Five Year Financial Plan Update: FY 2020-21 through FY 2023-24

Joint Report for General Fund Operations by the Controller's Office, Mayor's Office, and Board of Supervisors' Budget Analyst

January 3, 2020

City & County Of San Francisco

List of Exhibits

Executive Summary

PURPOSE

San Francisco Administrative Code Section 3.6(b) requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the City's Five-Year Financial Plan. This report provides updated expenditure and revenue projections for Fiscal Years (FY) 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, assuming no changes to current policies and staffing levels. The next full update of the City's Five-Year Financial Plan will be submitted in December 2020.

OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

Table 1 summarizes the projected changes in General Fund-supported revenues and expenditures over the next four years. As shown in Table 1, this report projects shortfalls of $195.4 million in FY 2020-21, $224.1 million in FY 2021-22, $531.1 million in FY 2022-23, and $630.6 million in FY 2023-24.

Table 1. Summary of General Fund Supported Operations Projected Budgetary Surplus / (Shortfall) ($ Millions)

	FY 20-21	FY 21-22	FY 22-23	FY 23-24
SOURCES Increase / (Decrease)	**89.0**	**346.0**	**289.4**	**423.6**
Uses				
Baselines & Reserves	(45.5)	(54.0)	(127.1)	(163.3)
Salaries & Benefits	(167.9)	(269.6)	(338.5)	(407.5)
Citywide Operating Budget Costs	(66.9)	(167.8)	(235.0)	(314.6)
Departmental Costs	(3.9)	(78.8)	(119.9)	(168.8)
USES (Increase) / Decrease	**(284.3)**	**(570.1)**	**(820.5)**	**(1,054.2)**
Projected Cumulative Surplus / (Shortfall)	**(195.4)**	**(224.1)**	**(531.1)**	**(630.6)**

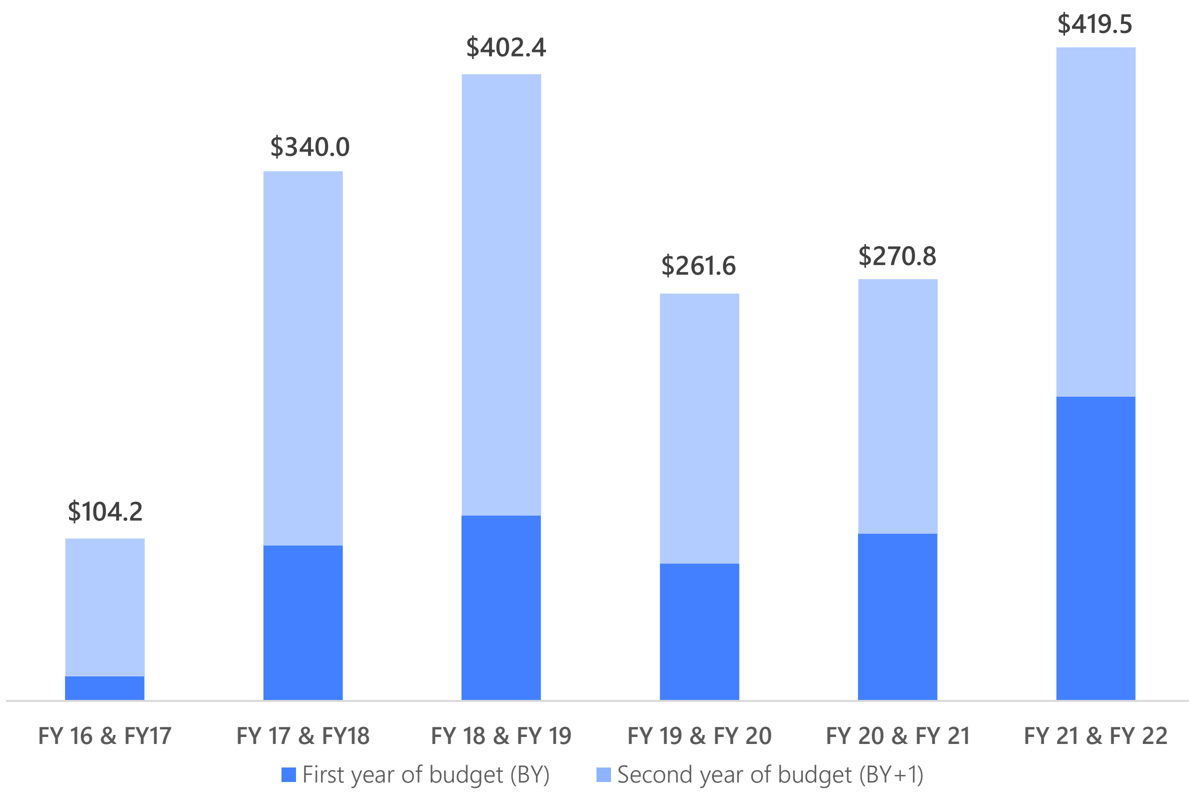
This projection demonstrates that although revenues are growing each year, they are not growing fast enough to keep pace with the projected increase in expenditures. As a result, a gap remains despite continued economic growth. The City currently projects revenue growth of $423.6 million, or 6.9% over the four-year period of this plan, and expenditure growth of $1.05 billion, or 17.2%.

INCREASING DEFICIT – AREAS OF CONCERN

The projected deficit for the upcoming FY 2020-21 and FY 2021-22 budget is meaningfully higher than the City has faced in recent budget cycles, as illustrated by Figure 1. In the short-term, the City's two-year deficit for FY 2020-21 and FY 2021-22 is $419.5 million, approximately $150 million higher than the

December 2018 projection of $270.8 million. The increase in the two-year deficit is due to growing expenditures, particularly salary, benefit, and other citywide costs, outpacing slower growth in revenues.

Figure 1. Deficit at Time of Budget Instructions ($ Millions)



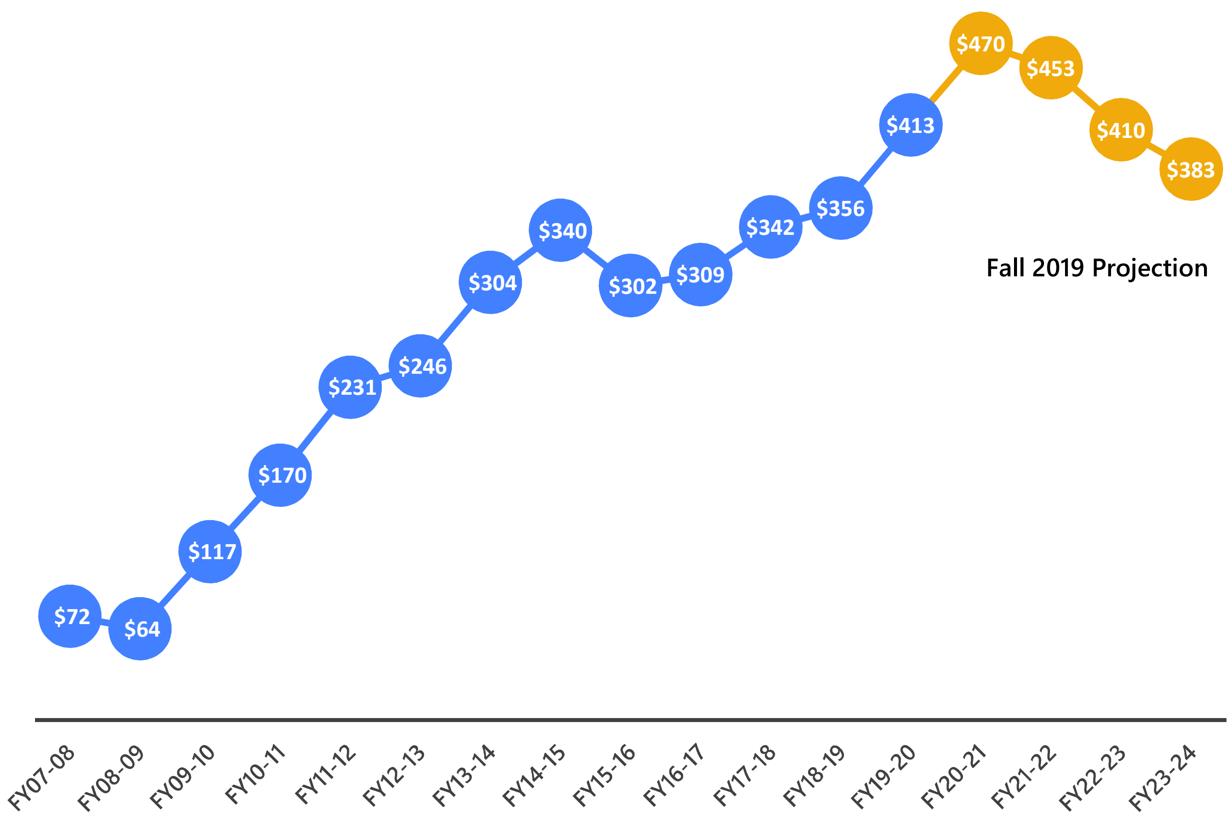
Rising Employee Costs

Total salary and benefit cost projections make up 39% of the expenditure growth in the final year of this projection. This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements through FY 2020-21 for Police and Firefighters' unions and through FY 2021-22 for Miscellaneous unions. For open contract years, this report assumes that wage growth will increase at the rate of inflation, as calculated using the average projection of the Consumer Price Index (CPI) from the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI.

Employer contributions to active and retiree health are projected to grow at a rate that exceeds general inflation. This report assumes that the employer share of health insurance costs for active employees will increase by an annual average of 5.4% during the projection period. It also assumes retiree health costs will increase by an annual average of 6.8%.

Employer pension contributions have risen significantly in recent years. As shown in Figure 2, the cost of the City's pension obligations has increased nearly seven-fold since FY 2007-08. The increase in recent years has been driven by a multitude of factors, including the decision of the Retirement Board to reduce the assumed rate of return from 7.5% to 7.4% in fall 2018, necessitating higher employer contributions to meet pension obligations. Additionally, lower-than-expected returns in prior years required the City to make additional contributions to meet its obligations. Lastly, preliminary returns for FY 2018-19 are projected to trigger a supplemental cost-of-living adjustment (COLA), which will cause pension costs to peak in FY 2020-21. The full amortization of prior year supplemental COLAs contributes to the tapering of costs in the out-years of the projection. However, any deviation from the assumed rate of return will alter these projections.

Figure 2. Projected Employer General Fund Pension Contribution Cost ($ Millions)



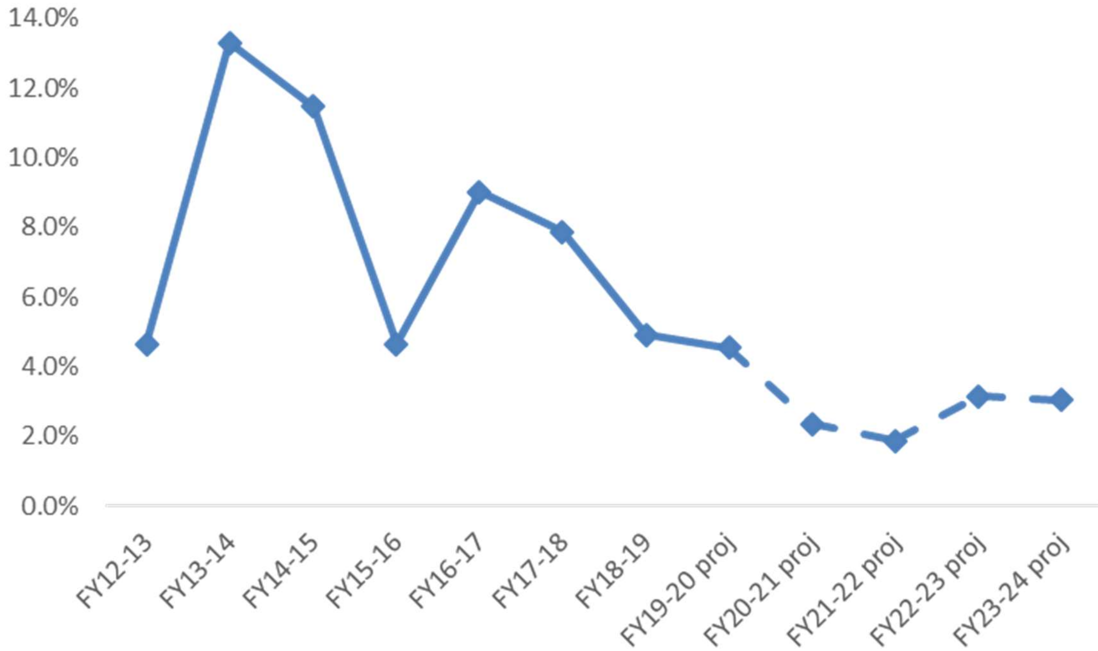
Growing Citywide and Departmental Costs

The projected deficit is also largely driven by growing citywide and departmental costs. The City's debt and real estate costs are projected to increase substantially over the next four years, due to new or changing lease costs and the repayment of Certificates of Participation (COPs) for several major capital projects that are laid out in the City's Capital Plan. The projected deficit also assumes inflationary increases for non-personnel costs, increased costs associated with the In-Home Supportive Services (IHSS) program, and continued funding to make City College free for San Francisco residents, a cost which increased significantly with the signing of a new Memorandum of Understanding (MOU) with City College at the end of FY 2018-19. These costs are discussed in greater detail throughout the report.

Slowing Revenue Growth and Reliance on Volatile Sources

This plan assumes continued but slowing rates of revenue growth. As shown in Figure 3, since FY2012-13, actual General Fund local tax revenue has grown, on average, 8.0% per year between FY 2012-13 and FY 2018-19. However, in the three most recent fiscal years, growth rates in local taxes have started to decline. As highlighted in prior projection reports, high rates of revenue growth cannot be sustained as the local economy is constrained by limits to housing, office space, and transportation. As a result, local tax revenue growth in this plan period is projected to average 2.6% annually.

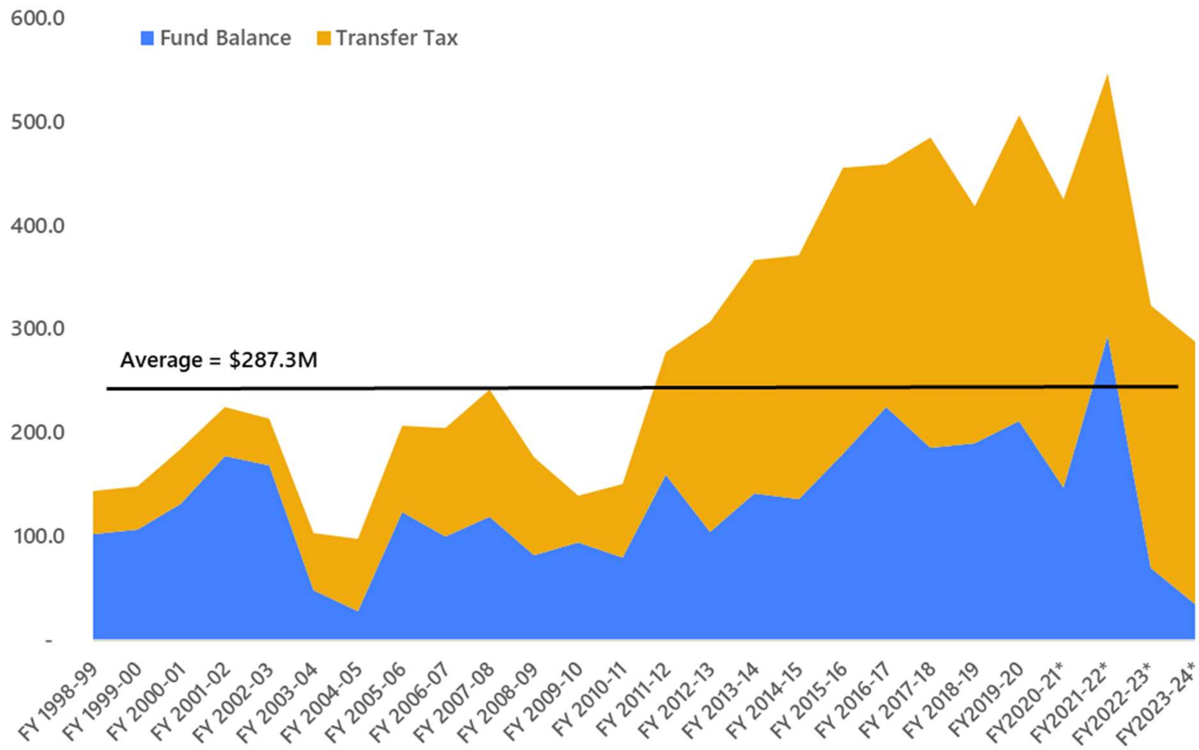
Figure 3. Percent Change in General Fund Tax Revenue, FY 2012-13 through FY 2018-19 Actuals, and FY 2019-20 through FY 2023-24 Projected



In addition to the recent pattern of slowing revenue growth, the economy is in its tenth year of economic expansion, the longest expansion since 1945. While this projection does not assume a recession during the forecast period, it would be an historic anomaly to not experience a recession within the projection period of this report.

Finally, the City has increasingly relied on fund balance and transfer tax to balance its budget. As fund balance (a one-time source) is depleted and transfer tax (a volatile source) returns from its peak to historically lower levels, these sources will no longer be available to balance the budget. This dynamic is reflected in an overall slowing of General Fund growth in this plan.

Figure 4. Budgeted Fund Balance and Transfer Tax ($ Millions)



*Projected. Note: voters approved tax rate increases in November 2008, 2010, and 2016.

KEY ASSUMPTIONS

Key assumptions affecting the FY 2020-21 through FY 2023-24 projections:

- **No major changes to service levels and number of employees:** The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2019-20 and FY 2020-21 budgeted levels unless specified below.

- **Continued economic recovery:** The projection assumes the economic recovery and expansion that began in FY 2009-10 will continue through the forecast period and will be reflected in tax revenue increases. The rapid rates of growth experienced in the early part of the recovery have slowed, and lower rates of growth are expected to persist in the forecast period. Economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism. Physical and financial constraints are expected to limit this growth. This report does not assume any economic downturns or large changes in macroeconomic conditions.

- **Assumes previously negotiated wage increases and inflationary increases for open contracts in line with CPI:** This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed MOUs through FY 2020-21. Miscellaneous unions have closed MOUs through FY 2021-22. In open contract years, this report projects salary increases equal to the change in CPI using the average projection of the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI. This corresponds to 3.38% for FY 2021-22, 2.94% for FY 2022-23, and 2.90% for FY 2023-24. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels, but rather are used for projection purposes.

- **Pension investment returns exceeded expectations, triggering a supplemental COLA:** This report assumes a preliminary FY 2018-19 year-end return on SFERS assets of 8.0%, 0.6% above the actuarially assumed rate of return of 7.4% per year. This better-than-expected return triggers an on-going supplemental COLA payment to certain retirees, which increases employer contributions in FY 2020-21.

- **Health insurance cost increases:** This projection assumes that the employer share of health insurance costs for active employees will increase by 5.0% in FY 2020-21, and then 5.5% in each following year, an average of 5.4% annually over the projection period. Retiree health costs are assumed to grow by 8.4% in FY 2020-21, and then 6.3% in each subsequent fiscal year, an average of 6.8% annually over the projection period.

- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the rate of CPI rate. The projection reflects the adopted FY 2020-21 budget, which included a 2.5% cost-of-doing business increase for General Fund nonprofit contracts.

- **Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment:** The projection assumes the adopted FY 2020-21 funding level for capital, equipment, and information technology (IT). For capital, this report assumes the Capital Plan level of funding in FY 2020-21, as the capital budget was fully funded in both years of the most recently adopted budget. In the remaining three years, the report assumes funding will increase by 7% annually, as is described in the City's FY 2020-29 Ten-Year Capital Plan, which was released in March 2019. The IT investment projection assumes partial funding of annual projects in the City's Information and Communications Technology (ICT) Plan in FY 2020-21, in accordance with the most recent budget, and full funding in accordance with the ICT Plan in FY 2021-22 through FY 2023-24. This report also assumes full funding for major City IT projects in accordance with the ICT Plan through FY 2023-24. For equipment, this plan assumes the budgeted level of funding in FY 2020-21, and growth of CPI in the subsequent three fiscal years.

- **Deposits and withdrawals from reserves:** The projection makes several key assumptions regarding deposits to and withdrawals from major General Fund reserves. First, given the base case revenue projections, no deposits to or withdrawals from the Rainy Day Reserve are assumed. Consistent with the financial policies adopted by the Board of Supervisors and codified in Administrative Code Section 10.60(b), the General Reserve value will increase from 2.75% of General Fund revenues in the current year to 3.0% in FY 2020-21.

- **Property tax shifts:** In FY 2019-20, the City's General Fund received "Excess ERAF" property tax allocations, after distributions from the Educational Revenue Augmentation Fund (ERAF) fulfilled all other statutory distributions to other local taxing entities. This report assumed that the City will again receive Excess ERAF revenues in FY 2020-21, and in accordance with legislation adopted by the Mayor and Board of Supervisors will allocate at least 50% of these revenues on one-time purposes and 50% to affordable housing expenditures. Given these assumptions, the receipt of these revenues is not assumed to alter the net General Fund projections above. Given both uncertainty regarding the timing and volatility of these revenues and the potential for State changes to funding levels for K-12 and community college districts, these projections do not include receipt of Excess ERAF revenues in years after FY 2020-21.

KEY FACTORS THAT COULD AFFECT THESE FORECASTS

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **Economy:** Because of the difficulty of projecting the timing of a recession, this report assumes slower rates of growth, rather than declines, in revenue in the final three years; however, it is important for the City to closely monitor economic conditions over the coming years.

- **Federal policy changes:** This report does not assume changes to federal policy. Trade war escalation, pressure to reduce interest rates, and regulatory changes to entitlement programs (e.g. food stamp eligibility requirements) could impact this projection.

- **Collective bargaining agreement negotiations:** This projection assumes approved wage increases in collective bargaining agreements for public safety through FY 2020-21 and miscellaneous contracts in FY 2021-22, and inflation on open contracts in all other years. Other than these costs, this report does not assume any contract changes due to labor negotiations. Wage or benefit changes above or below these assumptions would increase or decrease the City's projected deficit.

- **Pending or proposed legislation – potential fee or departmental revenue increases:** Fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2020-21 and FY 2021-22 budget or other legislation. No increases above those budgeted in the adopted FY 2019-20 and FY 2020-21 budget are assumed in this projection.

- **Planning for growth:** The City is currently experiencing growth in both employment and population. As the City's population increases, there may be a need for additional services for the public such as more parks, transportation, first responders, health care providers, and street infrastructure improvements to accommodate more users of the public right-of-way. This report does not assume increased costs to specifically address future growth; however, this represents a risk and could increase projected deficits in the future.

- **Deficits will differ if new budget commitments are made:** If voters approve additional increases to existing baselines, set-asides, or other mandatory spending increases without commensurate revenue increases from new funding sources, this will grow the projected deficits shown in this report.

SCHEDULE OF UPCOMING REPORTS CONTAINING BUDGET PROJECTIONS

- **Early February - Controller's Six-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2019-20.

- **Mid-March – Update to the Joint Report:** This report will update the revenue and expenditure forecasts for FY 2020-21 through FY 2023-24.

- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2019-20.

- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2020-21 and 2021-22 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

General Fund Projection

Projected Changes to General Fund Supported Revenues and Expenditures

Table A-1. Key Changes to General Fund Supported Sources and Uses - Incremental

SOURCES Increase / (Decrease)	2020-21	2021-22	2022-23	2023-24
General Fund Taxes, Revenues and Transfers net of items below	118.6	76.7	139.3	137.7
Change in One-Time Sources	2.0	147.0	(225.1)	(34.5)
Public Health - Operating and one-time revenues	(47.5)	20.2	19.3	19.7
Other General Fund Support	15.8	13.1	10.0	11.2
TOTAL CHANGES TO SOURCES	**89.0**	**257.1**	**(56.6)**	**134.2**
USES Decrease / (Increase)				
Baselines & Reserves				
Contributions to Baselines	(54.0)	(25.8)	(63.5)	(35.5)
Contributions to Reserves	8.5	17.3	(9.6)	(0.7)
Subtotal Baselines & Reserves	**(45.5)**	**(8.5)**	**(73.1)**	**(36.2)**
Salaries & Benefits				
Previously Negotiated Closed Labor Agreements & Current Staffing Costs	(116.2)	(67.4)	(4.9)	-
Projected Costs of Open Labor Agreements	-	(28.5)	(90.7)	(90.4)
Health & Dental Benefits - Current & Retired Employees	(22.7)	(23.1)	(24.1)	(25.9)
Retirement Benefits - Employer Contribution Rates	(43.8)	29.7	52.6	35.3
Other Salaries and Benefits Savings / (Costs)	14.8	(12.4)	(1.8)	11.9
Subtotal Salaries & Benefits	**(167.9)**	**(101.6)**	**(68.9)**	**(69.1)**
Citywide Operating Budget Costs				
Minimum Wage and Minimum Compensation Ordinance	-	(0.5)	(0.5)	(0.5)
Capital, Equipment, & Technology	(20.5)	(18.8)	(14.7)	(26.7)
Inflation on non-personnel costs and grants to non-profits	(14.0)	(41.6)	(37.4)	(38.0)
Debt Service & Real Estate	(27.3)	(35.8)	(6.8)	(6.0)
Sewer, Water, and Power Rates	(1.9)	(3.2)	(3.2)	(3.0)
Other Citywide Costs	(3.3)	(1.0)	(4.7)	(5.3)
Subtotal Citywide Operating Budget Costs	**(66.9)**	**(100.8)**	**(67.3)**	**(79.5)**
Departmental Costs				
City Administrator's Office - Convention Facilities Subsidy	(8.3)	(3.6)	(0.7)	(0.7)
Elections - Number of Scheduled Elections	2.0	(2.2)	(0.4)	(5.8)
Ethics Commission - Public Financing of Elections	4.7	0.4	-	-
Free City College	(9.1)	(0.7)	(0.5)	(0.5)
Mission Bay Transportation Improvement Fund	(0.2)	(0.2)	(0.1)	(0.2)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(3.4)	(12.6)	(1.1)	(7.8)
Human Services Agency - IHSS and Other Benefit Costs	(3.2)	(18.0)	(18.1)	(10.3)
Public Health - Operating and one-time costs for capital projects	15.1	(30.4)	(20.9)	(22.3)
Buffin Supplemental - Ongoing Costs	(3.1)	0.7	(0.1)	(0.1)
All Other Departmental Savings / (Costs)	1.7	(8.4)	0.8	(1.4)
Subtotal Departmental Costs	**(3.9)**	**(74.9)**	**(41.1)**	**(48.9)**
TOTAL CHANGES TO USES	**(284.3)**	**(285.8)**	**(250.3)**	**(233.7)**
Projected Surplus (Shortfall) vs. Prior Year	**(195.4)**	**(28.8)**	**(306.9)**	**(99.6)**
Cumulative Projected Surplus (Shortfall)	**(195.4)**	**(224.1)**	**(531.1)**	**(630.6)**

Table A-2. Key Changes to General Fund Supported Sources and Uses – Cumulative

SOURCES Increase / (Decrease)	**2020-21**	**2021-22**	**2022-23**	**2023-24**
General Fund Taxes, Revenues and Transfers net of items below	118.6	195.3	334.6	472.3
Change in One-Time Sources	2.0	149.1	(76.0)	(110.5)
Public Health - Operating and one-time revenues	(47.5)	(27.2)	(8.0)	11.8
Other General Fund Support	15.8	28.8	38.8	50.0
TOTAL CHANGES TO SOURCES	**89.0**	**346.0**	**289.4**	**423.6**
USES Decrease / (Increase)				
Baselines & Reserves				
Contributions to Baselines	(54.0)	(79.8)	(143.3)	(178.8)
Contributions to Reserves	8.5	25.8	16.2	15.5
Subtotal Baselines & Reserves	**(45.5)**	**(54.0)**	**(127.1)**	**(163.3)**
Salaries & Benefits				
Previously Negotiated Closed Labor Agreements & Current Staffing Costs	(116.2)	(183.6)	(188.5)	(188.5)
Projected Costs of Open Labor Agreements	-	(28.5)	(119.2)	(209.6)
Health & Dental Benefits - Current & Retired Employees	(22.7)	(45.8)	(69.9)	(95.8)
Retirement Benefits - Employer Contribution Rates	(43.8)	(14.1)	38.5	73.8
Other Salaries and Benefits Savings / (Costs)	14.8	2.4	0.6	12.5
Subtotal Salaries & Benefits	**(167.9)**	**(269.6)**	**(338.5)**	**(407.5)**
Citywide Operating Budget Costs				
Minimum Wage and Minimum Compensation Ordinance	-	(0.5)	(1.0)	(1.5)
Capital, Equipment, & Technology	(20.5)	(39.3)	(54.0)	(80.7)
Inflation on non-personnel costs and grants to non-profits	(14.0)	(55.6)	(93.0)	(131.0)
Debt Service & Real Estate	(27.3)	(63.1)	(69.9)	(75.9)
Sewer, Water, and Power Rates	(1.9)	(5.0)	(8.2)	(11.2)
Other Citywide Costs	(3.3)	(4.3)	(9.0)	(14.3)
Subtotal Citywide Operating Budget Costs	**(66.9)**	**(167.8)**	**(235.0)**	**(314.6)**
Departmental Costs				
City Administrator's Office - Convention Facilities Subsidy	(8.3)	(11.9)	(12.6)	(13.3)
Elections - Number of Scheduled Elections	2.0	(0.2)	(0.6)	(6.4)
Ethics Commission - Public Financing of Elections	4.7	5.1	5.1	5.1
Free City College	(9.1)	(9.8)	(10.2)	(10.7)
Mission Bay Transportation Improvement Fund	(0.2)	(0.4)	(0.5)	(0.7)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(3.4)	(16.0)	(17.1)	(24.9)
Human Services Agency - IHSS and Other Benefit Costs	(3.2)	(21.2)	(39.3)	(49.5)
Public Health - Operating and one-time costs for capital projects	15.1	(15.3)	(36.2)	(58.5)
Buffin Supplemental - Ongoing Costs	(3.1)	(2.4)	(2.4)	(2.5)
All Other Departmental Savings / (Costs)	1.7	(6.7)	(5.8)	(7.3)
Subtotal Departmental Costs	**(3.9)**	**(78.8)**	**(119.9)**	**(168.8)**
TOTAL CHANGES TO USES	**(284.3)**	**(570.1)**	**(820.5)**	**(1,054.2)**
Cumulative Projected Surplus (Shortfall) vs. Prior Year	**(195.4)**	**(224.1)**	**(531.1)**	**(630.6)**

The preceding two tables display the key changes to General Fund sources and uses. Table A-1 provides an incremental view of changes – change from prior year; Table A-2 provides a cumulative view of changes – changes combined as compared to FY 2019-20.

Table A-3 provides the most current estimates of FY 2020-21 excess ERAF revenues and related baseline impacts, which incorporates current property tax revenue estimates and assumes the State takes no legislative action to alter ERAF allocations or school funding guarantees this legislative session. These values are not included in the projected changes in Tables A-1 or A-2.

Table A-3. Excess ERAF Revenues

	2019-20	2020-21	Year-over-Year Change
SOURCES			
Excess ERAF Revenue	***185.0***	***236.4***	***51.4***
USES - MANDATORY			
MTA	(17.0)	(21.7)	(4.7)
Library	(4.2)	(5.4)	(1.2)
PEEF - Baseline	(0.3)	(0.3)	(0.1)
PEEF - Contribution	(5.7)	(7.2)	(1.6)
Street Trees	(1.0)	(1.2)	(0.3)
Children's Baseline	(8.9)	(11.4)	(2.5)
TAY Baseline	(1.1)	(1.4)	(0.3)
General Reserve	(4.6)	(7.1)	(2.5)
Total Baselines & Reserves	**(42.7)**	**(55.8)**	**(13.1)**
Discretionary Excess ERAF Revenue	***142.3***	***180.6***	***38.3***

Excess ERAF Expenditures

This plan assumes Excess ERAF revenue of $236.4 million is returned to the General Fund in FY 2020-21. In accordance with legislation adopted by the Mayor and Board of Supervisors in 2019, this projection assumes that at least 50% of these funds are allocated for one-time purposes and 50% for affordable housing expenditures, resulting in no net change in the projection. No excess ERAF is assumed in the years beyond, given the risk of entitlement formula volatility, cash flow changes, and possible modifications to local property tax revenue allocation laws by the State.

It is important to note that in FY 2018-19 and FY 2019-20, the Mayor and Board of Supervisors appropriated Excess ERAF revenue to fund various pilot programs and some programs with ongoing costs. As these programs conclude and budgets are depleted, additional appropriation of Excess ERAF or other revenues will be required to continue their operations, if desired.

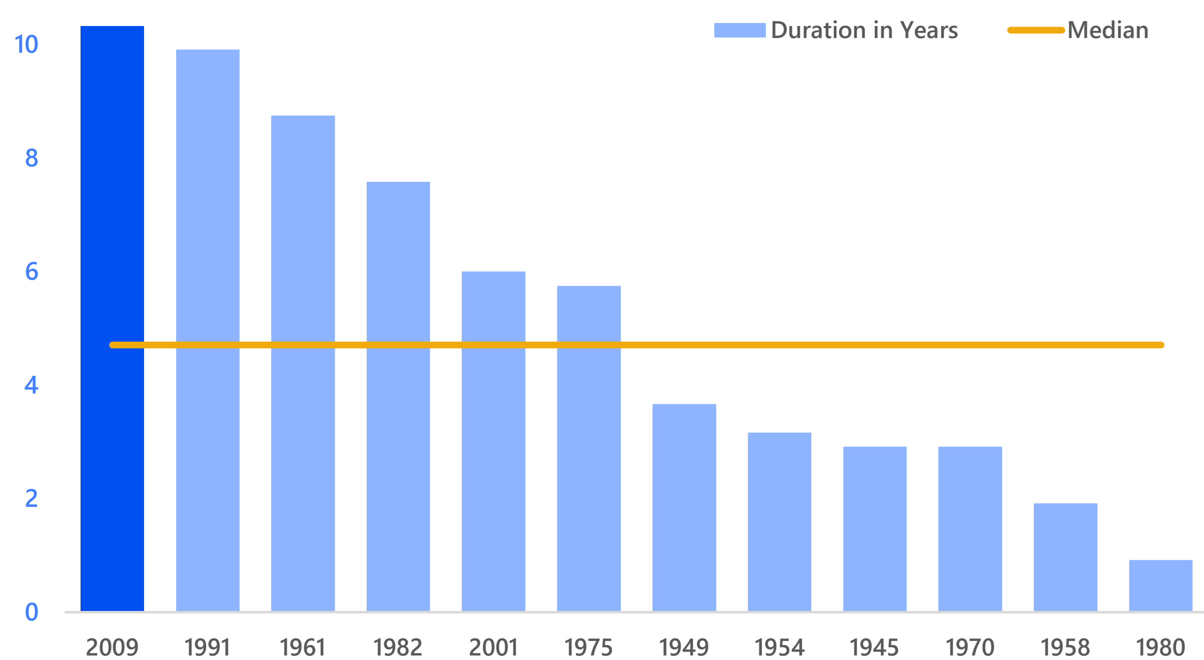
Pilot programs and initiatives with ongoing costs included service expansion in housing, homelessness, behavioral health, early childcare, and education. Approximately $20 million in funding for annual programming was appropriated for homelessness and behavioral health services, including additional master lease housing units, expanded shelter and navigation center operations, as well as additional substance use and other behavioral health beds. Approximately $6 million per year was budgeted for housing vouchers and operating subsidies. Approximately $17 million was allocated for education programming, including support for educator wage increases, childcare subsidies, and expanded mental health services at local schools. These pilot programs were typically funded through FY 20-21, with some exceptions.

SOURCES – REVENUES AND TRANSFERS IN

General Context Underlying Revenue Estimates

San Francisco is in the tenth year of a national economic expansion, which began in 2009. As noted in Figure 5, the U.S. economy is experiencing the longest economic expansion since 1945. It would be an historic anomaly to not experience a recession within the projection period of this report.

Figure 5. Number of Years of Economic Expansion in the U.S. from Start Year (1945 to Present)



This plan assumes continued revenue growth, albeit at a slowing rate. Slowing growth is consistent with recent financial results, regional housing and infrastructure constraints, and the risk posed by the length of the current economic expansion. While there are risks at the federal level and the potential for an economic downturn, this report assumes neither.

National Economy

Nationally, the economy continues to grow. Fears of recession have declined since the Federal Reserve cut the federal funds rate three times in the past year, and the yield curve is once again sloping upward. Overall job growth remains strong, the unemployment rate remains very low, inflation is near the Federal Reserve's target rate, and real Gross Domestic Product (GDP) continues to expand at a decent pace.

Some signs point to risks, however. Some indicators of the national economy, such as the Institute for Supply Management's (ISM) Manufacturing Index and spending on core capital goods, also indicate some lowdown at the national level. The diminishing growth rates of both Chinese and Eurozone economies raises concerns about global growth, which would have a negative impact on the U.S. economy. A protracted trade war would exacerbate these challenges.

Since the end of the Great Depression, there have been 13 recessions, or approximately once every six years, on average. Since the official end of the Great Recession in June 2009, the national economy has expanded for more than ten consecutive years. Due to challenges in projecting recessions, this report does not assume one; however, at 125 months, the 2008-2019 expansion is officially the longest in history, overtaking the 1991-2001 expansion. The New York Federal Reserve's probability model of recession currently puts the probability of a recession in the next twelve months at 29%.

Local Economy

The City's labor market remains healthy. The average unemployment rate for the last two years remained at an all-time low of approximately 2.3%. The September 2019 unemployment rate of 1.8% was the lowest level ever recorded in San Francisco, and is far below what most economists consider full employment. Since 2010, the City has added, on average, about 24,000 jobs per year, with almost every major sector contributing to this growth.

The technology sector plays a vital role in the City's economy, contributing to about 40% of job growth in 2018. Since 2010 the technology sector has played an outsized role in the City's economy, contributing to about 36% of job growth. The share of technology employment as a percentage of total private employment has increased from less than 2% in 1990 to 14.5% in 2018. Similarly, the technology sector share of payroll has increased from less than 2% in 1990 to more than 27% in 2018. In comparison, the share of technology sector jobs at the state and national levels grew more slowly during the same time period, from less than 2% to 4.5% and 2.6%, respectively. Technology employment in the San Francisco Metro Division (San Francisco and San Mateo) experienced a significant slowdown in 2016 and early 2017, but has since recovered and on average, posted 9.6% growth in the first nine months of 2019. Given its importance in the local economy, any slowdown in the technology sector would create a particular risk for San Francisco's economy.

Property Tax

General Fund property tax revenues are expected to grow from a budget of $1.95 billion in FY 2019-20 to an estimated $2.14 billion in FY 2023-24. General Fund property tax revenue assumptions include:

- **Roll growth:** The locally assessed secured roll grows based upon an annual statewide inflation factor capped at 2% and new base year property value assessments triggered by changes in ownership or new construction. The change in the California CPI (measured October-to-October of the previous two years) is assumed at the annual maximum of 2% for this report's four years through FY 2023-24. For changes in ownership and new construction, it is assumed that an additional 2% of secured roll growth occurs at minimum each fiscal year. An additional 1.5% of secured roll growth above the 2% is anticipated for FY 2020-21 for a total of 5.5%.

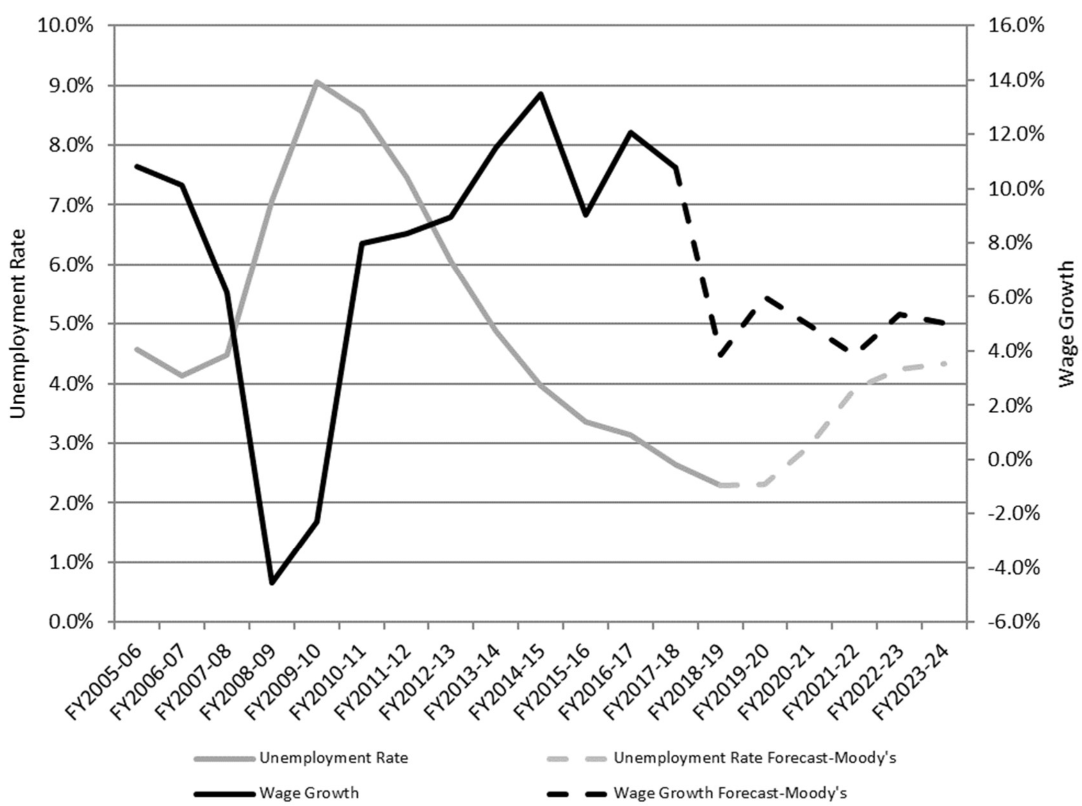
  The state assessed board roll and the unsecured roll comprise approximately 7.3% of overall taxable property values in San Francisco and tend to change in less predictable manners. In this plan, the board roll value is assumed to remain at the FY 2019-20 value of $3.7 billion, and the unsecured roll is assumed to grow at an annual rate of 1% per year from the FY 2019-20 value of $17.0 billion.

- **Supplemental and escape assessments:** Supplemental assessments capture changes in value for the portion of the tax year remaining following a trigger date that results in a change in the base year assessed value of a property. The escape assessment captures a full year's increase in assessed value up to four years after the trigger date occurred. This plan assumes supplemental and escape assessment revenue of $68.4 million per year in the General Fund for FY 2020-21 through FY 2023-24. In the past several years, given the Assessor's focus on eliminating the enrollment backlog and timely enrollment of construction in progress, completed construction, and changes in ownership, supplemental and escape assessments have been a significant source of variance in property tax revenues. Going forward, escape revenue is anticipated to comprise only $4.7 million of the $64.8 million.

- **Excess ERAF revenues returned to the General Fund:** This report assumes $236.4 million of Excess ERAF revenues are returned to the General Fund in FY 2020-21. No excess ERAF is assumed in the years beyond, given the risk of entitlement formula volatility, cash flow changes, and possible modifications to local property tax revenue allocation laws by the State. These revenues are assumed to be allocated for various one-time purpose, resulting in no net change in these projections.

Business Taxes

Figure 6. San Francisco Unemployment and Wage Growth, FY 2005-06 through FY 2023-24, Actuals and Projected



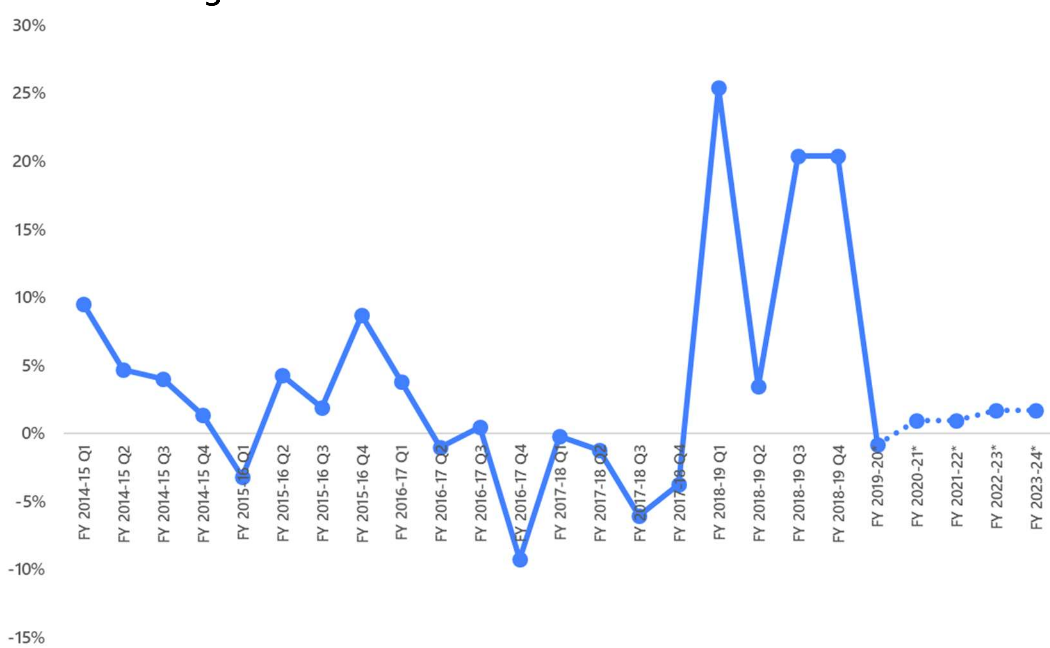
Business tax is expected to grow from a projected $1.0 billion in FY 2019-20 to $1.1 billion in FY 2023-24. Business taxes include payroll, business registration fees, and gross receipts taxes. Revenues from business taxes and registration fees follow economic conditions in the City and grew strongly from FY 2010-11 to FY 2018-19 reflecting underlying gains in employment and wages during the period. Two factors that have a large impact on the level of revenue generated by the payroll tax are employment and wages. As shown in Figure 6, wage growth is projected to slow while unemployment is projected to rise during the projection period.

The forecast assumes underlying economic growth is 7.5% in FY 2019-20, 5% in FY 2020-21, 3% in FY 2021-22, 3% in FY 2022-23, and 2% in FY 2023-24. Business tax projections reflect expectations of continued strong economic growth, particularly in wages, for the first two years of the forecast. The last three years of the forecast project a slowdown partially due to constrained regional housing and transportation capacity. In addition, projections in FY 2019-20 and FY 2020-21 assume $20 million of additional payroll expense tax in each year to account for the large number of initial public offerings that have occurred with firms located in the City, which create taxable payroll expense when stock options are exercised.

In November 2012, Proposition E was passed to replace a 1.5% payroll tax on businesses with a tax on a business's gross receipts at rates that vary by size and type of business. Over a five-year period, beginning in 2014, the gross receipts tax was phased in while the payroll tax was phased out. In this transition period, the payroll tax rate was adjusted so that the new tax structure would generate the same amount of revenue as would have been generated with the original 1.5% payroll tax. The gross receipts tax did not generate enough revenue to eliminate the payroll tax. In the final year of the adjustment period, 2018, the payroll tax remained at 0.38%.

Sales Tax

Figure 7. Change in Local Sales Tax Revenues from Same Quarter Prior Year FY 2014-15 through FY 2023-24



*Projected. Data adjusted for corrections by the California Department of Tax and Fee Administration.

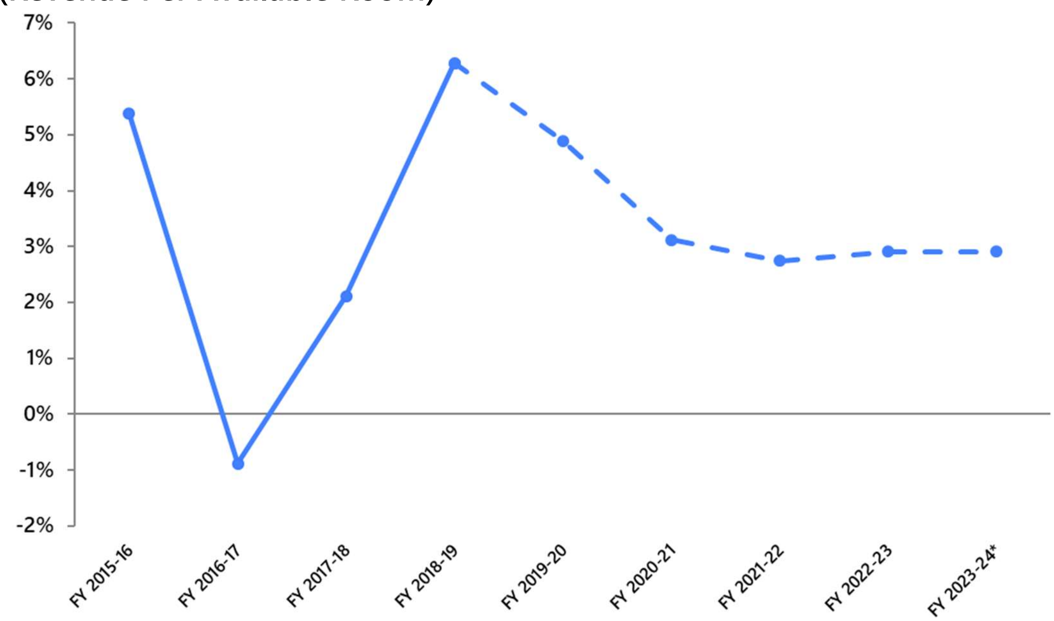
Sales tax is expected to grow from a projected $211.8 million in FY 2019-20 to $223.4 million by FY 2023-24. As shown in Figure 7, growth rates have been volatile since FY 2017-18 due to the implementation of a new reporting system at the California Department of Tax and Fee Administration. A large amount of sales tax payments due to the City in FY 2017-18 was not disbursed by the State until the following fiscal year, shown by the large growth rates in FY 2018-19. The projections for the next four years assume slower growth rates of 1% to 2%, due to a combination of factors including continued declines in sales of general consumer goods at brick and mortar stores, the shift of consumer spending away from material goods and toward nontaxable services, possible tax base erosion caused by increased online sales, and the risk of a slowdown in the economy.

Hotel Tax

General Fund Hotel tax is expected to grow from a projected $395 million in FY 2019-20 to $432.5 million by FY 2023-24. In November 2018, voters adopted Proposition E, allocating a portion of hotel tax revenues to arts programs beginning on January 1, 2019. FY 2019-20 is the first year that the initiative will be in effect for an entire fiscal year. As a result, the General Fund portion of hotel tax will grow at a slower rate in FY 2019-20 as the allocation of hotel tax to the arts increases from half a year to a full year.

Hotel tax revenue is influenced by three factors – average daily room rates, occupancy rate, and supply of available rooms – represented by revenue per available room (RevPAR). Recently, the Purchasing Managers' Index (PMI), derived from monthly surveys of market trends in the manufacturing and service sectors, has fallen below 50%, reflecting business uncertainty about prospects for growth and lower confidence in the economy. As a result, demand for hotels from business has slowed. The growth rate in RevPAR is projected to slow to 3% in FY 2019-20 and between 2.7% and 3.1% in FY 2020-21 through FY 2023-24. Figure 8 provides a recent history of RevPAR levels and projections for the five-year period.

Figure 8. Actual and Projected Growth in San Francisco RevPAR (Revenue Per Available Room)



Source: CBRE Hospitality Research. FY 2023-24 projected by the Controller's Office.

Note: FY 2016-17 is negative due to Moscone Center closure.

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to decrease from a projected level of $351 million in FY 2019-20 to $253.4 million by the close of the four year projection period. RPTT is the City's most volatile major revenue source and is highly sensitive to economic cycles and interest rates. A primary reason for the volatility is that transfer taxes are assessed at different rates according to the amount of the transaction, with higher value properties paying a higher tax rate.

In November 2016, voters approved Proposition W, which increased the real property transfer tax rate on properties over $5 million. This contributed to record high transfer tax collections of $410.6 million in FY 2016-17. With Proposition W, the highest tier is 3% of transaction value for transactions of more than $25 million. While the number of transactions in this tax tier is very small (about 1% of in FY 2018-19), the proportion of total transfer tax revenue they generate is quite large (60% in in FY 2018-19). These high-value transactions are the primary reason for revenue volatility. The projection assumes that transactions of large properties will taper off and that revenue will fall to average annual collections over the last 10 years.

Table A-4a. Summary of General Fund Supported Operating Revenues and Transfers in FY 2018-19 through FY 2023-24 ($ Millions)

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
	Year-End Pre-Audit	Original Budget	Projection	Projection	Projection	Projection
Property Taxes	$ 2,246.3	$ 1,956.0	$ 2,117.4	$ 1,964.0	$ 2,047.0	$ 2,143.0
Business Taxes	917.8	1,050.6	1,070.8	1,072.4	1,103.0	1,119.5
Sales Tax	213.6	204.1	213.9	216.0	219.7	223.4
Hotel Room Tax	392.3	389.1	399.2	408.0	417.1	426.2
Utility Users Tax	94.0	98.7	95.3	96.1	96.9	97.7
Parking Tax	86.0	83.0	85.2	85.2	85.2	85.2
Real Property Transfer Tax	364.0	296.1	278.4	253.4	253.4	253.4
Sugar Sweetened Beverage Tax	16.1	16.0	16.0	15.0	15.0	15.0
Stadium Admission Tax	1.2	5.5	5.5	5.5	8.2	10.8
Access Line Tax	48.0	48.9	50.4	52.1	53.6	55.2
Cannabis Tax	-	3.0	4.3	8.5	8.5	8.5
Subtotal - Local Tax Revenues	**4,379.4**	**4,151.0**	**4,336.3**	**4,176.3**	**4,307.6**	**4,438.0**
Licenses, Permits & Franchises	28.3	30.4	29.0	29.0	29.0	29.0
Fines, Forfeitures & Penalties	5.3	3.1	3.1	3.1	3.1	3.1
Interest & Investment Income	80.5	76.6	61.0	57.8	56.8	56.8
Rents & Concessions	14.2	15.1	15.4	15.4	15.4	15.4
Subtotal - Licenses, Fines, Interest, Rent	**128.2**	**125.3**	**108.4**	**105.3**	**104.2**	**104.2**
						75.2
Social Service Subventions	260.8	270.2	274.1	274.1	274.1	274.1
Other Grants & Subventions	(3.5)	9.8	10.5	10.5	10.5	10.5
Subtotal - Federal Subventions	**257.4**	**280.0**	**284.6**	**284.6**	**284.6**	**284.6**
Social Service Subventions	220.7	230.2	233.4	233.4	233.4	233.4
Health & Welfare Realignment - Sales Tax	175.2	175.5	179.9	183.6	187.4	191.6
Health & Welfare Realignment - VLF	42.4	45.5	40.6	40.6	42.8	42.8
Health & Welfare Realignment - CalWORKs MOE	27.9	20.7	21.5	21.5	21.5	21.5
Health/Mental Health Subventions	179.7	170.4	153.8	153.8	153.8	153.8
Public Safety Sales Tax	107.6	104.6	109.0	111.2	113.3	115.6
Motor Vehicle In-Lieu (County & City)	0.8	-	-	-	-	-
Public Safety Realignment (AB109)	39.4	42.1	41.9	42.7	43.5	44.4
Other Grants & Subventions	28.4	16.9	13.9	13.9	13.9	13.9
Subtotal - State Subventions	**822.0**	**805.9**	**794.0**	**800.7**	**809.7**	**817.0**
General Government Service Charges	63.6	54.9	55.3	55.3	55.3	55.3
Public Safety Service Charges	57.7	46.1	46.2	46.2	46.2	46.2
Recreation Charges - Rec/Park	22.7	23.3	23.6	23.6	23.6	23.6
MediCal, MediCare & Health Svc. Chgs.	77.0	82.0	82.0	82.0	82.0	82.0
Other Service Charges	29.3	26.0	26.6	26.6	26.6	26.6
Subtotal - Charges for Services	**250.3**	**232.3**	**233.7**	**233.7**	**233.7**	**233.7**
Recovery of General Government Costs	13.0	12.9	12.9	12.9	12.9	12.9
Other General Fund Revenues	33.8	72.2	44.8	44.8	44.8	44.8
TOTAL REVENUES	**5,884.2**	**5,679.6**	**5,814.7**	**5,658.3**	**5,797.6**	**5,935.3**
Transfers in to General Fund						
Airport	49.1	51.5	54.7	57.0	58.6	60.4
Other Transfers	189.9	111.9	98.3	98.3	98.3	98.3
Total Transfers-In	**239.1**	**163.5**	**153.0**	**155.2**	**156.9**	**158.7**
TOTAL GF Revenues and Transfers-In	**6,123.2**	**5,843.0**	**5,967.7**	**5,813.5**	**5,954.4**	**6,094.0**

Note: Excess ERAF amounts are included in property tax line. FY 2018-19 property tax includes three years of Excess ERAF (FY 2016-17, FY 2017-18, FY 2018-19). FY 2019-20 and FY 2020-21 property tax includes one year of Excess ERAF each.

Table A-4b shows the percent change in General Fund revenues projected over the next four years.

Table A-4b. Growth Factors for General Fund Revenue Projections FY 2020-21 through FY 2023-24

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
	% Chg from FY 2019-20 Original Budget	% Chg from FY 2020-21 Projection	% Chg from FY 2021-22 Projection	% Chg from FY 2022-23 Projection
Property Taxes	8.2%	-7.2%	4.2%	4.7%
Business Taxes	1.9%	0.2%	2.9%	1.5%
Sales Tax	4.8%	1.0%	1.7%	1.7%
Hotel Room Tax	2.6%	2.2%	2.2%	2.2%
Utility Users Tax	-3.4%	0.8%	0.8%	0.9%
Parking Tax	2.7%	0.0%	0.0%	0.0%
Real Property Transfer Tax	-6.0%	-9.0%	0.0%	0.0%
Sugar Sweetened Beverage Tax	0.0%	-6.3%	0.0%	0.0%
Stadium Admission Tax	0.0%	0.0%	48.7%	32.3%
Access Line Tax	3.0%	3.4%	2.9%	2.9%
Cannabis Tax	41.7%	100.0%	0.0%	0.0%
Subtotal - Tax Revenues	**4.5%**	**-3.7%**	**3.1%**	**3.0%**
Licenses, Permits & Franchises	-4.8%	0.0%	0.0%	0.0%
Fines, Forfeitures & Penalties	0.1%	0.0%	0.0%	0.0%
Interest & Investment Income	-20.4%	-5.2%	-1.8%	0.0%
Rents & Concessions	1.5%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**-13.5%**	**-2.9%**	**-1.0%**	**0.0%**
Social Service Subventions	1.4%	0.0%	0.0%	0.0%
Other Grants & Subventions	6.8%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**1.6%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	1.4%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	2.5%	2.1%	2.1%	2.3%
Health & Welfare Realignment - VLF	-10.8%	0.0%	5.6%	0.0%
Health & Welfare Realignment - CalWORKs MOE	4.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	-9.7%	0.0%	0.0%	0.0%
Public Safety Sales Tax	4.1%	2.1%	1.9%	2.0%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%
Public Safety Realignment (AB109)	-0.4%	1.9%	1.9%	2.0%
Other Grants & Subventions	-17.7%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**-1.5%**	**0.8%**	**1.1%**	**0.9%**
General Government Service Charges	0.7%	0.0%	0.0%	0.0%
Public Safety Service Charges	0.1%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	1.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	0.1%	0.0%	0.0%	0.0%
Other Service Charges	2.6%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**0.6%**	**0.0%**	**0.0%**	**0.0%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**-37.9%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**2.4%**	**-2.7%**	**2.5%**	**2.4%**
Transfers in to General Fund				
Airport	6.2%	4.1%	2.9%	3.1%
Other Transfers	-12.2%	0.0%	0.0%	0.0%
Total Transfers In	**-6.4%**	**1.5%**	**1.1%**	**1.2%**
TOTAL GF Revenues and Transfers-In	**2.1%**	**-2.6%**	**2.4%**	**2.3%**

Note: Excess ERAF amounts are included in property tax line. FY 2018-19 property tax includes three years of Excess ERAF (FY 2016-17, FY 2017-18, FY 2018-19). FY 2019-20 and FY 2020-21 property tax includes Excess ERAF earned in those years.

SOURCES – ONE-TIME SOURCES INCLUDING FUND BALANCE & ONE-TIME RESERVES

Change in Starting Fund Balances and Fund Balance Draw Down Reserve

This plan assumes the use of budgeted and current year fund balance of $331.6 million and $213 million of Fund Balance Draw Down Reserve, for a total of $544.6 million. The current year General Fund balance of $331.6 million includes $285.2 million previously appropriated in FY 2020-21 by the FY 2019-20 and FY 2020-21 adopted budget, and anticipated surpluses from FY 2018-19 and FY 2019-20 of $8.8 million and $37.6 million, respectively. This report assumes all $544.6 million of current year fund balance and Fund Balance Draw Down Reserve will be utilized in the four years of the projection period as a one-time source. This results in a year-over-year increase in starting fund balances of $2 million in FY 2020-21, $147 million in FY 2021-22, a loss of $225.1 million in FY 2022-23, and a loss of $34.5 million in FY 2023-24.

Changes in Use of Reserves

With the exception of the Fund Balance Draw Down Reserve detailed above, there are no uses of reserves assumed in any of the plan years. Please see Table A-6 for detail on reserve balances.

SOURCES – OTHER CITYWIDE AND DEPARTMENTAL REVENUES

Public Health – Operating and One-Time Revenues

The Department of Public Health (DPH) projects a revenue decrease of $47.5 million in FY 2020-21 as compared to the prior fiscal year, followed by increases of $20.2 million in FY 2021-22, $19.3 million in FY 2022-23, and $19.7 million in FY 2023-24. The decrease in revenue in FY 2020-21 is largely attributed to a loss of one-time federal revenue budgeted in FY 2018-19, as well as legislated federal reductions to Disproportionate Share Hospital Funding for Zuckerberg San Francisco General Hospital. This decrease is partially offset by projected growth in revenues at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital. Fee-for-service and capitation payments are assumed to increase by an average of 2.5% each year. California's Section 1115 Medicaid Waiver will expire in 2020, and a successor financing plan is in the early stages of development between the federal, state, and local governments. The waiver's expiration causes significant uncertainty around health care revenues over the upcoming four years.

Other General Fund-Supported Revenues

Other General Fund supported revenues are projected to increase by $9 million in FY 2020-21, $8.1 million in FY 2021-22, $5 million in FY 2022-23, and $5.3 million in FY 2023-24. These revenues include Human Services Agency revenues, the Airport's annual service payment to the General Fund, as well as other small changes.

- **Human Services Agency Revenues:** The Human Services Agency (HSA) is projected to draw incremental state and federal revenues to pay for additional salaries and fringe benefit costs. HSA estimates that incremental growth in salary and benefits amounts will result in drawdowns of 27% from state and federal sources. Given this, resulting incremental revenue increases will be $4.1 million in FY 2020-21, $1.8 million in FY 2021-22, $2.6 million in FY 2022-23, and $2.7 million in FY 2023-24.

- **Airport Revenues:** The General Fund receives a portion of Airport concessions revenue annually. For FY 2020-21 through FY 2023-24, the Airport projects these revenues to increase by $3.2 million, $2.3 million, $1.6 million, and $1.8 million, respectively. Increases in the first two years are due to the commencement of a new Duty-Free Lease that will result in higher rent to the Airport, combined with additional terminal concession locations from the final phase opening of the new Harvey Milk Terminal 1. Increases in the final two years are mostly driven by projected increases in passenger activity.

USES – BASELINES AND RESERVES

Changes to Baselines

The Charter specifies baseline-funding levels for various programs or functions that are generally linked to changes in discretionary General Fund revenues, or Aggregate Discretionary Revenue (ADR), though some are a function of citywide expenditures or base-year program expenditure levels.

As a result of growing discretionary revenue, the General Fund's mandated contribution to baselines and set-asides is increasing by $64.6 million in FY 2020-21, decreasing by $22.9 million in FY 2021-22 because of the loss of excess ERAF, increasing by $63.5 million in FY 2022-23, and $35.5 million in FY 2023-24. These changes are inclusive of projected excess ERAF for FY 2020-21.

Projected levels of tax set-asides, baseline contributions, and spending requirements are summarized in Table A-5.

Table A-5. Baselines, Tax Set-Asides and Other Mandated Expenditures FY 2019-20 through FY 2023-24 ($ Millions)

	Budget	Projection			
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
General Fund Aggregate Discretionary Revenue (ADR)	*$ 4,205.3*	*$ 4,447.7*	*$ 4,204.5*	*$ 4,418.7*	*$ 4,488.8*
Financial Baselines					
Municipal Transportation Agency (MTA)					
MTA - Municipal Railway Baseline: 6.686% ADR	281.2	297.4	281.1	295.4	300.1
MTA - Parking & Traffic Baseline: 2.507% ADR	105.4	111.5	105.4	110.8	112.5
MTA - Central Subway	3.5	11.4	15.6	16.4	16.7
MTA - Population Adjustment	56.3	54.1	58.3	63.7	69.6
MTA - 80% Parking Tax In-Lieu	66.4	68.2	68.2	68.2	68.2
Subtotal Municipal Transportation Agency	$ 512.7	$ 542.4	$ 528.6	$ 554.5	$ 567.1
Library Preservation Fund					
Library - Baseline: 2.286% ADR	96.1	101.7	96.1	101.0	102.6
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	65.3	69.5	72.6	75.7	79.4
Subtotal Library	161.4	171.2	168.7	176.7	182.0
Children's Services					
Children's Services Baseline - Requirement: 4.830% ADR *	203.1	214.8	203.1	213.4	216.8
Transitional Aged Youth Baseline - Requirement: 0.580% ADR *	24.4	25.8	24.4	25.6	26.0
Public Education Services Baseline: 0.290% ADR	12.2	12.9	12.2	12.8	13.0
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	104.5	111.2	116.2	121.1	127.1
Public Education Enrichment Fund: 3.057% ADR	*128.6*	*136.0*	*128.5*	*135.1*	*137.2*
1/3 Annual Contribution to Preschool for All	42.9	45.3	42.8	45.0	45.7
2/3 Annual Contribution to SF Unified School District	85.7	91.5	85.7	90.1	91.5
Subtotal Childrens Services	472.7	500.7	484.4	508.1	520.1
Recreation and Parks					
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	65.3	69.5	72.6	75.7	79.4
Recreation & Parks Baseline - Requirement *	76.2	79.2	82.2	85.2	88.2
Subtotal Recreation and Parks	141.5	148.7	154.8	160.9	167.6
Other Financial Baselines					
Housing Trust Fund Requirement *	36.8	39.6	42.4	45.2	48.0
Dignity Fund	50.1	53.1	56.1	59.1	62.1
Street Tree Maintenance Fund	21.7	22.9	21.7	22.8	23.1
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.5	3.7	3.9	4.0	4.2
Hotel Tax Set Aside for Arts	33.4	33.8	34.5	35.3	36.1
City Services Auditor: 0.2% of Citywide Budget	20.1	20.6	21.2	21.7	22.2
Subtotal Other Financial Baselines	165.6	173.7	179.7	188.1	195.6
Total Financial Baselines	$ 1,453.9	$ 1,536.7	$ 1,516.2	$ 1,588.2	$ 1,632.4

Note: Table shows required funding level. In FY 2019-20, these baselines (*) are budgeted at levels higher than the minimum requirement.
Excess ERAF amounts for FY 2019-20 and FY 2020-21 are assumed in aggregate discretionary revenue and baseline amounts.

Municipal Transportation Agency: Charter Section 8A.105 establishes a minimum level of funding for the Municipal Transportation Agency (MTA) and the Parking and Traffic Commission within the MTA. Funding for these two baselines is adjusted annually by the percent increase or decrease in General Fund ADR. In addition, this baseline is required to be adjusted for significant service increases. Beginning in FY 2020-21, the MTA baseline will be increased due to start-up costs related to the opening of the Central Subway for revenue service anticipated in FY 2021-22. Also included in the MTA baseline total is an amount equal to 80% of annual parking tax revenue as mandated by Charter Section 16.110.

Proposition B, passed by the voters in November 2014, additionally adjusts these baselines by the growth in population; first, in FY 2015-16 by the cumulative growth in population during the most recent ten year period, and subsequently by the annual growth in population. The funds provided through Proposition B must be appropriated as follows:

- 75% of funds for transit system improvements to the Municipal Railway to improve the system's reliability, frequency of service, capacity and state of good repair; and
- 25% of funds for transportation capital expenditures to improve street safety for all users.

Library Preservation Fund: Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. In addition, the Charter also mandates a property tax-related set-aside of $0.025 for each $100 valuation of taxable property.

Children's Services: Funding for Children's Services is mandated through the (1) Children and TAY baselines (established by Charter Section 16.108); (2) Children and Youth Fund property tax set-aside (also established by Charter Section 16.108); and the (3) Public Education Enrichment Fund (PEEF) Baseline and Annual Contribution (established by Charter Section 16.123-2).

Recreation and Parks: Similar to the Library Preservation Fund, Charter Section 16.107 establishes a baseline amount of funding for the Recreation and Parks Department, as well as a property tax-related set-aside of $0.025 for each $100 valuation of taxable property. The baseline requires the City to increase General Fund support of the department by $3.0 million annually for ten years, after which the baseline is adjusted by the change in General Fund ADR.

Other Baseline and Mandate Requirements: In addition to those detailed above, the Charter specifies baseline-funding levels for other programs including the Housing Trust Fund, Street Tree Maintenance Fund, Dignity Fund, Symphony, Arts, and City Services Auditor. Baseline amounts are generally linked to changes in ADR, though some are a function of citywide expenditures or base-year program expenditure levels.

Changes to Reserves

The net change in deposits to reserves is estimated to be a savings of $6.0 million in FY 2020-21, a savings of $24.4 million in FY 2021-22, followed by a cost of $9.6 million in FY 2022-23, and a cost of $0.7 million in FY 2023-24. These changes are inclusive of projected excess ERAF for FY 2020-21. Key changes to reserves are summarized below and reflected in Table A-6.

- **General Reserve:** Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve rising to 3.0% of regular General Fund revenues in FY 2020-21 and thereafter. Deposits to the General Reserve are projected to be $20.7 million, $3.0 million, $4.7 million, and $5.3 million in FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24 respectively. This report includes a General Reserve withdrawal of $2.2 million in FY 2019-20 for the supplemental budget appropriation related to the City's settlement in the *Buffin* lawsuit, in which $2.2 million was allocated across several public safety agencies in order to implement a new process in lieu of pre-arraignment bail.

- **Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of revenue growth over 5%, which can be used when revenues decline. This report assumes no deposits to or withdrawals from this reserve.

- **Rainy Day One-Time Reserve:** Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25% of revenue growth over 5%, which can be used towards one-time expenses. This report assumes a withdrawal of $50.4 million in FY 2019-20, consistent with the adopted FY 2019-20 budget.

- **Budget Stabilization Reserve:** Administrative Code Section 10.60(b) establishes a Budget Stabilization Reserve funded by certain one-time revenues, which can be used when revenues decline. This report anticipates no deposits to or withdrawals from this reserve during the plan period.

- **Budget Stabilization One-Time Reserve:** Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), the Budget Stabilization One-Time Reserve is established when the City's economic stabilization reserves reach 10% of General Fund revenues. At FY 2018-19 year-end, this condition was met, and $37.4 million was deposited into this reserve. This report assumes a withdrawal of $37.3 million in FY 2019-20, consistent with the adopted FY 2019-20 budget.

- **Salary and Benefits Reserve:** This plan assumes maintaining the Salary and Benefits Reserve to support costs related to labor agreements not budgeted in individual departments. The projected reserve need decreases by $0.1 million in FY 2020-21, and increases by CPI in the remaining three years of this plan resulting in costs of $0.8 million in FY 2021-22, $0.7 million in FY 2022-23, and $0.7 million in FY 2023-24.

- **Litigation Reserve:** This reserve supports annual city liabilities related to claims, settlements, and judgments. This plan assumes $11.0 million in FY 2020-21, as previously appropriated, and continues at that level in all subsequent years.

Table A-6 outlines the projected uses, deposits, and balances of all reserves discussed above and in the Sources section of this plan.

Table A-6. Projected Uses, Deposits & Balances of Reserves FY 2019-20 through FY 2023-24 ($ Millions)

	FY 19-20 (Deposit)/ Use	FY 20-21 (Deposit)/ Use	FY 21-22 (Deposit)/ Use	FY 22-23 (Deposit)/ Use	FY 23-24 (Deposit)/ Use
General Reserve	(26.7)	(20.7)	(3.0)	(4.7)	(5.3)
Budget Savings Incentive Fund	-	-	-	-	-
Recreation & Parks Budget Savings Incentive Reserve	-	-	-	-	-
Rainy Day Economic Stablilization Reserve	-	-	-	-	-
Rainy Day One-Time Reserve	50.4	-	-	-	-
Budget Stabilization Reserve	-	-	-	-	-
Budget Stabilization One Time Reserve	37.3				
Salary and Benefits Reserve (2)	(23.5)	(23.5)	(24.3)	(25.0)	(25.7)
Litigation Reserve (2)	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL	**26.5**	**(55.1)**	**(38.3)**	**(40.7)**	**(41.9)**

	FY 18-19 Ending Balance (1)	FY 19-20 Ending Balance	FY 20-21 Ending Balance	FY 21-22 Ending Balance	FY 22-23 Ending Balance	FY 23-24 Ending Balance
General Reserve	127.3	154.0	174.6	177.6	182.3	187.6
Budget Savings Incentive Fund	87.0	87.0	87.0	87.0	87.0	87.0
Recreation & Parks Budget Savings Incentive Reserve	0.8	0.8	0.8	0.8	0.8	0.8
Rainy Day Economic Stablilization Reserve	229.1	229.1	229.1	229.1	229.1	229.1
Rainy Day One-Time Reserve	95.9	45.5	45.5	45.5	45.5	45.5
Budget Stabilization Reserve	359.3	359.3	359.3	359.3	359.3	359.3
Budget Stabilization One Time Reserve	37.4	0.1	0.1	0.1	0.1	0.1
Salary and Benefits Reserve (2)	-	-	-	-	-	-
Litigation Reserve (2)	-	-	-	-	-	-
TOTAL	**936.8**	**875.8**	**896.5**	**899.5**	**904.2**	**909.4**

*Excess ERAF amounts for FY 2019-20 and FY 2020-21 are assumed in the reserve deposits.

USES – SALARIES AND BENEFITS

This report projects General Fund supported salaries and fringe benefits to increase by $167.9 million in FY 2020-21, $101.6 million in FY 2021-22, $68.9 million in FY 2022-23, and $69.1 million in FY 2023-24. These increases, discussed in greater detail below, reflect current staffing costs and provisions in negotiated collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs.

Growth in salary and benefits have escalated significantly over recent years, and continue to be a considerable driver of increasing deficits in the final years of this report. The rise of salary and benefit costs over the four years of this plan represent 39% of the growth in the deficit projections - the largest expenditure driver of the escalating deficit. Notably, employer pension contributions are expected to spike in FY 2020-21 due to a number of factors, despite higher than expected returns for FY 2018-19. Further, employer costs associated with employee health benefits continue to far outpace general inflation.

Previously Negotiated Closed Labor Agreements & Current Staffing Costs

This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements, as well as other costs to maintain budgeted staffing levels. These costs are projected to be $116.2 million for FY 2020-21, $67.4 million in FY 2021-22, and $4.9 million in FY 2022-23. Costs for open contracts are discussed in the next section. Police and Firefighters' unions have closed MOUs through FY 2020-21. For Firefighters' unions, this report assumes the full cost of negotiated terms, including a wage increase of 3.0% for FY 2020-21. For Police unions, this report assumes the full cost of negotiated terms, including the negotiated wage increase of 3% for FY 2020-21 (2% starting in July 2020 and an additional 1% starting in January 2021). Miscellaneous unions have closed MOUs through FY 2021-22, and this report assumes the full cost of negotiated terms, including the negotiated wage increases of 3.5% for FY 2020-21 and FY 2021-22 (3% starting in July and an additional 0.5% starting in January of each respective fiscal year).

Projected Costs of Open Labor Agreements

Police and Firefighters' unions have open contracts starting in FY 2021-22 and will enter negotiations for MOUs with the City in spring 2021; therefore, beginning in FY 2021-22, this plan projects negotiated salary increases equal to the change in the CPI using the average projection of the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI. This corresponds to 3.38% for FY 2021-22, 2.94% for FY 2022-23, and 2.90% for FY 2023-24.

Miscellaneous employee unions will have open contracts starting in FY 2022-23, and similarly for projection purposes, this plan applies CPI for those open contracts. This corresponds to 2.94% for FY 2022-23 and 2.90% for FY 2023-24.

The additional salary and benefit costs for open labor agreements, using these assumptions, are projected to be $28.5 million in FY 2021-22, $90.7 million in FY 2022-23, and $90.4 million in FY 2023-24. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in spring 2021 for Police and Firefighters' unions and spring 2022 for miscellaneous bargaining units.

Health and Dental Benefits for Current Employees

Each year, the San Francisco Health Service System (HSS) negotiates subsequent year rates in the spring. The HSS Board adopts these rates in June, with approval by the Board of Supervisors in July. HSS holds open enrollment for employees every October.

Projections in this report assume average increases of approximately 5.4% in health rates in each year for active employees. Given these assumptions, health and dental insurance premium costs paid by the employer related to current employees are projected to increase by $13.4 million in FY 2020-21, $15.5 million in FY 2021-22, $15.9 million in FY 2022-23, and $17.3 million in FY 2023-24.

These rates are driven by utilization and the cost of health care. While the number of City employees is assumed to remain relatively stable, price increases on the provider side for pharmacy, high-cost claims, and more employees seeking health care could result in an increase in health care costs above what is assumed in this report. Changes to the Affordable Care Act at the federal level remain a risk, and efforts to repeal, replace, or otherwise change the law could have significant impacts on future health care costs. Other uncertainties include the rising cost of pharmaceuticals, and the removal of lifetime limits on health care expenses incurred by patients, both of which can result in increased costs of health care, and ultimately higher premiums.

Health and Dental Benefits for Retired City Employees

Charter Section A8.428 mandates health coverage for retired City employees. The projection assumes that the cost of medical benefits for retirees will increase by an average of 6.8% per year over the next four years, significantly faster than the general CPI. General Fund support for retiree health costs increases by $9.3 million in FY 2020-21, $7.6 million in FY 2021-22, $8.1 million in FY 2022-23, and $8.6 million in FY 2023-24. Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring employees hired after January 10, 2009 and the City to contribute 2% and 1% of pre-tax compensation, respectively, into a Retiree Health Care Trust Fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's effects by requiring all remaining employees to begin contributing to this fund beginning in FY 2016-17 with corresponding employer contribution. Starting July 1, 2016, employees hired before January 10, 2009 began contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% in each subsequent year, up to a maximum of 1%, with the City matching the contribution commensurately.

The key uncertainties for retiree health are the impact of the increasing cost of pharmaceuticals as well as whether the federal government will continue to suspend the federal Health Insurance Tax and the excise tax on high-cost employer health benefit places.

Retirement Plan Employer Contribution Rates

The majority of City employees are part of the San Francisco Employees' Retirement System (SFERS). Employer contributions to SFERS have increased significantly over the last several years, and this report projects that employer contributions will peak in FY 2020-21, and then gradually begin to taper downward. Details of the factors driving the change in contribution costs include:

- The decision by the Retirement Board to reduce the assumed rate of return from 7.5% to 7.4% in fall 2018 is a driver of higher employer contribution costs. The change in assumed rate of return reflects a trend in large public retirement plans in adopting rates under 7.5%, as projected future returns are expected to be lower than the past 10 to 20 years. This report assumes that SFERS meets the assumed return rate of 7.4% in each year of the projection. Any deviation from this assumed rate of return would significantly impact the employer contributions assumed in this report.

- Employer contributions have also been impacted by prior year returns not meeting the assumed rate of return in those years. Asset losses due to actual FY 2014-15 investment earnings of just under 4% and actual FY 2015-16 investment earnings of 1.3% (compared to the actuarially assumed rate of return of 7.5% per year) have been incorporated into the projection, with an assumed five-year smoothing which culminates in FY 2021-22.

- An appellate court ruling against the City which determined that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees' vested rights. Proposition C required that the Plan be 100% funded before it granted supplemental

COLAs. Since 2011, the earnings of Retirement System investments would have triggered two supplemental COLAs. The incremental cost of these two retroactive COLAs has been included in estimated contribution rates since FY 2017-18. Two additional supplemental COLAs were triggered by returns for FY 2016-17 and FY 2017-18. Preliminary returns for FY 2018-19 exceed the 7.4% assumed rate of return, triggering another supplemental COLA. The impact of these supplemental COLAs has been included in the projected rates and costs assumed in this plan. Of note, the assumed rates do not include the cost of any future supplemental COLAs. As prior year supplemental COLAs amortize, employer contribution rates begin to taper downward in the out-years of this projection.

The cumulative effect of these factors on employer contribution rates is a significant increase in FY 2020-21, followed by declining contributions in the out years. SFERS contribution rates are based on projections prepared by the Retirement System's Actuary in October 2019. They assume continuation of the SFERS Board adopted long term investment return assumptions of 7.4%. Projections reflect employee contributions to retirement required under Proposition C.

The maximum employer contribution rate for non-safety employees in salary band 2 is 20.9% in the current fiscal year. This rate is projected to increase to 22.9% in FY 2020-21, and then decrease to 21.4%, 18.8%, and 17.1% in FY 2021-22, FY 2022-23, and FY 2023-24, respectively. Rates for police and fire safety employees vary based on date of hire. This report assumes the weighted average employer contribution rate for FY 2019-20 for police officers and fire fighters was 20.3%, increasing to 22.3% in FY 2020-21, and then decreasing to 20.8%, 18.2%, and 16.5% over the following three fiscal years.

Employees not enrolled in SFERS, particularly some public safety personnel, are part of the California Public Employees Retirement System (CalPERS). For CalPERS members, the rate in the current year is 34.9%, and is projected to increase to 50.1% in FY 2020-21, and then decrease to 49.1%, 48.3%, and 47.4% in FY 2021-22, FY 2022-23 and FY 2023-24, respectively. The significant increase in FY 2020-21 is a result of a change in amortization schedule to reflect the fact that there are no new entrants to this plan, as new employees are enrolled in SFERS, and therefore the payroll base for contributions is no longer growing.

The net result of these changes to the employer share for SFERS and CalPERS contribution rates is an increase in total General Fund support of $43.8 million in FY 2020-21, followed by a General Fund reduction of $29.7 million in FY 2021-22, $52.6 million in FY 2022-23, and $35.3 million in FY 2023-24. These projections assume no increase in employee contributions.

Table A-7 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion.

Table A-7. Estimated Employer Contribution Rates for the Retirement System

San Francisco Employee Retirement System (SFERS)

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Estimated Total Contribution Rates	34.7%	33.2%	30.5%	27.2%
Non-Safety Employees				
Employee Contribution (1)				
Band 1, < $29.40/hour	7.5%	7.5%	7.5%	7.5%
Band 2, < $58.80/hour	11.0%	11.0%	11.0%	9.5%
Band 3, > $58.80/hour	11.5%	11.5%	11.5%	10.0%
Additional Rate Factors				
Band 1, < $29.40/hour	0.95%	0.90%	0.81%	0.69%
Band 2, < $58.80/hour	0.83%	0.78%	0.68%	0.62%
Band 3, > $58.80/hour	0.81%	0.76%	0.67%	0.60%
Estimated Net Employer Contribution (1)				
Band 1, < $29.40/hour	26.2%	24.8%	22.2%	19.0%
Band 2, < $58.80/hour	22.9%	21.4%	18.8%	17.1%
Band 3, > $58.80/hour	22.4%	20.9%	18.3%	16.6%
Police and Fire Safety Employees (2)				
Estimated Total Contribution Rates	35.3%	33.8%	31.1%	27.8%
Employee Contribution & additional rate factors	13.0%	13.0%	12.9%	11.3%
Estimated Net Employer Contribution	22.3%	20.8%	18.2%	16.5%

California Public Employee Retirement System (CalPERS)

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Total Estimated Contribution Rate	54.6%	53.6%	52.8%	52.0%
Employee Contribution & additional rate factors	4.5%	4.5%	4.5%	4.5%
Estimated Net Employer Contribution	50.1%	49.1%	48.3%	47.4%

(1) Employees' contribution is based on wages. The wages shown are based on the estimated FY 2020-21 wage floors.

(2) Employees' base contribution rates vary with hire date.

Other Salaries and Fringe Benefits Costs

Other salary and benefit cost changes are expected to be modest, with the biggest changes occurring due to the changing number of work days in a given fiscal year. Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. The current fiscal year (FY 2019-20) is a leap year and contains 262 workdays for regularly scheduled shifts, resulting in a significant General Fund cost. The following fiscal year (FY 2020-21) has 261 work days, resulting in a year-over-year savings of $9.5 million in FY 2020-21. Fiscal years 2021-22 and 2022-23 also have 261 work days. The final year of the projection, FY 2023-24, only has 260 work days, resulting in significant savings of $11.3 million.

Other salary and benefit costs have minimal projected changes.

USES – CITYWIDE OPERATING BUDGET COSTS

Over the next five years, the City will also incur increasing non-salary operating costs. Citywide non-salary operating costs are projected to increase by $66.9 million, $100.8 million, $67.3 million, and $79.5 million in FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Minimum Wage and Minimum Compensation Ordinance

Minimum wage laws in San Francisco govern base wages for all workers within the geographic perimeters of the City and County of San Francisco. The Minimum Compensation Ordinance (MCO) applies only to workers on contracts with the City and County of San Francisco.

In November 2014, voters adopted a Charter amendment increasing the local minimum wage from $11.05 to $15.00 per hour by July 2018. After reaching $15.00, the wage will increase by CPI on July 1 of every subsequent year, beginning in July 2019. This report assumes the cost of the future wage increases for minimum wage workers on city contracts supported by the General Fund.

In Fall 2018, the Board of Supervisors passed, and the Mayor signed, changes to the Minimum Compensation Ordinance raising the base wages above the San Francisco minimum wage for the following categories of workers: contracted employees at the San Francisco International Airport, for-profit contract workers, non-profit contract workers, and In-Home Supportive Services (IHSS) workers.

This report reflects the projected increased costs for the direct wage increases to non-profit workers on city contracts supported by the General Fund, which is subject to annual appropriation through the budget. Non-profit workers on city contracts received an MCO base wage of $16.50 per hour on July 1, 2019, with increases of CPI on July 1 of every subsequent year, beginning in July 2020.

This report assumes minimum wage and non-IHSS MCO costs as adopted in the FY 2019-20 and FY 2020-21 budget. In subsequent fiscal years, the report assumes inflationary increases, resulting in an increase in General Fund support of $0.5 million per year in FY 2021-22 through FY 2023-24.

Costs for wage increases to IHSS care providers are also assumed in this projection and are discussed later in the section titled "Human Services – IHSS and Other Benefit Costs."

Capital, Equipment, and Technology

Changes in funding for capital, equipment, and technology will result in General Fund cost increases of $20.5 million in FY 2020-21, $18.8 million in FY 2021-22, $14.7 million in FY 2022-23, and $26.7 million in FY 2023-24.

This projection assumes the adopted FY 2020-21 funding level for capital, IT, and equipment. Notably, the most recent two-year budget was the third to fully fund the General Fund cash capital budget in both years of the budget. Historically, the second year of the budget has contained a lower level of funding for General Fund cash capital, necessitating a large expenditure to bring that year to full funding in the following cycle; however, the FY 2019-20 and FY 2020-21 budget fully funded the capital plan in both years of the budget for $285 million in total funding. For General Fund cash capital spending in the remaining three out years of the plan, this report assumes funding will increase by 7% annually, as assumed in the City's Ten-Year Capital Plan. This growth will take the General Fund cash capital program to $180 million annually by FY 2021-22.

Citywide IT and communications costs for annual citywide technology projects are projected to decrease by $4.0 million in FY 2020-21, as reflected in the adopted budget. Technology costs are then projected to increase by $9.8 million in FY 2021-22, $1.6 million in FY 2022-23, and $1.9 million in FY 2023-24, consistent with the City's latest Information and Communication Technology (ICT) Plan for FY 2019-20 through FY 2023-24.

This report also assumes an increase in funding for major IT investments in the amount of $1.0 million in FY 2020-21, $5.7 million in FY 2021-22, $2.7 million in FY 2022-23, and $3.0 million in FY 2023-24. These funding levels are also consistent with the City's ICT Plan, and assume fully funding FY 2021-22 through FY 2023-24, in accordance with the plan. Major IT projects assumed to receive funding in this estimate include the cost of updating the Assessor-Recorder's property assessment and tax system, the cost of the citywide public safety radio replacement project, as well as the cost of replacing the City's computer-aided dispatch system.

Finally, the Department of Technology's rates are projected to increase by $2.7 million in FY 2020-21, primarily due to citywide technology projects to update the City's network infrastructure, cloud storage, and telephone systems. Rates are then projected to further increase by $3.5 million in FY 2021-22, $2.6 million in FY 2022-23, and $2.3 million in FY 2023-24, due to assumed inflationary increases on salaries and benefits as well as increased costs for major technology contracts.

Additionally, the City will incur costs to furnish and equip new and upgraded City facilities. These costs will increase by $14.4 million in FY 2020-21, decrease by $17.9 million in FY 2021-22 and $5.5 million in FY 2022-23, and subsequently increase by $5.3 million in FY 2023-24. These costs are related to projects such as the rebuilt Fire Station 35; the new Ambulance Deployment facility; the new facility for the San Francisco Police Department (SFPD's) Forensic Services Division and Traffic Company; the new SFPD Storage facility; the new office building and one-stop permit shop at 49 South Van Ness; and other Certificates of Participation and General Obligation bond funded capital projects.

Citywide equipment costs are projected to decrease by $4.6 million in FY 2020-21, as reflected in the previously adopted FY 2020-21 budget. To reach previous levels of investment as well as projected need, equipment costs are projected to increase by $5.6 million in FY 2021-22. Increased cost assumptions based on CPI result in annual $0.5 million increases in both FY 2022-23 and FY 2023-24.

Equipment is defined as an item costing $5,000 or more with an expected life span of three years or more. This projection assumes that no equipment purchases will be funded through the use of lease revenue bonds in any of the next four years. By using cash instead of debt financing, the City saves on financing costs, reducing the overall cost of equipment purchases over the long term.

Inflation on Non-Personnel Costs and Grants to Non-Profit Contractors

This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the CPI rate of 2.99% for FY 2020-21, 3.38% for FY 2021-22, 2.94% for FY 2022-23, and 2.90% for FY 2023-24. The projection also includes the adopted FY 2020-21 budgeted level of cost increases, including a 2.5% cost-of-doing business increase for non-profit providers. This results in a total General Fund cost increase of $14.0 million in FY 2020-21, $41.6 million in FY 2021-22, $37.4 million in FY 2022-23, and $38.0 million in FY 2023-24.

Debt Service & Real Estate

Over the next four years, total debt service and real estate costs are projected to increase by $27.3 million in FY 2020-21, $35.8 million in FY 2021-22, $6.8 million in FY 2022-23, and $6.0 million in FY 2023-24. This projection is based on current debt repayment requirements and projected debt service costs for investments anticipated in the Ten-Year Capital Plan, as well as cost increases related to the City's leased and owned real estate portfolio. This projection does not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection.

The increases over the next several years are primarily due to the repayment of Certificates of Participation (COPs) for major City Capital projects, including the replacement Animal Care and Control facility, the exit and relocation from the Department of Public Health office building, the relocation of administrative staff from the Hall of Justice, the new office building and one-stop permit shop at 49 South Van Ness, and debt service payments on other large capital facilities. The updated COP schedule reflects a shifting of anticipated issuances into the time horizon of this report, resulting in increased costs in the near term. Many of these projects also involve changing or new lease costs as City staff are relocated, or as existing leases expire and are reset to current market rates. These costs are captured in the total debt service and real estate cost increase above. This section will be updated as needed in the March 2020 projection after the release of the updated Ten-Year Capital Plan.

Sewer, Water, and Power Rates

The base case assumes increased General Fund transfers to the Public Utilities Commission (PUC) for the cost of sewer, water, and power expenses. Sewer and water rates have been adopted by the PUC Commission through FY 2021-22 to fund 24/7 operations and maintenance and planned capital improvement projects, including the Water System Improvement and the Sewer System Improvement Programs. For the purposes of this report, the four-year projections utilize the increases assumed in the Wastewater and Water Ten-Year Financial Plans. For FY 2020-21 and beyond, the power rate increases by $0.01 per kilowatt hour per year through FY 2023-24 due to increased operational and power costs at the Power Enterprise. Additionally, the Power Enterprise bills and pays the cost of natural gas provided by Pacific Gas & Electric and the Department of General Services to City departments. The increases in gas rates reflect increases in transportation costs, delivery of gas, and use of the pipelines. If these increases are implemented, the total General Fund impact resulting from the proposed increased sewer, water, and power rates is a cost of $1.9 million in FY 2020-21, $3.2 million in FY 2021-22, $3.2 million in FY 2022-23, and $3.0 million in FY 2023-24.

Other Citywide Costs

This category includes assumed increases in costs across citywide services, including fleet, risk management, and workers compensation costs. These items together result in increased General Fund costs of $3.3 million, $1 million, $4.7 million, and $5.3 million in the remaining four years of this report.

USES – DEPARTMENTAL COSTS

This section provides a high-level overview of significant departmental costs over the next four years. Table A-1 displays departmental cost increases of $3.9 million in FY 2020-21, $74.9 million in FY 2021-22, $41.1 million in FY 2022-23, and $48.9 million in FY 2023-24.

City Administrator's Office – Convention Facilities Subsidy

This plan assumes the General Fund subsidy to the Convention Facilities Fund will increase by $8.3 million in FY 2020-21, $3.6 million in FY 2021-22, $0.7 million in FY 2022-23, and $0.7 million in FY 2023-24. The FY 2020-21 cost increase is primarily driven by scheduled increase in expected debt service payments and increased operating costs for the convention center. The subsequent year transfer increases are due to the expiration of the use of fund balance as a source and higher expected debt service payments.

Elections – Number of Scheduled Elections

The number of elections and the associated costs for holding elections vary annually. Table A-8 includes the schedule for elections over the projection period. This schedule results in projected incremental savings of $2.0 million in FY 2020-21 over FY 2019-20, due to running only one election, and an additional cost of $2.2 million in FY 2021-22 due to a reduction in one-time state funding. In FY 2022-23, there is a cost of $0.4 million due to CPI and finally, an increase of $5.8 million in FY 2023-24 over the prior year due to another fiscal year with two elections. Any special election not included in this projection would result in increased General Fund costs dependent on the complexity of the ballot and the size of the electorate.

Table A-8. Schedule of Upcoming Elections, FY 2020-21 through FY 2023-24.

Fiscal Year	Date	Type
2020-21	November 2020	Consolidated Presidential General Election
2021-22	March 2022	Consolidated Direct Primary Election
2022-23	November 2022	Consolidated General Election
2023-24	November 2023	Municipal Election
2023-24	March 2024	Presidential Primary

Ethics Commission – Public Financing of Elections

The Ethics Commission administers the Election Campaign Fund. Annual General Fund deposits to the Campaign Fund are governed by ordinance, which require $2.75 per resident per fiscal year be made available, with up to 15% of the amount in the Fund. Funds not used in one election are carried over for use in the following election and the total amount in the Fund can never exceed $7.0 million.

The projection assumes General Fund deposits in all four years of the forecast to ensure sufficient available funds per ordinance requirements; eligible candidates qualify and accept disbursements each fiscal year based on qualifying criteria and limits as established under the law for the election cycle; and that Mayoral elections will be held in FY 2023-24. Under these assumptions, General Fund costs will decrease by $4.7 million in FY 2020-21 and decrease by an additional $0.4 million in FY 2021-22, with no additional costs in the final two years of the plan. These decreases are a result of a large General Fund deposit made in FY 2019-20 due to the Mayoral election in November 2019. These costs are highly sensitive and subject to change due to the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Free City College

In February 2017, San Francisco became the first city in the nation to offer free community college tuition to its residents. The Free City College Program allows California residents who live in San Francisco to attend City College of San Francisco tuition-free, and provides stipends to students that receive enrollment fee waivers from the State in order to make higher education accessible to as many San Franciscans as possible. At the end of FY 2018-19, the City entered into a new MOU with City College, which set the City's financial commitment to this program at approximately $15 million, growing by CPI in each year. To meet this commitment, this report assumes a General Fund increase of $9.1 million in FY 2020-21, an increase of $0.7 million in FY 2021-22, and increases of $0.5 million in FY 2022-23 and in FY 2023-24.

Mission Bay Transportation Improvement Fund

The Golden State Warriors have completed construction of a multipurpose event center, retail, and office project at 16th Street and 3rd Street in Mission Bay. In November 2015, the Mayor and Board of Supervisors approved the creation of the Mission Bay Transportation Improvement Fund to pay for public infrastructure improvements, equipment, and public services to address the community's transportation needs and other impacts in connection with events at the center. The event center opened in September 2019, and this report assumes increased costs that will be offset by increased revenue. This report projects estimated annual incremental project costs of $0.2 million in FY 2020-21, $0.2 million in FY 2021-22, $0.1 million in FY 2022-23, and $0.2 million in FY 2023-24. These costs will be funded entirely with revenues generated by the arena and event space through increased property, business, sales, hotel, utility user, and stadium admission taxes.

Mayor's Office of Housing and Community Development - HOPE SF and the Local Operating Subsidy Program

Over the next four years, costs related to HOPE SF and the Local Operating Subsidy Program (LOSP) will require an increase in General Fund support of $3.4 million in FY 2020-21, $12.6 million in FY 2021-22, $1.1 million in FY 2022-23, and $7.8 million in FY 2023-24. The majority of the cost growth is related to LOSP, an initiative which funds the on-going operations and provides services in supportive housing units for formerly homeless individuals. Cost growth in this program is largely due to the 880 new units expected to come online over the next four years.

Human Services Agency – IHSS and Other Benefit Costs

Changes to major aid programs administered by the Human Services Agency (HSA), including In-Home Supportive Services (IHSS) and the Title IV-E Waiver, will result in increased General Fund support over the next four years. General Fund costs are projected to grow by $3.2 million in FY 2020-21, $18.0 million in FY 2021-22, $18.1 million in FY 2022-23, and $10.3 million in FY 2023-24.

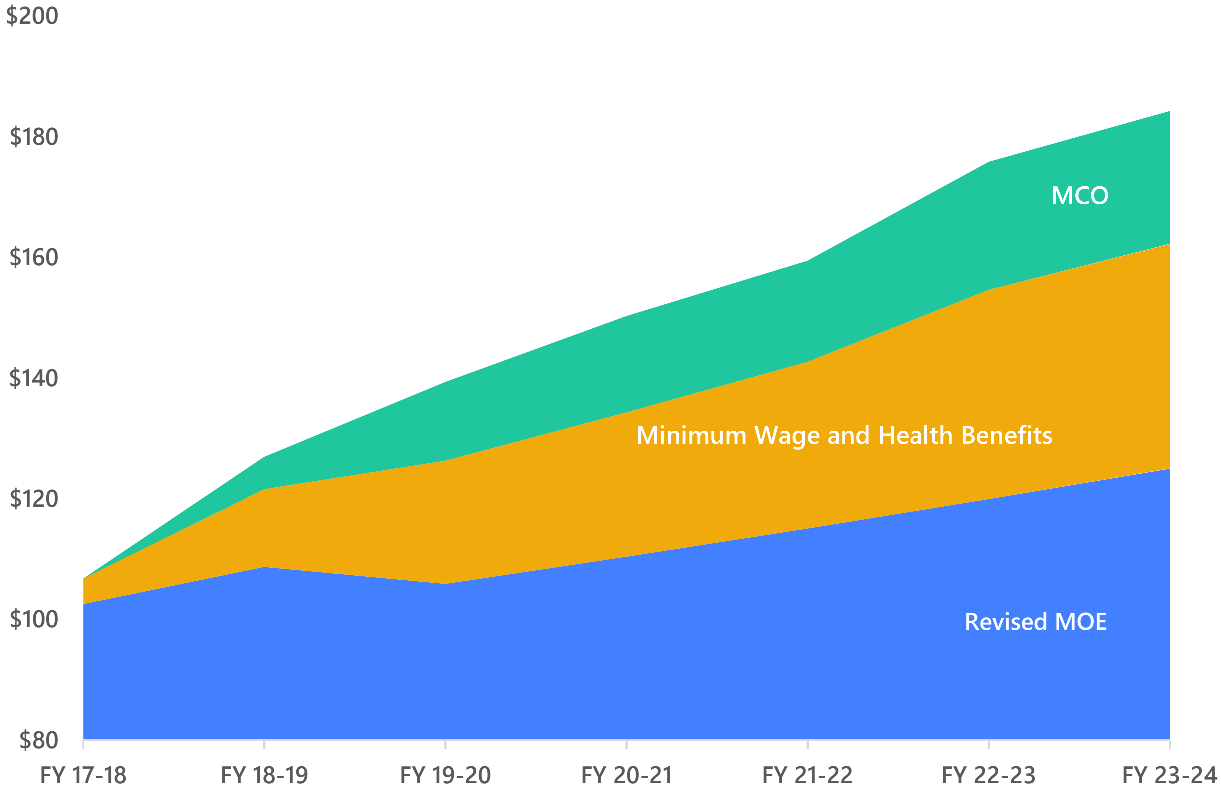
- **In-Home Supportive Services.** In-Home Supportive Services (IHSS) is an entitlement program which provides homecare services to 22,000 low-income elderly, disabled, and/or blind San Franciscans, enabling them to live safely in their own homes rather than in a nursing home or other group care facility. The program employs over 20,000 individuals in San Francisco as independent providers who assist clients with domestic and personal care services.

  Since FY 2012-13, counties' share of IHSS costs has been based on a "maintenance of effort" (MOE) framework. This initially resulted in modest and predictable growth in counties' share of IHSS costs, while the State took on a relatively larger proportion of the program's rising costs. In FY 2017-18, however, the state budget reset the MOE at a higher level and increased the annual inflationary factor. The State also made legislative changes that resulted in additional instances in which a county's MOE would increase, including local minimum wages and contracting costs, and added a cap on administrative expenses – all of which have led to greater costs to San Francisco.

  Locally, the City has also made legislative changes that further increased the costs of the IHSS program. The Minimum Compensation Ordinance (MCO), which passed in fall 2018, raises the base wages for several types of workers, including IHSS workers, above the San Francisco minimum wage. By FY 2022-23, the MCO base wage for IHSS care providers is slated to reach $18.75 per hour, subject to annual appropriation, and increase by CPI on July 1 of every subsequent year, beginning in July 2023. The City's share of the increased wages for IHSS workers is reflected as an increase to the IHSS MOE.

  MOE changes were finalized in the FY 2019-20 state budget, which ultimately reduced MOE costs to San Francisco from the projections detailed in the FY 2019-20 through FY 2023-24 Five-Year Financial Plan. Nonetheless, IHSS remains a considerable expense to the City's General Fund that continues to grow each year, driven in part by the City's MCO. From FY 2017-18, when the State changed the structure of the MOE, until FY 2023-24, IHSS costs to the City are projected to grow by $77.5 million, with a total cost of $184 million in FY 2023-24, as shown in Figure 9. Based on current estimates, costs to the General Fund for IHSS are expected to increase by $5.2 million in FY 2020-21, by $9.1 million in FY 2021-22, an additional $16.4 million in FY 2022-23, and finally, an increase of $8.5 million in FY 2023-24.

Figure 9. Annual County IHSS Costs Since State Law Change ($ Millions)



- **Title IV-E Waiver.** Another set of benefit-related costs within HSA is due to changes in federal funding for family and children's services. The Title IV-E Waiver, in effect since September 2014, has allowed San Francisco's child welfare and juvenile justice departments to shift federal out-of-home placement dollars to preventive services. Under the IV-E waiver, San Francisco has invested in programs and services for families and children with the goals of improving permanency outcomes, increasing child safety, promoting family engagement, and decreasing re-entry. With the waiver ending in fall 2019, these investments are no longer eligible for the same levels of federal funding. While it is likely that new federal legislation will provide funds to mitigate some local impact of the waiver ending, at the time of this report, no federal legislation had been finalized. This report assumes investments continue at the same levels of service with support from the General Fund covering costs in lieu of federal funding.

- **Other public benefit costs.** Finally, HSA projects that aid payments to clients (including programs such as CAAP, Foster Care, CalWORKS, Care Not Cash, and others) result in a General Fund increase of $1.8 million in FY 2020-21, an increase of $1.2 million in FY 2021-22, an increase of $1.4 million in FY 2022-23, and an increase of $1.5 million in FY 2023-24. These changes are primarily due to higher than projected caseloads in foster care, higher than projected costs per case for kinship guardian cases, and the application of annual inflationary increases in benefit amounts for CalWORKs and CAAP in a manner consistent with state and local law.

Public Health – Operating and One-Time Costs for Capital Projects

Since the passage of the $311.0 million Public Health and Safety Bond in June 2016, DPH is making essential capital improvements at the Zuckerberg San Francisco General Hospital campus and renovating the Southeast Health Center, Maxine Hall Health Center, and Castro-Mission Health Center. Additionally, the department will continue with plans to consolidate its offices and clinics currently located in the Civic Center to more efficient, seismically safer, and geographically appropriate locations. The FY 2019-20 budget included appropriations of one-time expenditures for moving and for furniture, fixtures, and equipment (FF&E) associated with these and other one-time projects. This report reflects the year-over-year savings associated with the expiration of these one-time appropriations in FY 2020-21.

Offsetting the assumed savings from the expiration of moving, FF&E, and other one-time costs, this report assumes continued increases in pharmaceutical costs, reflecting a multi-year nationwide trend. This report also projects increases in other hospital operating costs, particularly wage and benefit increases mandated by the University of California affecting physicians and staff under the University of California San Francisco Affiliation Agreement with Zuckerberg San Francisco General Hospital.

Together these changes in operating and one-time costs result in projected savings of $15.1 million in FY 2020-21, followed by increases of $30.4 million FY 2021-22, $20.9 million in FY 2022-23, and $22.3 million in FY 2023-24.

Buffin Supplemental – On-going Costs

This report assumes the on-going implementation costs of a new pre-arraignment release process in lieu of cash bail, as stipulated by the September 2019 settlement in the case of *Buffin et al. vs. Vicki Hennessy in her official capacity as Sheriff*. The appropriation of supplemental funding for the Sheriff's Department, the Police Department, and the District Attorney was passed by the Board of Supervisors and signed by the Mayor in November 2019. This report assumes annualized costs of $3.1 million in FY 2020-21, a savings of $0.7 million in FY 2021-22, and increased costs of $0.1 million in FY 2022-23 and FY 2023-24.

All Other Departmental Savings/(Costs)

This section includes other departmental changes including the expiration of limited-term project costs and several other small changes. These items together result in General Fund savings of $1.7 million in FY 2020-21, and then increased costs of $8.4 million in FY 2021-22, savings of $0.8 million in FY 2022-23, and costs of $1.4 million in FY 2023-24.

Recession Scenario

Due to the difficulty of predicting recessions, the base case of this report does not anticipate an economic contraction in any of the next four years. However, it would be an historical anomaly if the City did not experience an economic downturn over the next four years. Based on the historical length of economic expansions as discussed previously in the report, it is likely that a significant economic slowdown or recession will occur prior to FY 2023-24.

The biggest impact on the City's budget deficits in a time of recession come from reduced revenue and increased employer contribution rates for employee retirement benefits. The City's revenues are affected by the overall business cycle; the international, national, and regional economies; state and federal budget decisions; consumer confidence and spending; employment rates; and travel and tourism. Historically, projection variances follow the economic cycle, and revenues tend to outperform expectations in times of expansion and underperform in times of recession. Actual revenues exceeded budgeted revenues by over 6% in FY 2005-06 and FY 2010-11, both years of rapid revenue growth, but were more than 4% below budgeted revenues in FY 2002-03 and FY 2008-09, years of sharp economic contraction.

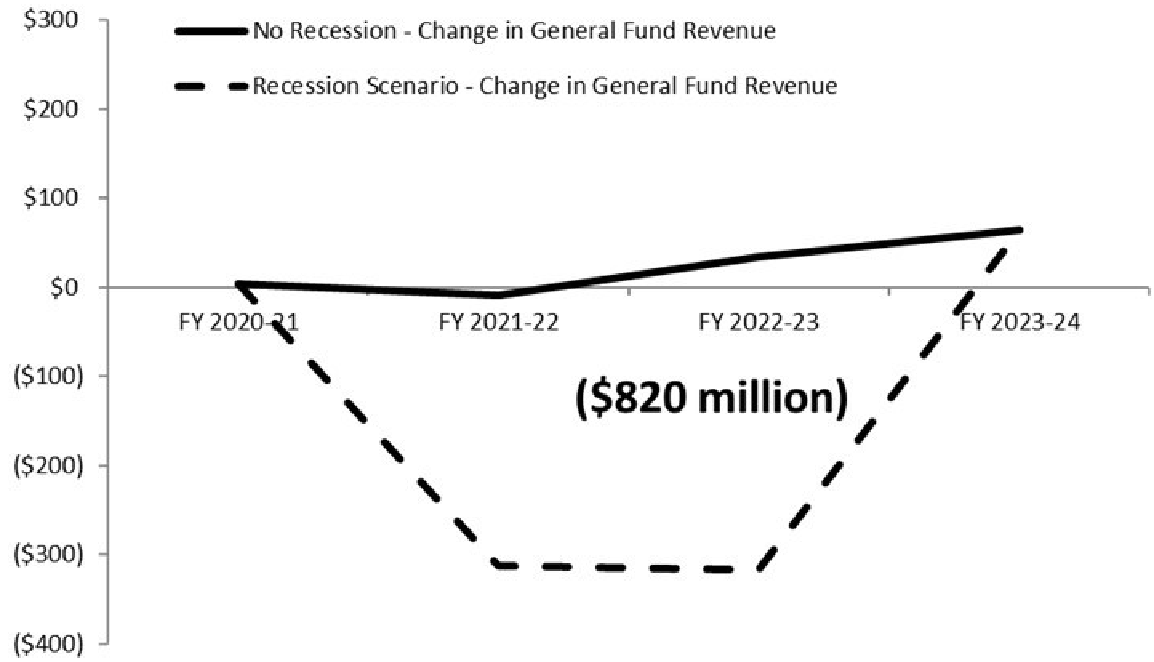
To illustrate the effect of a hypothetical recession on San Francisco's fiscal condition, this section describes a recession scenario that assumes weakness in the California and San Francisco economies beginning in FY 2021-22.

ECONOMIC ASSUMPTIONS INCLUDED IN THE RECESSION SCENARIO

Recession Scenario – Impacts on Revenue Projections

This scenario assumes rates of revenue loss in major local tax sources consistent with the average declines experienced during the last two economic downturns - from FY 2001-02 through FY 2003-04 (the dot-com/September 11th recession) and FY 2008-09 through FY 2010-11 (the 2008 global financial crisis). Reductions in the City's projected aggregate discretionary revenue would result in reduced contributions to baselines and set-asides affecting the MTA, the Department of Children, Youth and Their Families, the Library, Recreation and Parks, and the San Francisco Unified School District, and would also result in lower required deposits to the General Reserve, which are also assumed. Using these parameters, the net revenue loss from a recession beginning in FY 2021-22 would be approximately $820 million over the remaining three years of the forecast period compared to the base case described in this plan. Figure 10 shows the difference between base case and recession scenario revenue projections.

Figure 10. Comparison of Revenue in Base Case and Recession Scenarios Cumulative Change in Selected Local Taxes



Note: Selected local taxes include business, hotel, sales, RPTT, and parking taxes.

Recession Scenario – Impact on Pension Contributions

An economic recession will also likely result in a significant increase in employer pension contribution rates. The recession scenario therefore assumes a shock to SFERS assets during FY 2021-22 equivalent to the loss experienced during the 2008 global financial crisis and aftermath, which would affect contribution rates in FY 2023-24 and beyond the plan period, as the valuation at June 30, 2022 determines the contribution rates for the fiscal year beginning July 1, 2023. The FY 2021-22 asset losses are then smoothed into the June 30, 2022 actuarial value of assets and employer contribution rates would increase beginning in FY 2023-24. In this scenario, employer contribution rates would rise by 3.9% in FY 2023-24 and future years, with further increases possible depending on how quickly the economy recovers. The prior Five-Year Financial Plan's recession scenario included two years' losses, while this updated plan only has one year due to the assumed timing of the recession. This estimate is intended to demonstrate sensitivity to a large negative return and should not be relied upon for any other purpose.

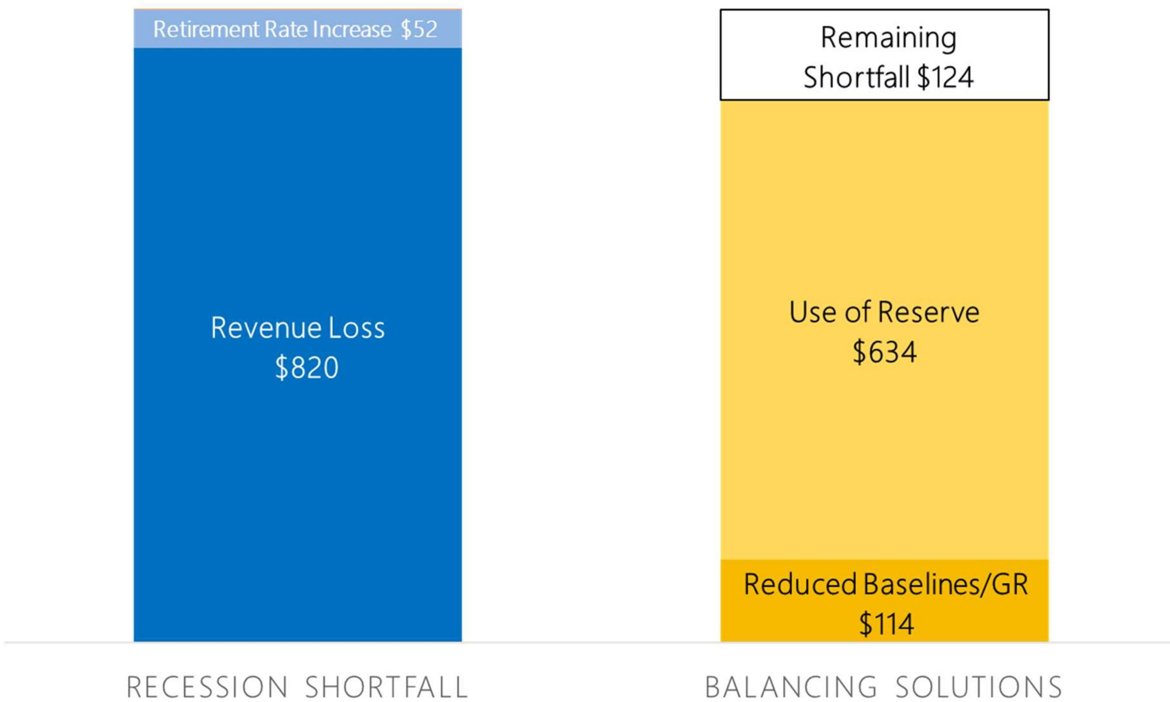
Recession Scenario – Reserve Withdrawals and Other Solutions

The City's reserve policies are designed to help offset the impact of the revenue losses described above. The recession scenario assumes the maximum allowable use of the Budget Stabilization, Rainy Day, and General Reserves, or $269.5 million in FY 2021-22, $211.8 million in FY 2022-23, and $140.7 million in FY 2023-24.

Additionally, as described previously, the reduction in the City's projected aggregate discretionary revenue would result in reduced contributions to baselines and set-asides, estimated at approximately $114 million.

This plan projects that if an economic downturn similar to the two most recent recessions were to begin in FY 2021-22, it would increase the City's projected deficits by $73.2 million and $50.5 million in FY 2022-23 and FY 2023-24, respectively, requiring total additional solutions of approximately $124 million.

Figure 11. Projected Recession Shortfall and Balancing Solutions



San Francisco's Charter requires that each year's budget be balanced. The recession scenario detailed in this plan was modeled after the City's financial experience during the last two recessions; future economic slowdowns or reductions from the federal government could be less or more severe. As noted earlier in this report, significant risk from the federal budget and other policy changes at the federal level remain. In all cases, continuing to improve reserve balances and investment in critical one-time capital, equipment, and IT needs during periods of growth will help the City better weather the next economic downturn.