FY 2007-08 and FY 2019-20
- Major cost drivers:
 - Fall 2018 discount rate change
 - Past poor market performance
 - Changes in retiree longevity
 - Supplemental COLAs (2014, 2017, 2018)



Looking Forward – Employee Compensation Cost Growth

Personnel costs per FTE have grown at more than twice the rate of inflation during the past decade.





Rising Employee Costs - Salaries

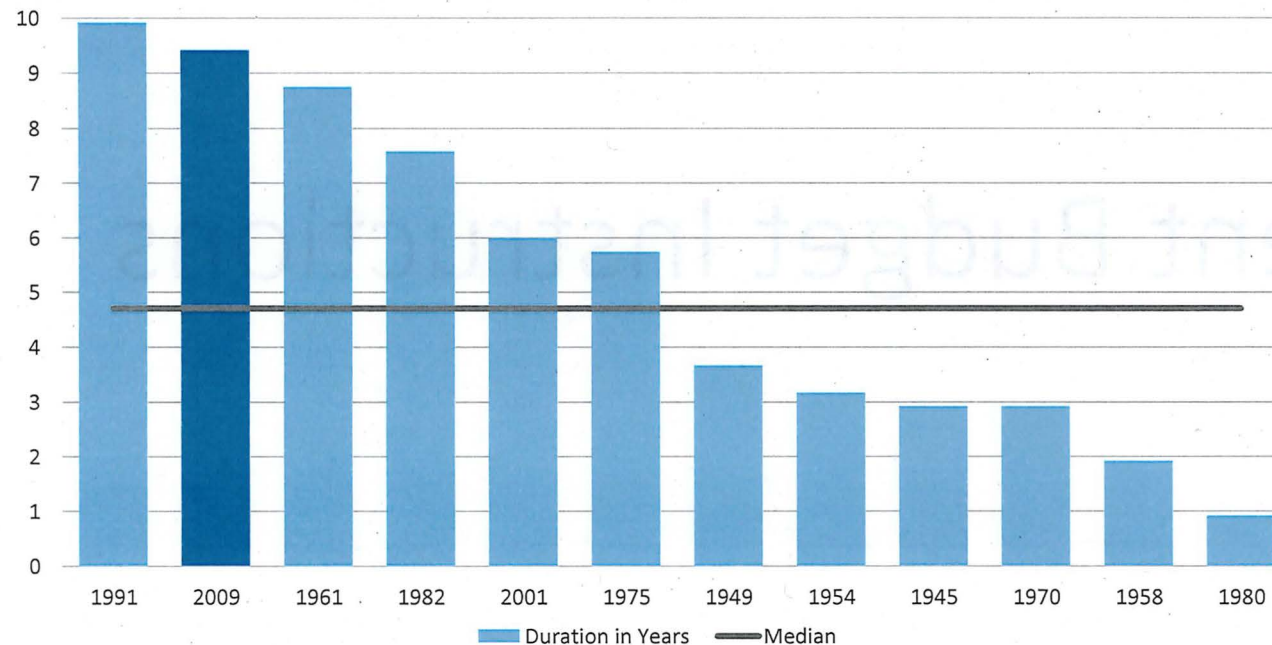
- Spring 2019 labor negotiations
 - For “miscellaneous employees” (excludes Police and Fire)
 - 28 Memorandums of Understanding (MOUs)
 - Negotiate next spring (2019), for contracts starting FY 2019-20
- 1% wage increase = \$22 million/year for open contracts (*General Fund only*)



Looking Forward – Risk of Economic Climate

Our current expansion is the 2nd longest since 1945

Length of economic expansion in years by start year, sorted longest to shortest



- Five-Year Plan assumes continued expansion, which would be the *longest ever expansion by 3 years*
- Indicators that economy is cooling:
 - Rising interest rates
 - Flattening yield curve (investor uncertainty about future economic growth)
 - Trade and other federal policy uncertainty



Department Budget Instructions



Budget Instructions for Departments

Key Themes: Accountability & Equitable Outcomes

Accountability: “Make Every Dollar Count”

- Demonstrate effective use of existing City funding
- Set meaningful and measurable metrics
- Achieve outcomes and goals as outlined (performance measures; project deliverables)

Equitable Outcomes: “Prioritize Those With the Greatest Need”

- City services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city (*Citywide Strategic Initiatives Framework*)
- Prioritize funding initiatives that serve residents with the highest need
 - Examples (but not limited to): unemployed, unhoused and homeless, people lacking economic mobility, and justice system involved



Budget Instructions for Departments

Balancing the Budget

- Propose on-going reductions and revenues equal to 2% of adjusted General Fund support in each year (growing to 4% in the second year of the budget)
- Provide a 1% (growing to 2% in the second year of the budget) contingency proposal to help with revenue and labor uncertainty

FTE

- Reprioritize changing staffing needs within existing FTE
- New positions may be considered that align with the Mayor's priorities



Calendar / Key Dates

Dec 12	Budget Outlook & Instructions issued
Early February	Controller's 6-Month Report
February 21	Budget submissions due
Mid-March	Update to Five-Year Report
May	Controller's 9-Month Report Governor's May Revise
May 15	Labor agreements must be submitted to the Board of Supervisors
May 31	Mayor proposes balanced budget to Board of Supervisors
June	Budget and Finance Committee hearings
July	Budget considered at Board of Supervisors



State & Federal Updates



FY 2019-20 State Budget Timeline

- January 10th: Governor submits proposed budget
- February-April: CA Senate and Assembly Budget Committees conduct budget hearings
- May 15th: May Revise Budget released
- May-June: CA Senate and Assembly each pass revised budget
 - Joint Budget Conference Committee appointed to reconcile both budget version
- June 31st: Governor signs or vetoes Budget Bill
- July 1st: FY 2019-20 begins



January Governor's Proposed FY 2019-20 Budget

- Overall: \$144 billion in total General Fund budget
 - Pays down significant debt and maintain state reserves
 - Proposes many mostly one-time investments –largely one-time sources
- Proposals with potentially significant fiscal impact for SF include:
 - Cost relief for San Francisco In-Home Supportive Services (IHSS)
 - Changes to entitlement programs & expansion of Medi-Cal coverage
 - Increased funding for housing production and homelessness



Federal Budget Process

- Federal Fiscal Year runs Oct 1st – Sep 30th
- Budget Timeline: Runs through annual process of Congress passing appropriations bills, which must be passed by October 1st
- Federal sources account for approx. \$1.3B of City's operating budget, including:
 - Entitlement programs
 - Affordable Care Act subsidies and benefits
 - Grants
 - HUD housing assistance vouchers



Six-Month Budget Status Report Update



General Fund Overview

- Projected FY 2018-19 ending balance of \$459.8 million is an improvement of \$79.8 million versus the assumptions contained in the December 2018 Five-Year Financial Plan.
- This reduces the projected FY 2019-20 and FY 2020-21 shortfall from \$270.8 million to \$191.0 million.
- Improvement is largely driven by increased real property transfer tax revenue due to high volume of office properties sold to year to date and currently on the market. Increase in net patient revenue at Department of Public Health is due to higher than anticipated Medi-Cal rates and 1115 Waiver program revenues.
- Projected deposits to the Rainy Day and Budget Stabilization Reserves will approach the target of 10% of General Fund Revenue. After the target is reached, any additional amounts will be deposited in the Budget Stabilization One-Time Reserve.
- The Sheriff's Department, Emergency Management, Public Utilities Commission and the Fire Department may require supplemental appropriations to shift expenditure savings in salaries, benefits, and/or projects to address over-expenditures in overtime.



General Fund Citywide Revenue Projections

\$ Millions

	Original Budget	Prior Projection	6-Month Projection	Variance vs Budget	Variance vs Prior Projection
Property Taxes	1,728.0	1,728.0	1,728.0	-	-
Business Taxes	879.4	1,003.3	1,003.3	123.9	-
Sales Tax - Local 1% and Public Safety	301.5	297.5	307.1	5.6	9.6
Hotel Room Tax	375.8	390.7	390.2	14.3	(0.6)
Utility User & Access Line Taxes	99.1	96.4	96.4	(2.7)	-
Parking Tax	85.5	83.5	85.5	-	2.0
Real Property Transfer Tax	228.0	228.0	329.4	101.4	101.4
Sugar Sweetened Beverage Tax	15.0	15.0	15.0	-	-
Interest Income	27.3	60.3	60.7	33.4	0.4
Public Safety Realignment	39.0	40.0	40.0	1.0	-
Motor Vehicle In-Lieu and All Other	-	1.5	1.5	1.5	-
Stadium Admissions Tax	1.2	1.2	1.2	-	-
Franchise Taxes	17.5	17.0	17.0	(0.4)	-
Airport Transfer-In	46.6	46.6	48.3	1.7	1.7
Total Citywide Revenues	3,843.9	4,009.0	4,123.5	279.6	114.5

Baseline Transfers and Property Tax Set-Asides

\$ Millions



	Original Budget	5 Year Projection	6-Month Projection	Variance vs Budget	Variance vs Prior Projection
Aggregate Discretionary Revenue	3,658.4	3,843.7	3,948.4	290.0	104.7
MTA Baseline	336.3	351.6	363.0	26.7	11.4
MTA Population Change Baseline	50.9	47.0	47.0	(4.0)	-
80% Parking Tax In-Lieu Transfer to MTA	68.4	66.8	68.4	-	1.6
MTA Baseline Transfers	455.7	465.4	478.4	22.7	13.0
DPW Street Trees Maintenance Fund	19.7	20.6	20.4	0.7	(0.2)
Children's Services Fund (Baseline)	176.7	184.7	190.7	14.0	6.0
Transitional-Aged Youth Services Baseline	21.2	22.2	22.9	1.7	0.7
Library Baseline	83.6	87.4	86.9	3.32	(0.5)
Public Education Fund Baseline	5.3	5.5	5.7	0.4	0.2
Public Education Enrichment Fund	111.8	116.9	120.7	8.9	3.8
2/3 to Schools	74.6	77.9	80.5	5.9	2.5
1/3 to Preschool for All	37.3	39.0	40.2	3.0	1.3
Total Baseline Transfers	874.0	902.7	925.7	51.6	23.0



Departmental Projections

\$ Millions

	Revenue		
	Surplus /	Uses Savings	Net Surplus
	(Shortfall)	/ (Deficit)	/ (Shortfall)
Net Shortfall Departments			
City Administrator	(1.1)	0.6	(0.4)
Sheriff	(0.3)	(2.9)	(3.2)
Subtotal Departments with Net Shortfall	(1.4)	(2.2)	(3.6)
Net Surplus Departments			
Adult Probation	-	0.3	0.3
Board of Supervisors	(0.1)	0.3	0.2
Ethics Commission	0.0	0.5	0.5
Fire Department	0.6	(0.0)	0.6
General City Responsibility	-	0.8	0.8
Health Service System	-	0.3	0.3
Law Library	-	0.1	0.1
Public Health	34.3	2.6	36.9
Police Accountability	-	0.1	0.1
Other Departments	(29.4)	29.3	(0.1)
Subtotal Departments with Net Surplus	5.4	34.3	39.7
TOTAL	4.0	32.1	36.1



Supplemental Appropriations

- To date no supplemental appropriation using the General Reserve have been approved.
- Anticipated supplemental appropriations to re-appropriate savings within the Sheriff's Department, Emergency Management, Public Utilities Commission, and Fire Department for overtime.
- A supplemental appropriation to provide short-term loans to federal government employees in the event of a shutdown would appropriate \$0.5 million of interest earnings above budget has been approved by the Budget & Finance Committee.
- After issuance of the Six-Month Report, the Board of Supervisors approved a supplemental to appropriate excess ERAF revenue and Rainy Day One-Time Reserves.



Projection Uncertainty

- FY 2017-18 ending balances in this report are unaudited estimates and may change when the City issues its year end financial statements.
- Volatility in Public Health revenue sources, due primarily to larger than anticipated payments under the in the Medi-Cal waiver program at Zuckerberg San Francisco General Hospital (ZSFG), and higher than budgeted Medi-Cal per diem rates at Laguna Honda Hospital; partially offset by a projected shortfall in mental health revenue.
- Report assumes PG&E, which filed for bankruptcy protection in January, will pay approximately \$55 million in taxes and fees to the General Fund through year end, plus \$10 to \$15 million in monthly CleanPowerSF remittances.



Upcoming Reports

- Five-Year Financial Plan will be updated in mid March.
- Comprehensive Annual Financial Report (CAFR) will be issued in late March.
- FY 2018-19 budget status will be updated in the Controller's Nine-Month Report in early May.