File No. 141268

Committee Item No. 5
Board Item No. 20

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee — **Date** April 15, 2015

Board of Supervisors Meeting — **Date** April 21, 2015

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☐	☐	Ordinance
☐	☐	Legislative Digest
☐	☐	Budget and Legislative Analyst Report
☐	☐	Youth Commission Report
☐	☐	Introduction Form
☒	☒	Department/Agency Cover Letter and/or Report
☐	☐	MOU
☐	☐	Grant Information Form
☐	☐	Grant Budget
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☐	☐	Contract/Agreement
☐	☐	Form 126 – Ethics Commission
☐	☐	Award Letter
☐	☐	Application
☐	☐	Public Correspondence

OTHER **(Use back side if additional space is needed)**

Completed by: Linda Wong **Date** April 10, 2015
Completed by: L.W. **Date** April 16, 2015

FILE NO. 141268 RESOLUTION NO.

[Five-Year Financial Plan - FYs 2015-2016 through 2019-2020]

Resolution adopting the City's Five-Year Financial Plan for FYs 2015-2016 through 2019-2020 pursuant to Charter, Section 9.119.

WHEREAS, Charter, Section 9.119, requires the Mayor to propose and the Board of Supervisors to review, amend, and adopt in odd-numbered years a Five Year Financial Plan to be used as a tool to plan for future City budgets; and

WHEREAS, Charter, Section 9.119, provides that the City shall adopt the third City-wide five-year plan by May 1, 2015; and

WHEREAS, The Mayor has submitted his proposed five-year plan to the Board of Supervisors for its consideration, which is on file with the Clerk of the Board of Supervisors in File No. 141268, and which is hereby declared to be a part of this resolution as if set forth fully herein; and

WHEREAS, The Board of Supervisors has reviewed the plan including the following set of financial strategies designed to ensure fiscal stability: 1) restructuring the City's debt and capital programs, 2) managing employee wage and benefits costs, 3) seeking additional tax, fee, and other revenues, 4) limiting non-personnel inflation, 5) identifying on-going departmental revenues and savings, 6) other additional revenues and savings; now therefore be it

RESOLVED, That the Board of Supervisors adopts the Mayor's proposed plan and the financial strategies outlined therein, with such amendments and revisions as the Board deems appropriate, as the City's Five-Year Financial Plan for FYs 2015-2016 through 2019-2020, as provided in Charter, Section 9.119.

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Proposed
Five Year Financial Plan

Fiscal Years 2015-16 through 2019-20

DECEMBER 9, 2014

Acknowledgements

Department	Staff
Mayor's Budget Office	Kate Howard, Ted Conrad, Jason Cunningham, Antonio Guerra, Jessica Kinard, Kelly Kirkpatrick, Carol Lu, Marisa Pereira Tully, Emily Seip, Chris Simi, Melissa Whitehouse
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Executive Summary

PURPOSE OF THE PLAN

The Five Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The City Charter requires the plan to forecast expenditures and revenues during the five year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments.

ECONOMIC OVERVIEW

Presented in this Plan is an overview of the economic context which informs the revenue projections in the Five Year Outlook.

FIVE YEAR OUTLOOK

Over the next five years, the Financial Plan expects that the City will experience continued economic growth which will in turn support continued but slower growth in tax revenues. In addition, the Five Year Financial Plan shows that the cost of City services is projected to outpace revenue growth during the five year period. If the City does not take corrective action, the gap between revenues and expenditures will rise from $15.9 million to approximately $417.9 million from Fiscal Year (FY) 2015-16 to FY 2019-20.

Table 1: Base Case – Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall) FY 2016-20 ($ in millions)

	Savings/ (Cost) Change from Prior Year, $ Million				
Sources	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(60.8)	6.9	(123.2)	-	-
Regular Revenues, Transfers, & Other	200.7	106.0	164.3	136.8	136.1
Subtotal - Sources	**139.9**	**112.9**	**41.2**	**136.8**	**136.1**
Uses					
Salaries & Benefits	(33.9)	(58.5)	(76.1)	(72.1)	(100.0)
Other Expenditures, Reserves & Transfers	(122.0)	(126.8)	(151.6)	(155.9)	(87.9)
Subtotal - Uses	**(155.9)**	**(185.2)**	**(227.7)**	**(228.0)**	**(187.9)**
Total Net General Fund Impact (from Prior Year)	(15.9)	(72.3)	(186.6)	(91.2)	(51.8)
Projected Cumulative Surplus / (Shortfall)	**(15.9)**	**(88.3)**	**(274.8)**	**(366.1)**	**(417.9)**

Total expenditures are growing by $984.7 million over the next five years, which represents an increase of 23%. During the five years of the Plan, baselines and reserves are growing by $158.1 million (16% of total expenditure growth), employee salary, pension, and fringe benefit costs are growing by $340.6 million (35% of total expenditure growth), citywide operating costs are growing by $402.0 million (41% of total expenditure growth), and departmental costs are growing by $84.0 million (8% of total expenditure growth).

In contrast to this expenditure growth, available General Fund sources are projected to grow $566.9 million over the same period, for an overall growth of 13%. As required, the City will need to implement strategies to close the gap between sources and uses and preserve and strengthen fiscal stability.

FISCAL STRATEGIES

Despite the fact that the City projects deficits over the next five years if proactive steps aren't taken to address the imbalance between revenues and expenditures, the City is in a much better fiscal position than it was in four years ago. In 2011 when Mayor Lee took office, the City's deficit was projected at $382 million and the unemployment rate was 9.4%; today, projected deficits over the next two years are both below $100 million and unemployment has fallen to 4.4%. It is important in these better economic times to be responsible stewards of the City's growth, ensuring that new expenditures are added only at a rate commensurate with growing revenues. This will reduce the need for more drastic actions if the economic cycle takes a downward turn in the future. The following fiscal strategies show how the City can continue to grow but at a more sustainable to pace ensure projected deficits are closed each year:

Table 2: Proposed Fiscal Strategies ($ in millions)

Base Case Outlook ($ millions)	**FY 15-16**	**FY 16-17**	**FY 17-18**	**FY 18-19**	**FY 19-20**
Cumulative Projected Surplus (Shortfall)	(16)	(88)	(275)	(366)	(418)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	-	37	43	46	50
Manage Employee Wage and Benefit Costs	-	4	30	60	90
Taxes, Fees & Other Revenues	5	10	88	94	99
Limit Non-Personnel Inflation	-	8	17	25	35
On-Going Departmental Revenues & Savings Initiatives	-	16	31	46	61
All Other Revenues and Savings	11	13	67	96	83
Adjusted Outlook	**0**	**0**	**0**	**0**	**0**

These strategies represent achievable targets, which seek to slow projected growth while the City develops additional revenue, savings, and operational proposals that may require multi-year planning efforts.

New to the Plan this year is a more detailed focus on the potential impact of an economic downturn on the City's five year outlook. The base case does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over five years ago, rendering the likelihood of a slowdown or a decline in revenue growth increasingly likely during the period that this Plan addresses. If an economic slowdown were to occur, the fiscal strategies shown above would be insufficient to close broader gaps between revenues and expenditures. In such an event, the City would be required to take more significant measures to bring budgets back into balance, which are discussed in the "Planning Scenario: Economic Recession" section of this report.

Detailed projections regarding the base case, fiscal strategies and recession scenario are included starting on page 15 of this report.

STRATEGIC ISSUES BY MAJOR SERVICE AREA

The Five Year Financial Plan also includes discussion of departments by major service area. Significant departmental issues identified in the Plan include:

- **Public Protection:** Multi-year hiring plans at the Department of Emergency Management and the Police, Fire, and Sheriff's departments; and the continued planning and construction of large capital projects through the City's G.O. bond and General Fund debt programs, as well as the on-going costs associated with these large one-time investments.

- **Public Works, Transportation & Commerce:** Planning and construction of large-scale development and capital projects, including implementation of the new Transportation and Road Improvement G.O. bond; maintaining and improving the condition of the City's streets and public right-of-way; improving services to businesses; and investing in vibrant, diverse neighborhoods.

- **Human Welfare & Neighborhood Development:** Continued expansion of Medi-Cal under the Affordable Care Act; the implementation of the newly renewed and amended Children and Youth Fund and Public Education Enrichment Fund; and continuing to monitor and adapt to large fiscal and policy changes enacted at the state and federal levels.

- **Community Health:** Managing the implementation of the Affordable Care Act; completing the SF General Hospital rebuild project in addition to planning for other capital projects; and modernizing legacy IT systems.

- **Culture & Recreation:** Preserving and improving recreational and cultural assets, including the implementation and completion of projects like the Veterans Building seismic upgrade and improvements project, the Branch Library Improvement Plan, and capital projects tied to the Clean and Safe Parks Bond; and aligning services and operations to match growing demand at parks and libraries.

- **General Administration & Finance:** Continuing to implement major housing initiatives through the Mayor's Office of Housing and Community Development and City Administrator's Office; implementing major technology system replacements and improvements in a number of departments; and strengthening in-house capacity of investment staff at the Retirement System.

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ECONOMIC OVERVIEW

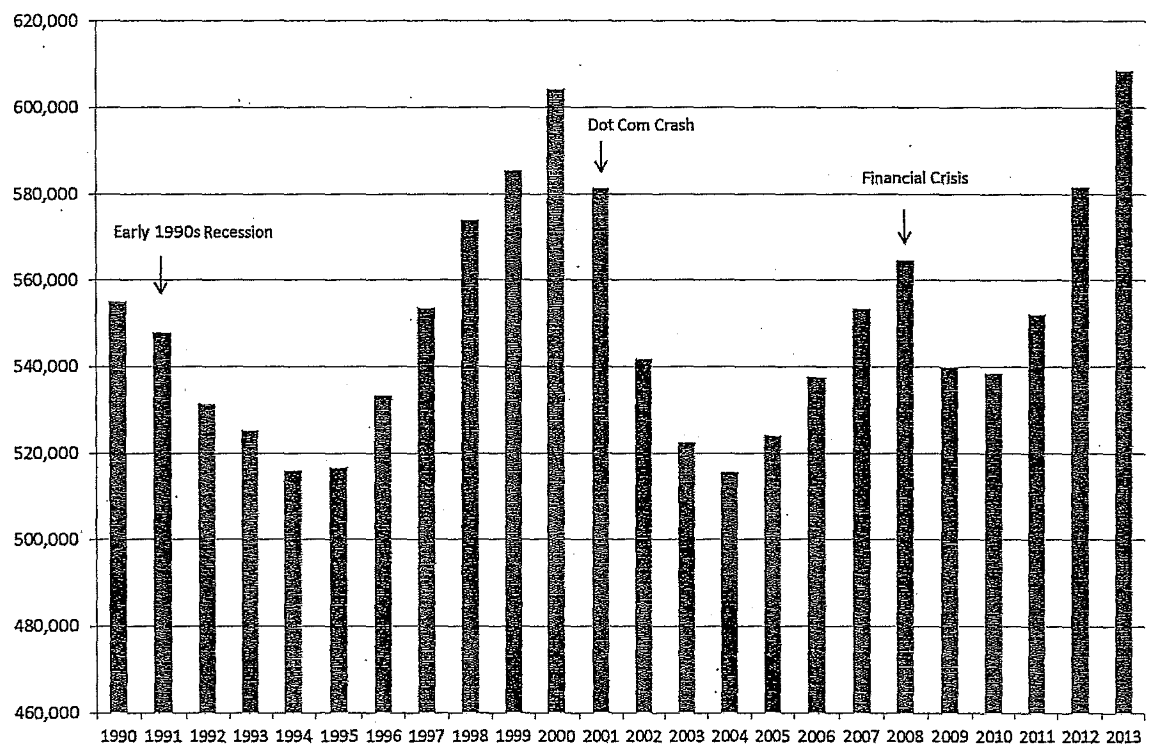
The FY 2015-16 through FY 2019-20 Five Year Financial Plan is the third such plan produced by the City and County of San Francisco. The first Five Year Financial Plan covered fiscal years 2011-12 through 2015-16 and was released in March 2011. Significant changes have occurred since that time. The local and regional economies recovered from the 2008 financial crisis more rapidly than projected, particularly when compared to the state and nation. However, signs of an economic slowdown have emerged. This overview summarizes the City's economic history, current recovery, and impending slowdown, which informs both the base case revenue growth and recession scenario presented in this Plan.

LOOKING BACK

San Francisco's Economic Recovery: 2010-2013

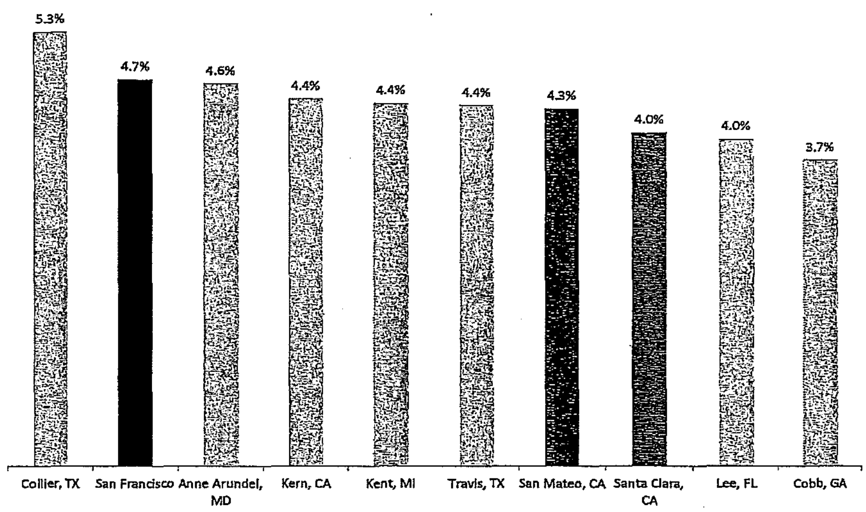
Employment. San Francisco's employment reached its all-time high in 2013, surpassing the previous peak in 2000. San Francisco added more than 70,000 jobs from 2010 to 2013. The 4.2% annual job growth rate during this period exceeded the 3.2% employment growth rate seen during the 1995-2000 growth period. During the entire period for which county-level employment data are available, dating back to the 1960s, the City has never seen a more rapid period of expansion in jobs than the 2010-2013 period.

Figure 1: Total San Francisco Employment, 1990-2013



This rate of economic recovery was rapid not just by San Francisco standards. During the 2011-13 period, San Francisco was the second-fastest growing large county in the United States, behind only Collier County, Texas, a suburban county outside of Dallas. Average annual total employment grew 4.7% in San Francisco, compared to 5.3% in Collier County. The City was joined in the top ten by two other Bay Area counties, San Mateo and Santa Clara counties, which also experienced strong economic recoveries and employment growth rates during the 2011-2013 period of 4.3% and 4.0%, respectively.

Figure 2: Total Employment, Average Annual Growth 2011-2013: 10 Fastest Growing Large U.S. Counties



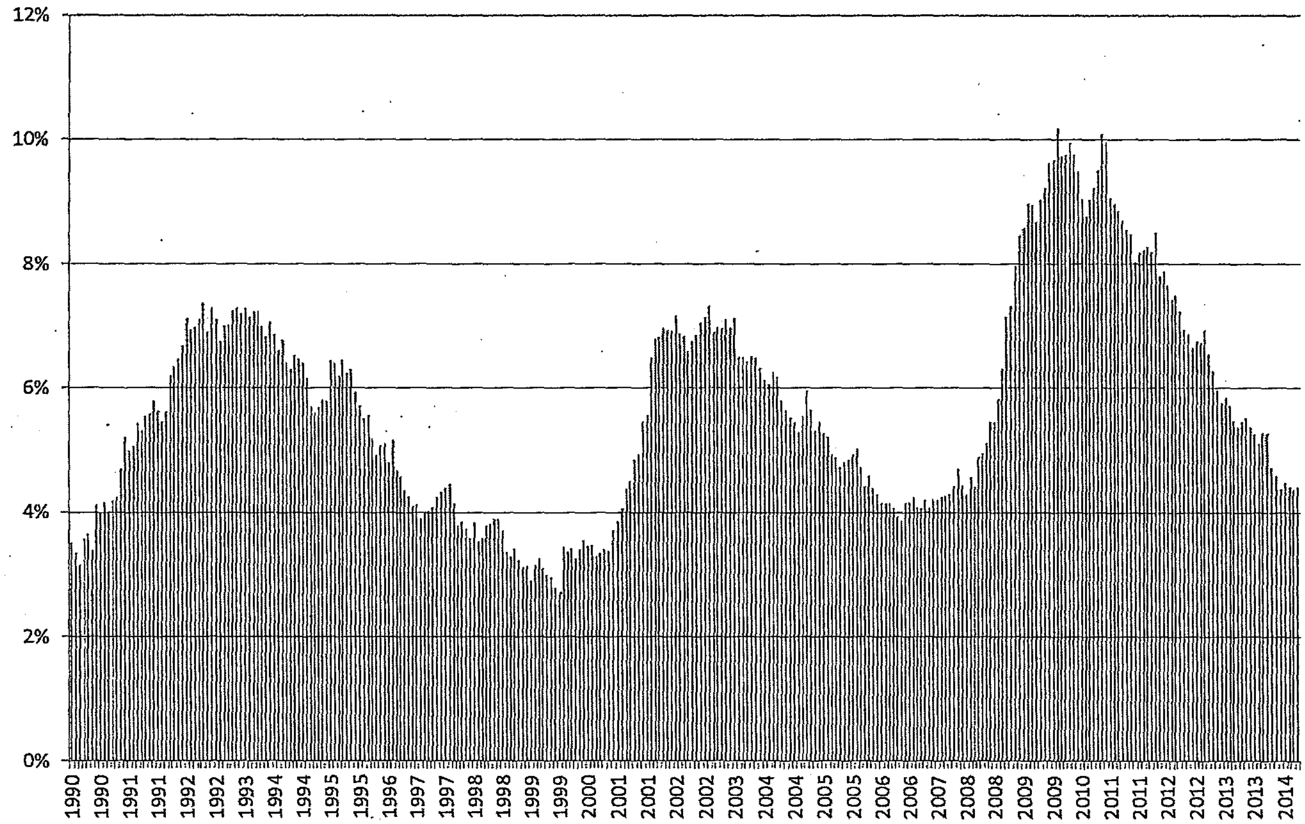
According to the most recent county-level employment data, the City's recovery has continued to be broad-based through 2013. Every industry in the City added jobs on a net basis during 2013, with the exception of financial activities and traditional, non-tech manufacturing.

While the City's economic recovery was clearly led by the tech sector, which continued to grow by close to 16% during 2013, the majority of jobs created in the City have been in other industries. The tech sector accounts for approximately 34% of the private sector job growth in the City from 2010 to 2013.

Unemployment. The City's unemployment rate for resident workers has dropped as employment has grown. Unemployment reached 10% in 2010, but has dropped to 4.4%, on a seasonally-adjusted basis, by June 2014 and has remained at that level at the time of writing.

The City's unemployment rate has dropped below 4% during the three previous economic peaks, but only consistently reached below 3.5% between 1998 and 2000. In the 2008 economic peak, unemployment never reached below 3.9% on a seasonally-adjusted basis. Given this experience, it seems unlikely that the City's unemployment rate can continue to decline at the rate that it has for much longer.

Figure 3: San Francisco Unemployment Rate, January 1990 – September 2014 (Seasonally-Adjusted)



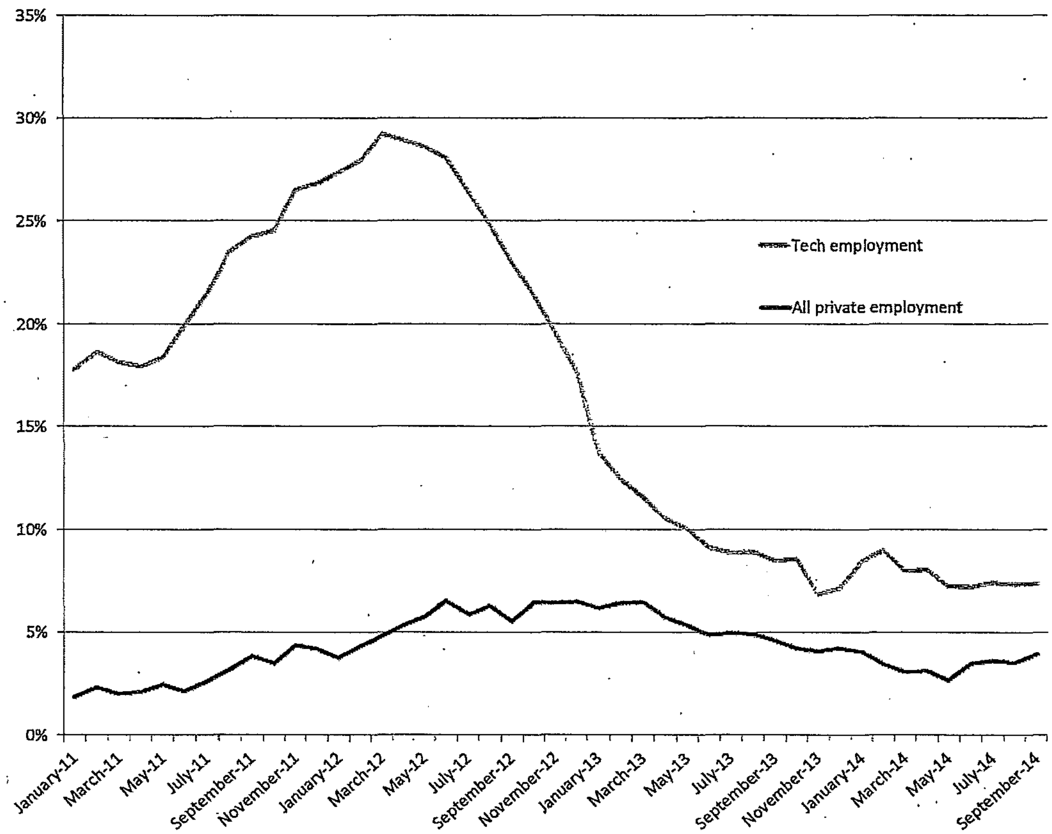
Signs of Slower Growth: 2013-14

Employment. Although the City grew rapidly from 2010 to 2013, an analysis of monthly data for the metropolitan division (San Francisco, San Mateo, and Marin counties) shows a clear slowdown in growth in the second half of 2013, and through most of 2014. Total private employment was growing faster than 6% per year through the second half of 2012 and into 2013, but has grown at less than 4% per year since February 2014.

As the technology industry has been the primary driver of employment growth in both the region and the City, it is not surprising that that the slowdown in total employment was proceeded by a slowdown in technology employment – albeit only from an annual growth rate exceeding 20% through 2012 to one between 7-8% in 2014.

Monthly job data for 2014 are not yet available for San Francisco itself. However, the City contains 60% of the employment of the three-county region, and it is likely that the general trend in the City mirrors that of the region.

Figure 4: Percent Change in Employment from Prior Year, Tech Employment and Total Private Employment January 2011 – September 2014, San Francisco Metropolitan Division



Commercial Space. A limiting factor behind the employment slowdown is available commercial space. Based on estimates from Moody's Analytics, 40,000 of the 70,000 jobs San Francisco has added since 2010 have been office jobs. However, according to data provided by Cushman & Wakefield, the City has added only 1.6 million square feet of office space between 2010 and 2014 – enough to contain only 6,000 – 8,000 new jobs at typical employment densities.

In this context, the commercial vacancy rate fell quickly from close to 18% in 2010 to below 12% by the end of 2012. Since then, it has fallen much more slowly, corresponding to the time of slower employment growth discussed earlier. Since commercial vacancy is unlikely to fall further – it never fell below 9% in the 2008 peak period, for example – and the City is supply-constrained, office availability is likely to limit employment growth for the remainder of this economic cycle.

It is also possible that rising office rents and diminishing supply will lead to some industries growing at the expense of others while overall employment remains relatively steady. This is a pattern the City has seen in past periods of economic expansion.

Housing Prices. Housing prices are an indicator that may be both a cause and an effect of the slowdown in employment growth. San Francisco's average housing value (according to Zillow) began to show year-over-year growth in early 2012, and by the end of 2013 values were 20% higher than the year before. This period of growth in housing prices accompanied the growth in employment examined earlier.

In the same way that the City helped lead the state out of recession, San Francisco's housing prices grew sooner than the rest of the state. However, in 2014, housing prices have eased somewhat, though less in the City than in the state as a whole.

The continued price pressure on housing in the City is likely to continue to dampen employment growth in the years to come unless accompanied by faster-than-average wage growth.

LOOKING FORWARD

The base case projections, detailed in the next chapter, assume the economic recovery that began in FY 2009-10 will continue through the forecast period, resulting in continued growth in tax revenues during the next five years. As noted above, the rapid growth rates seen in the early stages of recovery have slowed. This trend is expected to continue, with growth rates for the most economically sensitive revenues, such as business, sales, hotel, parking and property transfer taxes, lower in the final three years of the Plan. The base case does not assume an economic downturn. However, the City has historically not experienced more than six consecutive years of expansion, yet the current economic expansion began over five years ago. The pace of growth will depend heavily on how shifts in the national economy and local technology industry shape employment, income, investment options, and other factors discussed above.

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Five Year Base Case Projections

PURPOSE OF THE PLAN

The Five Year Financial Plan is part of a comprehensive effort by the City to improve its long-range financial management and planning. This section, the base case projection, is a joint effort by the Mayor's Office, the Controller's Office, and the Board of Supervisors Budget and Legislative Analyst's Office to forecast the impact of existing service levels and policies on revenues and expenditures over the next five years.

The City is currently implementing the following strategies as part of its long-range financial management and planning:

- **The Five Year Financial Plan:** The City is forecasting and analyzing revenues and expenses for the next five years on a Citywide basis, including changes in major service areas, departmental operations, facilities, debt management, capital and technology.
- **Two-Year Budgeting:** The FY 2012-13 and FY 2013-14 budget was the first Citywide two-year budget adopted by the Mayor and the Board of Supervisors. The City will continue to adopt two-year rolling budgets unless the Mayor and the Board adopt a resolution determining that all departments adopt a fixed two-year budget; however, there were seven departments with fixed two-year budgets for the FY 2014-15 and FY 2015-16 adopted budget.
- **Citywide Capital and Technology Plans:** These plans, which are released by March 1 every other year, include detailed financial information and project descriptions outlining the City's planned spending on capital over the next ten years and technology over the next five years.
- **Formal Financial Policies:** To date, the City has adopted policies to create a Budget Stabilization Reserve, to build its General Reserve up to 2% of General Fund revenues, and to restrict the use of one-time revenues. Additionally, the Controller's Office recently proposed to continue to increase the City's General Reserve to 3% of General Fund revenues between now and FY 2019-20 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. This policy is currently under consideration by the Board of Supervisors. These approaches will strengthen the City's financial position and ensure that San Francisco is more resilient during the next economic downturn.

Multi-year budgeting and forecasting are best practices for all governments. The Five Year Financial Plan is designed to enhance the City's ability to identify the key drivers of its revenues, expenditures, and needed public services. In an era of constantly changing funding from the State and federal government, this planning process will enable San Francisco to thoughtfully plan for revenue changes and adapt its programs accordingly. Overall, the City will minimize volatility by looking beyond the typical budget horizon, putting in place more stable public service delivery that citizens can expect and rely on.

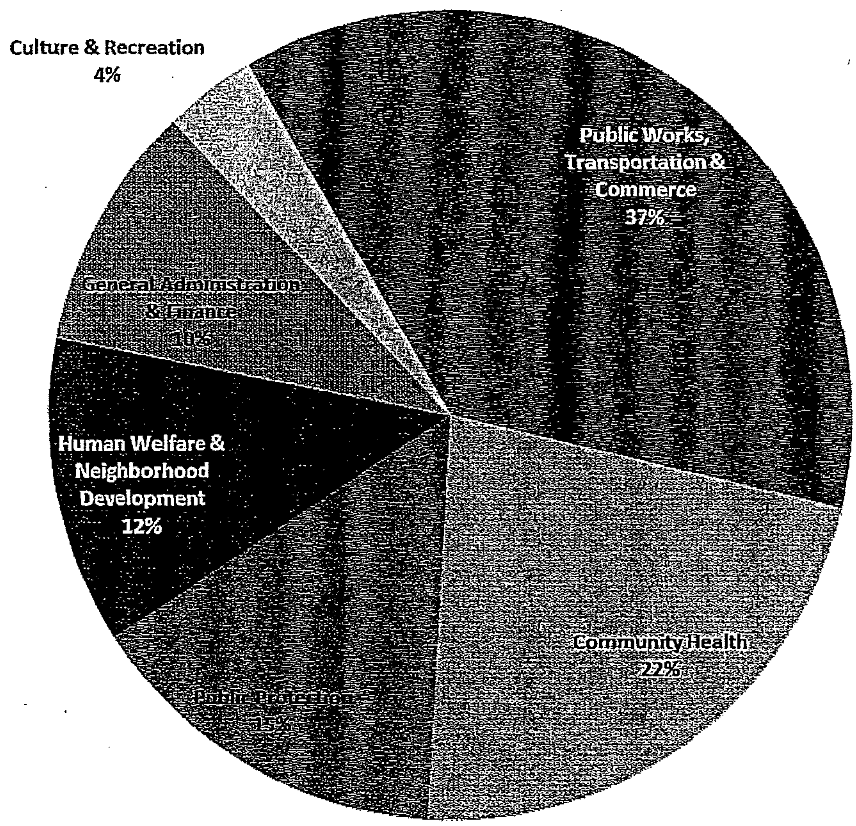
BUDGET OVERVIEW

The City and County of San Francisco's budget for FY 2014-15 is $8.6 billion. Roughly half of the budget, $4.3 billion, is comprised of self-supporting activities at the City's enterprise departments, which focus on City-related business operations and include the Port, the Municipal Transportation Agency, the Airport, the Public Utilities Commission, and others. The remaining 50%, or $4.3 billion, is comprised of General Fund monies, which support public services such as Public Health, Police and Fire Services, and Recreation and Parks. The City's budget can be broken down into six major service areas: Public Protection; Public Works, Transportation &

Commerce; Human Welfare & Neighborhood Development; Community Health; Culture & Recreation; and General Administration & Finance.

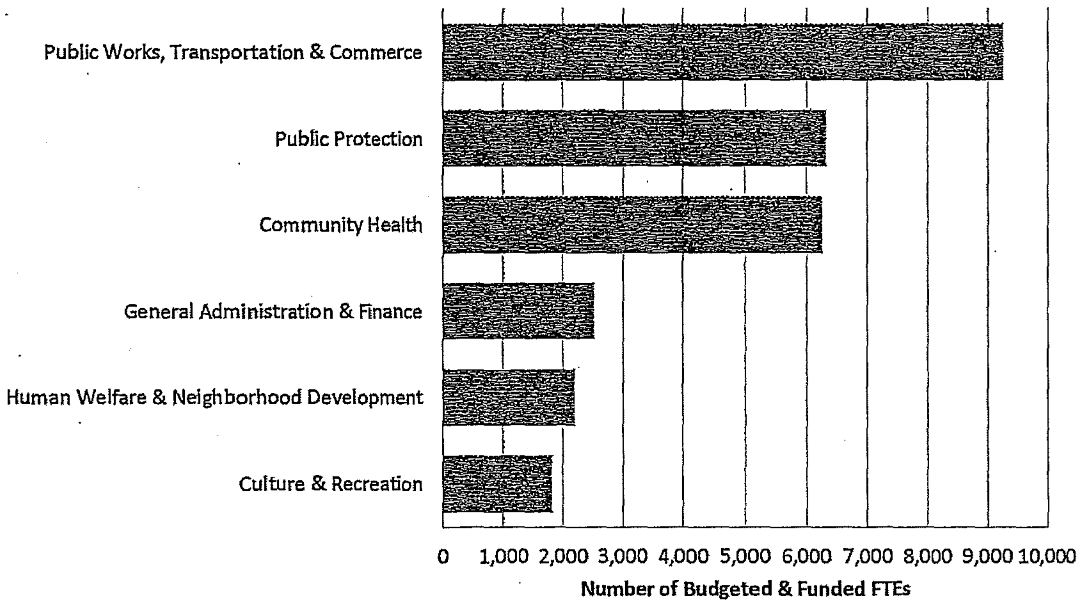
Figures 5 shows the total $8.6 billion City budget by major service area. The Public Works, Transportation and Commerce major service area has the largest overall budget, due primarily to the budgets for large enterprise departments.

Figure 5: Total Budget by Major Service Area FY 2014-15



There are 28,436 full-time equivalent positions (FTEs) budgeted and funded between all six major service areas in FY 2014-15. As shown in Figure 6, the Public Works, Transportation, and Commerce service area also has the largest share of FTEs, which is largely driven by the Metropolitan Transportation Agency.

Figure 6: Full Time Equivalent (FTE) Positions by Major Service Area FY 2014-15



FIVE YEAR OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

San Francisco Administrative Code Section 3.6(b) requires that in each odd-numbered year, the City must submit a Five Year Financial Plan; in even-numbered years, a similar report, called the Joint Report, must be issued with an update to the remaining four years of the previous year's Five Year Financial Plan. In both the Five Year Financial Plan and the Joint Report, the Mayor, the Controller, and the Board of Supervisors Budget Analyst must forecast expenditures and revenues during the projection period. In the Five Year Financial Plan, the Mayor's Office must also propose actions to balance revenues and expenditures during each year of the plan and discuss strategic goals and corresponding resources for City departments. This Five Year Financial Plan provides expenditure and revenue projections for FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20.

Summary of 'Base Case' Projections and Findings

This Five Year Financial Plan describes the 'base case,' which means that the revenue and expenditure projections included in this Plan reflect current service levels adjusting for adopted or proposed policy changes as of the fall of 2014, where noted. Significant changes include known revenue and expenditure changes in all areas where there is reasonable information or basis for a projection. Key assumptions are also detailed below.

Table 3 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 $15.9 million in FY 2015-16, $88.3 million in FY 2016-17, $274.8 million in FY 2017-18, $366.1 million in FY 2018-19, and $417.9 million in FY 2019-20.

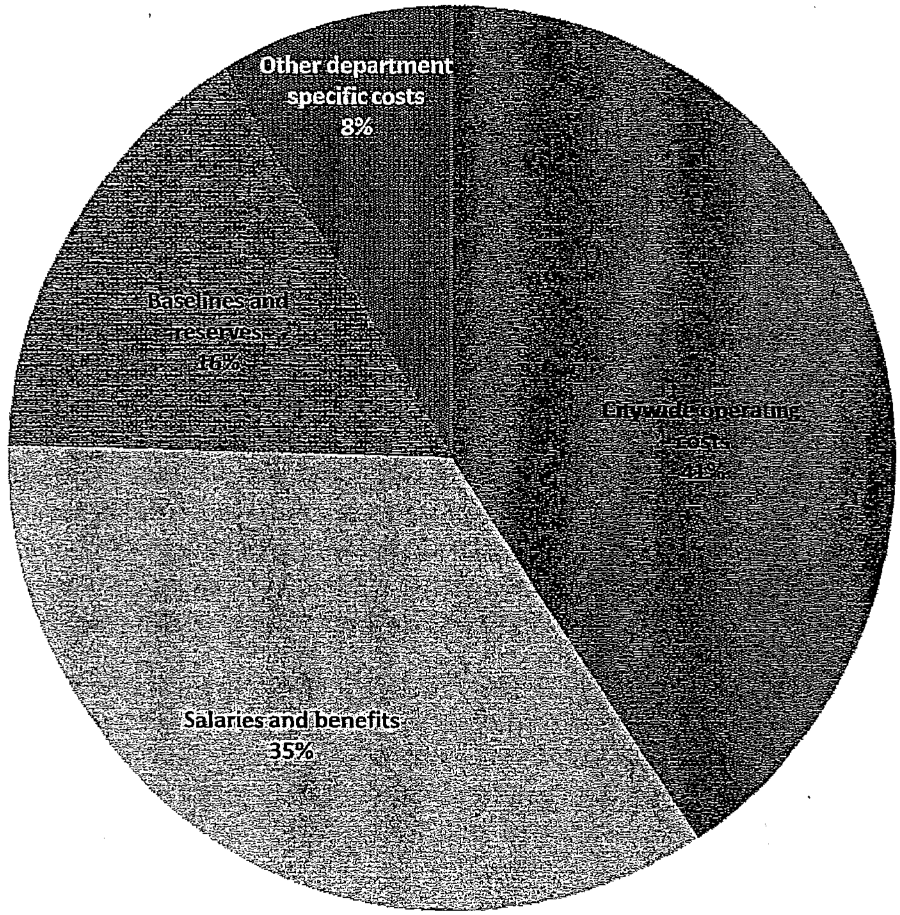
Table 3: Base Case – Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall) FY 2016-20 ($ in millions)

	Savings/ (Cost) Change from Prior Year, $ Million				
Sources	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(60.8)	6.9	(123.2)	-	-
Regular Revenues, Transfers, & Other	200.7	106.0	164.3	136.8	136.1
Subtotal - Sources	**139.9**	**112.9**	**41.2**	**136.8**	**136.1**
Uses					
Salaries & Benefits	(33.9)	(58.5)	(76.1)	(72.1)	(100.0)
Other Expenditures, Reserves & Transfers	(122.0)	(126.8)	(151.6)	(155.9)	(87.9)
Subtotal - Uses	**(155.9)**	**(185.2)**	**(227.7)**	**(228.0)**	**(187.9)**
Total Net General Fund Impact (from Prior Year)	(15.9)	(72.3)	(186.6)	(91.2)	(51.8)
Projected Cumulative Surplus / (Shortfall)	**(15.9)**	**(88.3)**	**(274.8)**	**(366.1)**	**(417.9)**

This projection demonstrates that although revenues are growing each year, they are not growing fast enough to keep pace with the increase in projected expenditures. As a result, a gap remains even with the improving economy. The City currently projects revenue growth of $566.9 million, or 13% over the five year period of this Plan, and expenditure growth of $984.7 million, or 23%.

Total expenditure growth is shown below in Figure 7, which illustrates that Citywide Operating Costs represent the largest area of expenditure growth at 41%, or $402.0 million. The next largest drivers of expenditure growth are: salary and benefit costs of $340.6 million (35%); Charter-mandated baseline and reserve changes of $158.1 million (16%), and other department specific cost increases of $84.0 million (8%).

Figure 7: General Fund-Supported Expenditure Increases by Expenditure Type FY 2016-20



While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and additional revenues. These projections assume no ongoing solutions are implemented. To the extent that budgets are balanced with ongoing solutions, future shortfalls will decrease.

KEY ASSUMPTIONS AFFECTING THE FY 2015-16 THROUGH FY 2019-20 PROJECTIONS

- **No major changes to service levels and number of employees:** This projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2014-15 and FY 2015-16 budgeted levels unless specified below.

- **Continued economic recovery:** These projections assume 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 (FY 2010-11 and FY 2011-12) have continued through FY 2013-14 but have begun to slow in FY 2014-15 and are expected to continue to slow in the forecast period. Economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity and tourism. These are expected to increase at a slower pace in the first two years of the forecast. This report does not assume any economic downturns or large changes in macroeconomic conditions; however, the City has historically not experienced more than six consecutive years of expansion, and the final three years of this report assume slower rates of revenue growth.

- **Outcome of the November 2014 Election:** This report recognizes the passage of several measures from the November 2014 election, including several that have a material impact on the City's General Fund:
  - **Proposition B – Population-Based Adjustment to General Fund Appropriation to Transportation Fund:** Starting in FY 2015-16, the City is required to adjust the baseline to the Municipal Transportation Agency annually by the percent increase in the San Francisco population. Additional information on Proposition B can be found later in the base case and strategic issues sections of this report.
  - **Proposition C – Children and Families First Initiative:** Voters approved the renewal of the Public Education Enrichment Fund (PEEF) and the Children's Amendment (The Children's Fund and the Children's Baseline) through Proposition C. PEEF and the Children's Amendment are local legislation that set-aside General Fund dollars for services for San Francisco children and families. This report reflects the changes to both funds made in the most recent legislation including an increased property tax set-aside for the Children's Fund, now the Children and Youth Fund, the removal of in-kind contributions to the San Francisco Unified School District through PEEF, and the bifurcation of the existing City Rainy Day Reserve. More detailed information on the costs associated with these changes can be found later in the base case and strategic issues sections of this report.
  - **Proposition J - Minimum Wage Increase:** This report reflects the projected increases to the City's minimum wage mandated by Proposition J. Over the course of the next five years, the minimum wage in San Francisco will increase from $11.05/hour, the minimum wage as of January 1, 2015 pursuant to the existing minimum wage legislation, to $15.00/hour on July 1, 2018. More detail on the schedule of changes and associated costs can be found later in the base case section of this report.

- **Preliminary estimate of state and federal budget changes:** This report does not assume significant changes in funding at the state and federal levels, although many uncertainties exist, particularly with the Department of Public Health. These uncertainties include the Medi-Cal Waiver, which is currently being negotiated; the State's Coordinated Care Initiative; potential changes to the State re-alignment take-back; and take-back of federal Disproportionate Share Hospital (DSH) payments. Additional information about these uncertainties can be found in the Strategic Issues section of the report. The City will continue to monitor the state and federal budget process. Given the growth in the General Reserve and past improvement in the state's budget, this projection does not assume a reserve for state or federal budget changes.

- **Assumes negotiated rates through FY 2016-17 for most employees and through FY 2017-18 for police officers and firefighters. Inflationary increases assumed on labor agreements thereafter:** This projection assumes the negotiated rates for most labor unions of a 3% increase in October 2014, an additional 3.25% in October 2015 and an additional 2.28% in July 2016, given formulae contained in most adopted bargaining agreements. Beginning in FY 2017-18, open contracts are assumed to have salary increases equal to the change in the Consumer Price Index (CPI-U). This is projected by the California Department of Finance to be 2.75% for FY 2017-18 through FY 2019-20. The City will negotiate 24 open Memoranda of Understanding (MOUs) in FY 2016-17, and it will negotiate for police officers and fire fighters in FY 2017-18. For police officers and firefighters, this report assumes negotiated wage increases of 1% in FY 2015-16 and 2% in both FY 2016-17 and FY 2017-18, and increases of CPI (2.75%) for Fiscal Years 2018-19 and 2019-20.

- **Retirement plan employer contribution rates begin to decline after FY 2014-15:** This report assumes total retirement costs begin to decline starting in FY 2015-16 and continue to decline through FY 2019-20. This is due to three main factors:
    - Several small propositions implemented from 1994 through 1998 have now become fully amortized;
    - Asset losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) from the 2008 economic downturn have now been fully recognized; and
    - Unrecognized asset gains from the last few years are smoothed in over the coming five year period.

  SFERS employer contribution rates are based on projections prepared by the Retirement System's actuary in August 2014. They assume continuation of the SFERS Board adopted investment returns of 7.58%; however, final rates for FY 2015-16 will be adopted by the Retirement Board in the coming months. Projections reflect employee contributions to retirement required under Proposition C. For CalPERS members, this report includes rate increases starting in FY 2015-16 due to adjusted mortality assumptions adopted by the CalPERS Board in February 2014. Employer contribution rates in each year for both SFERS and CalPERS members are detailed later in the base case section of this report.

- **Health and dental insurance cost increases:** This projection assumes that the employer share of health and dental insurance costs will increase by approximately 5.0% per year. The Health Service System anticipates negotiating rates for calendar year 2016 in late spring 2015, to be adopted by July 2015. The 2017 rates will be approved by the Health Service Board in spring 2016 with adoption by July 2016. For retiree health benefits, this report assumes that the City will continue its pay-as-you-go practice of funding the amounts currently due for retirees. The growth in the retiree obligation has been estimated based on projected cost increases of approximately 9.0% per year.

- **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 CPI-U (as projected by the California Department of Finance) rate of 2.75% per year FY 2016-17 through FY 2019-20. The projection reflects the adopted FY 2015-16 budget.

- **Ten-Year Capital Plan and inflationary increases on equipment and IT funding:** This projection assumes the adopted FY 2015-16 funding levels for capital, equipment and information technology. For capital in the remaining four out years, the report assumes funding will increase based on the levels assumed in the City's FY 2015-25 Ten-Year Capital Plan, which will be released in March 2015. For equipment, starting in FY 2016-17, the report assumes that the equipment budget will increase by CPI-U in each year from the adopted FY 2014-15 funding level. The Information Technology investment projection includes full funding of the City's FY 2016-20 Information and Communications Technology Plan, which will also be released in March 2015, beginning in FY 2016-17 and continuing through FY 2019-20. This report also contains assumptions around the separate funding for major City IT investments. In the FY 2014-15 and FY 2015-16 adopted budget, the allocation for FY 2015-16 was split over the two years. This report assumes the FY 2015-16 adopted funding level, and then a return to full funding with a 10% growth factor FY 2016-17 through FY 2019-20.

- **Deposits and Withdrawals from Reserves:** This 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. Second, the base case projection assumes adoption of the Controller's recommended amendment to the City's General Reserve policy to increase the Reserve to 3.0% of General Fund revenues during periods of extended growth. This policy is currently pending at the Board of Supervisors. Lastly, various reserves allocated for particular one-time uses are assumed drawn down for those uses, as detailed later in the base case.

- **Office of Community Investment and Infrastructure (OCII) Tax Increment:** Under redevelopment dissolution law, the Office of Community Investment and Infrastructure has much more limited authority to issue debt compared to the former San Francisco Redevelopment Agency. The base case projection assumes that OCII may issue debt to finance infrastructure improvements for the Mission Bay and Hunters Point Shipyard Phase 2/Candlestick Point major development projects, and will fund on a pay-as-you-go basis other infrastructure and affordable housing obligations. The City and OCII will explore alternative solutions to the pay-as-you-go model, but at this time the availability of other options is not certain.
- **Public Safety Multi-Year Hiring Plans:** This report assumes a policy to implement multi-year hiring plans at several public safety departments, including:
  - three Police Academy classes (50 police officers per class) each year through FY 2017-18, followed by 2 classes a year onwards to address retirements and keep the Police Department at the Charter authorized level;
  - an annual Fire Academy class (48 firefighters per class) each year over the next five years and an additional 36 firefighter academy class in FY 2016-17 and FY 2017-18 to keep up with the level of anticipated retirements;
  - annual classes at the Fire Department's Ambulance Division to replace separations and promotions, as well as a class of 16 new Emergency Medical Technicians and Paramedics in FY 2014-15 that will annualize in the FY 2015-16 budget;
  - two classes in FY 2015-16 to hire 22 dispatchers at the Department of Emergency Management, and then one class annually thereafter in the four out years.

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:** Historically, periods of economic expansion are followed by economic contraction, or recession. Since the end of the Great Depression there have been 13 recessions, or approximately one every six years on average. The current economic expansion began over five years ago. It would be an historic anomaly to not experience a recession within the projection period of this report. 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 of the report; however, it is important for the City to closely monitor the economic conditions over the coming years.
- **Outcome of state and federal budget-balancing efforts:** At the time of report issuance, state and federal budget deliberations have not yet begun. Thus, uncertainty remains around the local effects of state and federal budget-balancing efforts.
- **Collective bargaining agreement negotiations:** Other than approved wage increases in collective bargaining agreements and inflation on open contracts in FY 2017-18, FY 2018-19 and FY 2019-20, 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 / 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 2015-16 and FY 2016-17 budget. No increases above those budgeted in the adopted FY 2014-15 and FY 2015-16 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 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.
- **Affordable Care Act Implementation:** The Department of Public Health, along with other affected City agencies, is approaching its second year federal health care reform implementation, known as the Affordable Care Act (ACA). The net fiscal effect of this significant policy change continues to be uncertain, including state and federal take-backs of funds for indigent care, the revenue impact of transitioning from a fee-for-service payment model to a capitated payment model, and insurance enrollment and facility utilization levels. This report continues to assume modest revenue growth as formerly uninsured patients continue to obtain insurance coverage through the State's Medi-Cal expansion program.
- **Excise Tax:** One of the provisions from the Affordable Care Act that has not yet been implemented is the Excise Tax on High Cost Employer Health Care Coverage (Excise Tax). This tax is intended to end high cost benefit rich coverage plans, slow the rate of growth in healthcare costs, and finance the nationwide expansion of health coverage. Beginning in 2018, a 40% excise tax will be imposed on the amount that the premiums for employer healthcare benefits are above a preset threshold. The premium thresholds are based on membership group (Active, Early Retiree and Retiree) and coverage level (single and family).

  The Health Service System (HSS) is currently analyzing the potential impact on the City. In 2010, HSS premium trends predicted all coverage except Kaiser would exceed the excise tax threshold in 2018. However, the City's slower growth trend for employee healthcare costs over the past few years has potentially lengthened the time under which the tax will not apply to HSS premiums. Because this policy change is still being analyzed and is difficult to project, this report assumes no change to City costs from the Excise Tax.

Table 4 and the following narrative explain revenue and expenditure changes in the Citywide deficit in detail. First, revenue changes will be discussed, then expenditures changes, including: changes to baselines and reserves; salary and benefit costs; Citywide operating costs; and department specific changes.

Table 4: Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2016-20 ($ in millions)

	2015-16	2016-17	2017-18	2018-19	2019-20
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	209.6	101.9	157.2	116.4	119.4
Change in One-Time Sources	(60.8)	6.9	(123.2)	-	-
Department of Public Health Revenues	5.7	6.6	6.9	7.4	6.8
OCII Tax Increment	(7.8)	(6.8)	(3.9)	8.5	5.6
Other General Fund Support	(6.8)	4.3	4.1	4.5	4.3
TOTAL CHANGES TO SOURCES	**139.9**	**112.9**	**41.2**	**136.8**	**136.1**
USES Decrease / (Increase)					
Baselines and Reserves					
Municipal Transportation Agency (MTA) Baselines *	(40.6)	(12.7)	(16.8)	(13.8)	(14.8)
Children's Fund and Public Education Enrichment Fund *	(16.0)	(8.9)	(10.8)	(9.9)	(6.2)
All Other Baselines	(7.0)	(5.2)	(6.4)	(5.6)	(5.8)
Deposits to General Reserve	3.9	3.3	(5.0)	(0.5)	(0.5)
Other Contributions to Reserves	13.8	8.9	(0.4)	(0.4)	(0.4)
Subtotal Baselines and Reserves	**(46.1)**	**(14.6)**	**(39.4)**	**(30.3)**	**(27.7)**
Salaries & Benefits					
Annualization of Partial Year Positions	(12.1)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(62.9)	(71.5)	(7.4)	-	-
Projected Costs of Open Labor Agreements	-	-	(57.5)	(68.7)	(70.4)
Health & Dental Benefits - Current Employees	(2.4)	(11.7)	(12.3)	(12.9)	(13.6)
Health & Dental Benefits - Retired Employees	(5.6)	(12.9)	(13.5)	(13.9)	(14.6)
Retirement Benefits - Employer Contribution Rates	58.2	29.2	12.2	23.4	9.2
Other Salaries and Benefits Savings / (Costs)	(9.0)	8.5	2.3	-	(10.8)
Subtotal Salaries & Benefits	**(33.9)**	**(58.5)**	**(76.1)**	**(72.1)**	**(100.0)**
Citywide Operating Budget Costs					
Minimum Wage *	(11.3)	(11.0)	(15.5)	(17.2)	(9.5)
Capital, Equipment, & Technology	(5.0)	(42.3)	(37.3)	(40.4)	(2.8)
Inflation on non-personnel costs and grants to non-profits	(2.7)	(36.3)	(33.1)	(33.9)	(34.7)
Debt Service & Lease Financings	(15.2)	(12.6)	(5.3)	(10.4)	1.0
Sewer, Water, and Power Rates	(3.3)	(3.1)	(2.2)	(2.3)	(2.5)
Other Citywide Costs	2.1	(2.9)	(4.3)	(4.9)	(3.0)
Subtotal Citywide Operating Budget Costs	**(35.4)**	**(108.2)**	**(97.6)**	**(109.1)**	**(51.6)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	-	(4.5)	(3.6)	(1.2)	-
Elections - Number of Scheduled Elections	(5.0)	5.1	-	-	(5.1)
Ethics Commission - Public Financing of Elections	0.6	(0.6)	(0.0)	0.4	(1.8)
Fire and Police - Opening of the Public Safety Building	(2.5)	-	-	-	-
Public Safety Hiring Plans	(16.0)	(10.4)	(11.4)	1.3	3.9
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(1.6)	(0.5)	(2.1)	(5.6)	(0.7)
Municipal Transportation Agency - Central Subway Opening	-	-	-	(6.8)	(2.3)
Human Services Agency - Aid	(3.0)	(2.1)	(3.3)	(3.3)	(3.2)
Public Health - SFGH One-Time and Operating Costs for New Hospital	(17.9)	13.0	(0.9)	(0.9)	(0.9)
Treasurer-Tax Collector - Gross Receipts Tax Implementation	1.9	(1.8)	2.0	-	-
All Other Departmental Savings / (Costs)	2.9	(2.1)	4.6	(0.4)	1.5
Subtotal Departmental Costs	**(40.5)**	**(3.9)**	**(14.6)**	**(16.5)**	**(8.6)**
TOTAL CHANGES TO USES	**(155.9)**	**(185.2)**	**(227.7)**	**(228.0)**	**(187.9)**
Projected Surplus (Shortfall) vs. Prior Year	**(15.9)**	**(72.3)**	**(186.6)**	**(91.2)**	**(51.8)**
Cumulative Projected Surplus (Shortfall)	**(15.9)**	**(88.3)**	**(274.8)**	**(366.1)**	**(417.9)**

***** *Reflects passage of Propositions B, C, and J from November 2014 ballot.*

DETAIL BASE CASE PROJECTION

CITYWIDE REVENUE PROJECTIONS

The projections outlined in this section highlight changes in the City's key revenues over the next five years. For details on the macroeconomic context, please see the Economic Overview chapter above. For more detail on specific revenues, please see below.

General Fund Taxes, Revenues & Transfers

General Context Underlying Revenue Estimates

These projections assume continued modest growth in tax revenues during the next five years. With the exception of property tax revenues, which did not decline during the last recession, local tax revenues bottomed out in FY 2008-09 and FY 2009-10, and returned to pre-recessionary levels by FY 2011-12, one to two years earlier than projected at the start of the recovery. The pace of revenue growth during the projection period will depend heavily on the strength of the national economy and local technology industry.

Below are details on specific revenue streams included in the General Fund Taxes, Revenues and Transfers line of Table 4.

Property Tax

General Fund property tax revenues are expected to grow from a budget of $1,233 million in FY 2014-15 to an estimated $1,460 million in FY 2019-20. General Fund property tax revenue assumptions include:

- **Roll growth:** The locally assessed secured roll typically grows based upon an annual statewide inflation factor capped at 2.0% and new property value assessments triggered by changes in ownership or new construction.

  The assumed change in the California CPI (measured October-to-October of the previous two years) is 1.9% for FY 2015-16 and the maximum 2.0% for FY 2016-17 through FY 2019-20.

  For changes in ownership and new construction, it is assumed that an additional 2.0% of secured roll growth occurs at minimum each fiscal year. Current construction of new, large residential and commercial buildings are expected to add $1.2 billion in FY 2015-16, $1 billion in FY 2016-17, and $1.9 billion in FY 2017-18 to the secured roll. Changes in ownership of large office buildings and other high-value parcels are expected to add another $924 million in FY 2015-16 and approximately $1 billion in FY 2016-17 to the secured roll.

  The state assessed board roll and the unsecured roll comprise about 7.3% of the 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 2014-15 value of $2.7 billion, and the unsecured roll is assumed to grow at an annual rate of 1% from the FY 2014-15 value of $10.7 billion through FY 2019-20.

- **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 $55.3 million in FY 2015-16, declining 10% per year through FY 2019-20 as the volume of escape assessments potentially decreases. Supplemental and escape assessments have traditionally been a significant source of variance in property tax revenues.

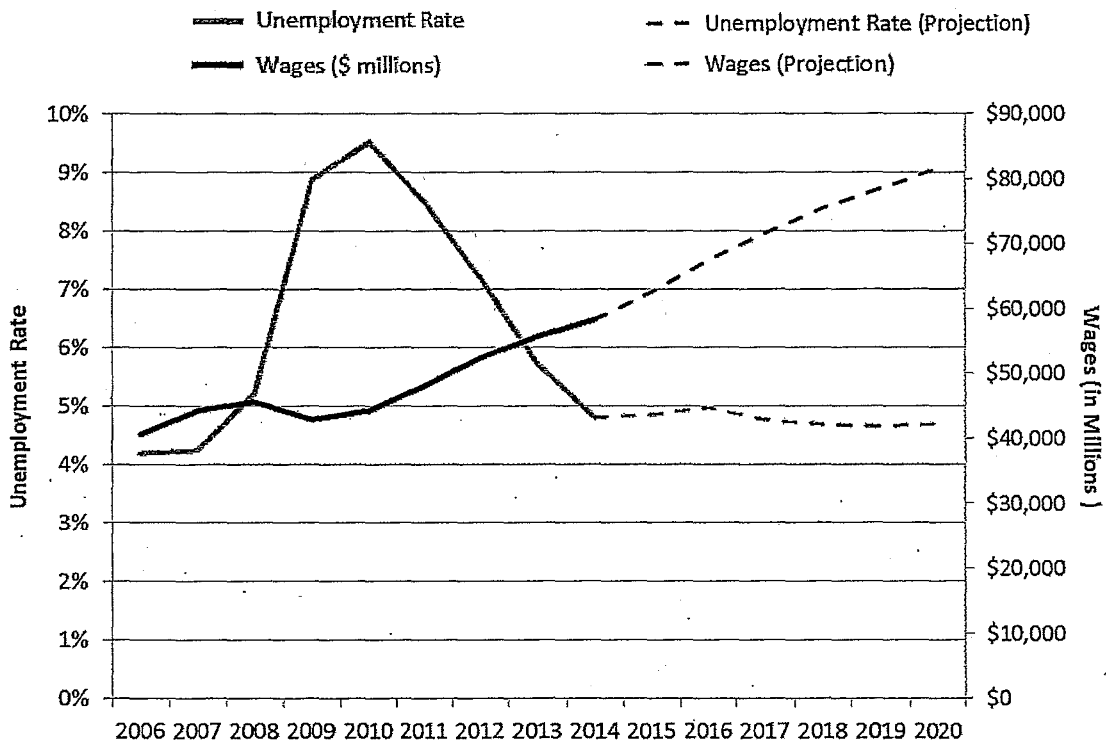
- **Reduced reserve requirements:** Property tax revenue set-aside to fund Assessment Appeals Board (AAB) decisions in FY 2014-15 through FY 2019-20 is assumed at FY 2013-14 levels of $15 million per year. While the number of assessment appeals filed in FY 2014-15 decreased significantly from the prior year, the total number of open cases remains at 6,639 and represent total assessed values of $32.3 billion.
- **Sales tax in-lieu (Triple Flip) expiration**: Beginning July 1, 2004, the State of California decreased the general purpose sales and use tax rate for local governments from 1% to 0.75%, and shifted the 0.25% to the State to pay debt service on Economic Recovery Bonds. In exchange, local governments were allowed to replace the lost local sales tax dollar-for-dollar from property tax revenues apportioned to the County's Educational Revenue Augmentation Fund (ERAF). This shift of sales and property tax revenue, also known as the Triple Flip, will expire after FY 2014-15. The 0.25% of sales tax will revert back to local governments in FY 2015-16 and the sales tax in-lieu revenue reflected in property tax revenues will be eliminated, resulting in a shift of $46 million in FY 2015-16 from property tax to local sales tax. A $5 million true-up settlement for FY 2014-15 is projected in FY 2015-16, but the amount goes to zero thereafter. See the discussion of Sales Taxes for additional details.
- **Change in San Francisco Children's Fund property tax allocation factor:** San Francisco voters approved Proposition C on November 4, 2014. Proposition C renews and increases the property tax set-aside for the San Francisco's Children and Youth Fund. The Children and Youth Fund allocation factor increases from $0.0300 in FY 2014-15 to $0.0325 in FY 2015-16, to $0.0350 in FY 2016-17, to $0.0375 in FY 2017-18, and to $0.0400 in FY 2018-19 on each $100.00 valuation of taxable property. The allocation to the General Fund of property taxes decreases by the same factor.

Business Taxes

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 2013-14 reflecting underlying gains in City employment and wages during the period as seen in Figure 8. Business tax revenues are sensitive to changes in the economic condition of the City. The two main factors that determine the level of revenue generated by the business tax are employment and wages. As shown in Figure 8, wages are projected to grow steadily between 2016 and 2020 while unemployment is projected to flat-line. Overall, business taxes are projected to grow over the five year time period.

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. During this five year period, the new tax structure is being phased-in as the payroll tax is phased out. The phase-in is designed to adjust tax rates in order to generate the same amount of revenue as the original 1.5% payroll tax. The gross receipts tax applies only to businesses with $1 million or more in gross receipts. Revenue collected from gross receipts tax will vary based on implementation factors and any policy changes. The City is beginning to implement a new and far more complex tax structure and revenues may be sensitive to the administrative burdens of the new system. The projections include an assumption of administrative and implementation risk associated with the transition to a new business tax structure, diminishing as it is implemented. A large component of the 8.2% growth from FY 2016-17 to FY 2017-18 is an assumed full phase-out of these risks; underlying growth is projected to be 5.0% in that year.

Figure 8: San Francisco Unemployment and Wages, 2006-2020 Actuals and Projected



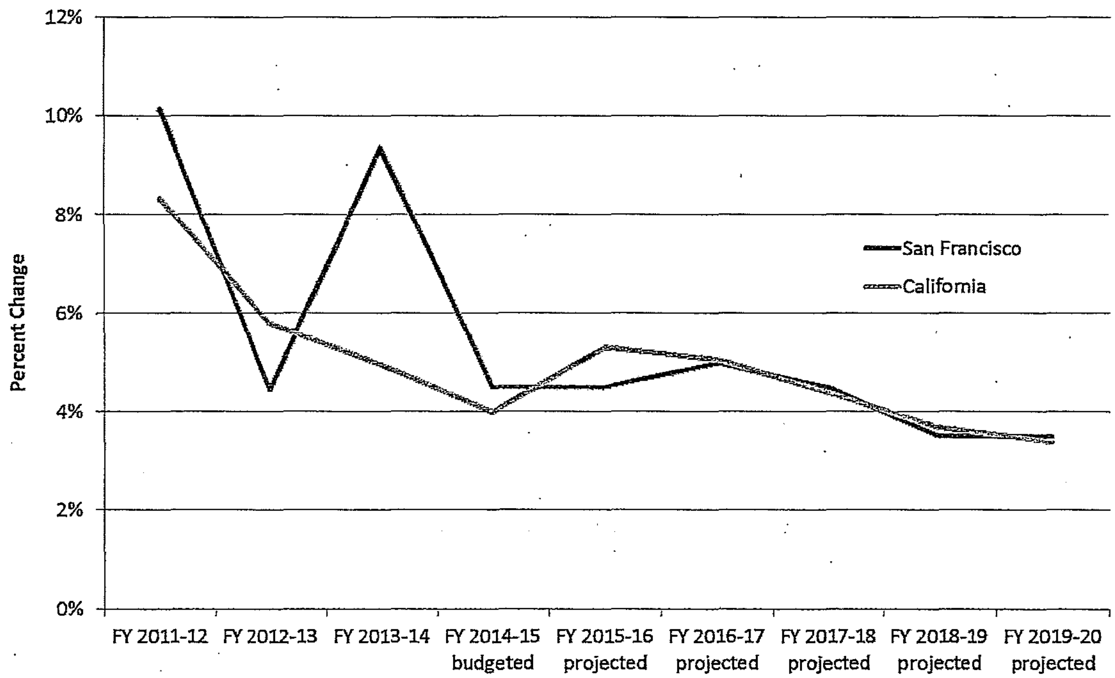
Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis, Moody's Analytics Forecast

Sales Tax

Local sales tax is projected to grow slightly faster than inflation, with the exception of a one-time increase of $46 million in FY 2015-16 due to the end of the Triple Flip. As described in the Property Tax section, the Triple Flip is a funding shift beginning in FY 2004-05 under which the State withheld 0.25% of the local 1% portion of sales tax to pay debt service on the $15.0 billion in bonds authorized under the California Economic Recovery Bond Act (Proposition 57). In return, local governments retained an equivalent amount of property tax that they would otherwise have shifted to schools. These bonds will be retired in FY 2015-16 and $46.0 million which had previously been recognized as property tax revenue will shift to sales tax revenue. Sustained growth in sales tax revenue will depend on changes to state and federal law and order fulfilment strategies for online retailers. Projections assume no changes from state laws affecting sales tax reporting for online retailers.

Figure 9 displays historical and projected changes in local and state sales tax revenues. Sales and use tax revenue is generated from six major business groups, plus a county and state pool category that captures select countywide activity. When a sale cannot be identified with a permanent place of business in the state, the local sales tax is allocated to the local jurisdictions through countywide or statewide pools. Accordingly, certain sellers are authorized to report their local sales tax either on a countywide or statewide basis. Recent growth in sales tax is in large part attributable to increases in county pool receipts and the majority of this growth came from increased online purchasing activity.

Figure 9: Changes in Local and State Sales Tax Revenues FY 2011-12 through FY 2019-20

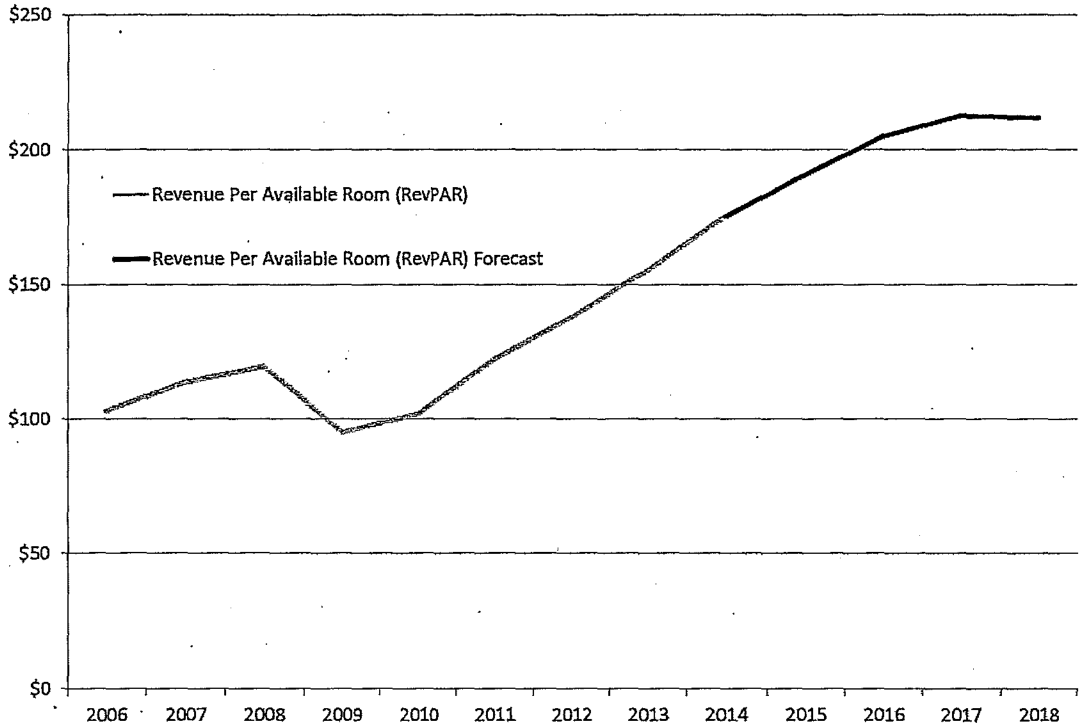


Hotel Tax

Hotel Tax is projected to grow, but at a somewhat slower pace than in prior years. Hotel Tax revenue is influenced by three factors – average daily room rates (ADR), occupancy rate, and supply of available rooms – represented by revenue per available room (RevPAR). Revenue per available room is projected to grow in the five year period, but at a somewhat slower pace mostly due to lower expected occupancy rates. Recent growth has been fueled broadly by generally strong demand from all segments of the market (tourist, convention, and business) as a result of San Francisco's strong local economy, and more specifically by completion of the Moscone Convention Center renovations in July 2012, which boosted growth from convention-related business. Constrained hotel room supply has resulted in large increases in the average daily room rate. Figure 10 provides a recent history of RevPAR levels and projections for the five year period.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between whole sale and retail prices paid for hotel rooms. Hotel tax revenue will be impacted by the timing and direction of any resolution to this litigation.

Figure 10: San Francisco Revenue Per Available Room (RevPAR) Growth 2006 – 2018 Actual and Projected



Source: CBRE PKF Hospitality Research

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to decrease from a budgeted level of $235.0 million in FY 2014-15 to a ten-year policy adjusted average level of $200.0 million in FY 2019-20. This revenue is one of the most volatile of all sources and is highly sensitive to economic cycles and interest rates. Transfer taxes are assessed at different rates according to the amount of the transaction. The highest tier is 2.5% of transaction value for transactions of more than $10 million. While the number of transactions in this tax tier are small (1% in FY 2013-14), the proportion of total transfer tax revenue they generate is quite large (63% in FY 2013-14), contributing to the volatility of the revenue source.

Recent growth in RPTT revenue has largely been a function of the lack of more attractive alternative investment opportunities as demonstrated by historically low US Treasury Bond rates. According to recent Korpacz survey results, commercial real estate investment yields are at a ten year low. However, it is anticipated that in FY 2015-16 investors will continue to see higher yields in commercial real estate over other investments, which means the City will expect continued RPTT revenue growth that year. Beginning in FY 2016-17, declining yields for real estate investments are projected to reduce revenue to the ten year policy adjusted average of $200 million in FY 2018-19 and FY 2019-20.

Table 5: General Fund Revenue Actuals and Projections FY 2014-20
($ in millions)

	FY 2013-14 Year-End Actuals	FY 2014-15 Original Budget	FY 2015-16 Projection	FY 2016-17 Projection	FY 2017-18 Projection	FY 2018-19 Projection	FY 2019-20 Projection
Property Taxes	$ 1,177.4	$ 1,232.9	$ 1,257.0	$ 1,303.0	$ 1,356.0	$ 1,404.0	$ 1,460.0
Business Taxes	562.9	572.4	623.6	663.4	717.7	746.5	772.6
Sales Tax	133.7	136.1	193.7	203.4	212.5	220.0	227.7
Hotel Room Tax	310.1	318.4	357.1	373.5	388.8	401.4	417.1
Utility Users Tax	86.8	91.7	89.6	89.8	90.1	90.3	90.9
Parking Tax	83.5	84.9	88.1	90.8	93.0	94.9	96.5
Real Property Transfer Tax	261.9	235.0	232.0	205.0	200.0	200.0	200.0
Stadium Admission Tax	2.4	1.3	1.4	1.4	1.4	1.4	1.4
Access Line Tax	43.8	43.1	45.6	46.5	47.0	47.4	47.9
Subtotal - Local Tax Revenues	**2,662.5**	**2,715.7**	**2,888.2**	**2,976.8**	**3,106.5**	**3,205.7**	**3,314.1**
Licenses, Permits & Franchises	27.0	27.1	26.9	27.1	27.2	27.4	27.6
Fines, Forfeitures & Penalties	5.3	4.2	4.3	4.3	4.3	4.3	4.3
Interest & Investment Income	10.1	6.9	10.7	11.7	12.1	12.4	12.7
Rents & Concessions	26.9	22.7	18.7	18.7	18.7	18.7	18.7
Subtotal - Licenses, Fines, Interest, Rent	**69.3**	**60.9**	**60.6**	**61.8**	**62.3**	**62.8**	**63.3**
Social Service Subventions	218.5	229.5	233.6	233.6	233.6	233.6	233.6
Other Grants & Subventions	(1.3)	5.4	4.9	4.9	4.9	4.9	4.9
Subtotal - Federal Subventions	**217.2**	**234.9**	**238.5**	**238.5**	**238.5**	**238.5**	**238.5**
Social Service Subventions	164.3	197.1	200.9	203.8	206.4	209.1	211.8
Health & Welfare Realignment - Sales Tax	133.4	133.0	141.1	143.9	151.9	156.8	160.3
Health & Welfare Realignment - VLF	32.2	29.9	34.1	34.5	34.8	35.2	35.5
Health & Welfare Realignment - CalWORKs MOE	20.1	26.7	28.2	28.2	28.2	28.2	28.2
Health/Mental Health Subventions	83.9	97.2	97.2	97.2	97.2	97.2	97.2
Public Safety Sales Tax	87.5	91.4	96.7	101.5	106.1	110.0	113.9
Motor Vehicle In-Lieu (County & City)	0.7	-	-	-	-	-	-
Public Safety Realignment (AB109)	33.5	31.8	34.4	36.7	38.5	40.0	41.2
Preliminary State Budget Assumption	-	-	-	-	-	-	-
Subtotal - State Subventions	**583.0**	**624.4**	**647.5**	**660.6**	**677.9**	**691.3**	**703.0**
General Government Service Charges	46.8	52.7	50.7	50.7	50.7	50.7	50.7
Public Safety Service Charges	32.7	33.6	33.2	33.2	33.2	33.2	33.2
Recreation Charges - Rec/Park	17.2	19.3	17.0	17.0	17.0	17.0	17.0
MediCal, MediCare & Health Svc. Chgs.	60.5	79.5	72.4	72.8	73.2	73.7	74.1
Other Service Charges	14.6	15.7	15.7	15.7	15.7	15.7	15.7
Subtotal - Charges for Services	**171.8**	**200.8**	**188.9**	**189.3**	**189.8**	**190.2**	**190.6**
Recovery of General Government Costs	9.4	9.1	9.1	9.1	9.1	9.1	9.1
Other General Fund Revenues	7.8	24.2	12.7	18.7	18.7	18.7	18.7
TOTAL REVENUES	**3,721.0**	**3,870.0**	**4,045.3**	**4,154.7**	**4,302.6**	**4,416.2**	**4,537.2**
Transfers in to General Fund							
Airport	38.0	38.4	39.6	40.6	43.2	44.6	45.7
Other Transfers	175.7	140.9	140.9	140.9	140.9	140.9	140.9
Total Transfers-In	**213.6**	**179.3**	**180.5**	**181.5**	**184.1**	**185.5**	**186.6**
TOTAL GF Revenues and Transfers-In	**3,934.7**	**4,049.2**	**4,225.8**	**4,336.2**	**4,486.7**	**4,601.7**	**4,723.8**

Table 6 shows the percent change in General Fund revenues projected over the next five years.

Table 6: Percent Changes in General Fund Revenue Projections FY 2016-20

	FY 2015-16 % Chg from FY 2014-15 Original Budget	FY 2016-17 % Chg from FY 2015-16 Projection	FY 2017-18 % Chg from FY 2016-17 Projection	FY 2018-19 % Chg from FY 2017-18 Projection	FY 2019-20 % Chg from FY 2018-19 Projection
Property Taxes	2.0%	3.7%	4.1%	3.5%	4.0%
Business Taxes	9.0%	6.4%	8.2%	4.0%	3.5%
Sales Tax	42.3%	5.0%	4.5%	3.5%	3.5%
Hotel Room Tax	12.2%	4.6%	4.1%	3.2%	3.9%
Utility Users Tax	-2.3%	0.2%	0.2%	0.2%	0.7%
Parking Tax	3.8%	3.1%	2.5%	1.9%	1.8%
Real Property Transfer Tax	-1.3%	-11.6%	-2.4%	0.0%	0.0%
Stadium Admission Tax	2.0%	0.0%	0.0%	0.0%	0.0%
Access Line Tax	5.9%	2.0%	1.0%	1.0%	1.0%
Subtotal - Tax Revenues	**6.3%**	**3.1%**	**4.4%**	**3.2%**	**3.4%**
Licenses, Permits & Franchises	-0.9%	0.6%	0.6%	0.6%	0.6%
Fines, Forfeitures & Penalties	0.5%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	55.8%	10.0%	2.8%	2.8%	2.8%
Rents & Concessions	-17.4%	0.0%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**-0.6%**	**2.0%**	**0.8%**	**0.8%**	**0.8%**
Social Service Subventions	1.8%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	-9.3%	0.0%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**1.5%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	1.9%	1.4%	1.3%	1.3%	1.3%
Health & Welfare Realignment - Sales Tax	6.1%	2.0%	5.5%	3.2%	2.2%
Health & Welfare Realignment - VLF	14.0%	1.0%	1.0%	1.0%	1.0%
Health & Welfare Realignment - CalWORKs MOE	5.6%	0.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	5.8%	5.0%	4.5%	3.8%	3.5%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Realignment (AB109)	8.2%	6.5%	5.1%	3.8%	3.0%
Subtotal - State Subventions	**3.7%**	**2.0%**	**2.6%**	**2.0%**	**1.7%**
General Government Service Charges	-3.8%	0.0%	0.0%	0.0%	0.0%
Public Safety Service Charges	-1.1%	0.0%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	-12.0%	0.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	-9.0%	0.6%	0.6%	0.6%	0.6%
Other Service Charges	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**-5.9%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**-47.5%**	**46.9%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**4.5%**	**2.7%**	**3.6%**	**2.6%**	**2.7%**
Transfers in to General Fund					
Airport	3.1%	2.6%	6.4%	3.2%	2.5%
Other Transfers	0.0%	0.0%	0.0%	0.0%	0.0%
Total Transfers In	**0.7%**	**0.6%**	**1.4%**	**0.7%**	**0.6%**
TOTAL GF Revenues and Transfers-In	**4.4%**	**2.6%**	**3.5%**	**2.6%**	**2.7%**

CHANGE IN USE OF ONE-TIME SOURCES

The change in use of one-time sources consists of a combination of the change in use of starting fund balance and use of reserves as described below.

Change in Starting Fund Balances

This Plan assumes available fund balance of $217 million including $136.8 million previously appropriated in FY 2015-16 by the FY 2014-15 and FY 2015-16 adopted budget in addition to anticipated surpluses from FY 2013-14 and FY 2014-15 of $21.7 million and $58.5 million, respectively. The report assumes use of this fund balance to be split evenly across the two upcoming budget years as a one-time starting source of $108.5 million in each year. This results in a year over year reduction in General Fund-supported starting fund balances of $25.3 million in FY 2015-16, $0.0 million in FY 2016-17, and a loss of $108.5 million in FY 2017-18.

Changes in Use of Reserves

The net change to use of one-time reserves is estimated to be a loss of $35.4 million in FY 2015-16, a gain of $6.9 million in FY 2016-17, and a loss of $14.7 million in FY 2017-18. Please see Table 8 below for detail on reserve balances. Reserve uses assumed in this Plan are:

- **Budget Savings Incentive Fund:** The Citywide Budget Savings Incentive Fund receives 25% of year-end departmental expenditure savings to be available for one-time expenditures. This report assumes withdrawals of $0.0 million, and $3.7 million in FY 2015-16 and FY 2016-17, respectively, exhausting the balance of the 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 withdrawals of $2.7 million and $8.0 million in FY 2015-16 and FY 2016-17, respectively, exhausting the balance of the reserve.

- **Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes the Rainy Day Reserve Economic Stabilization Fund, an economic stabilization reserve funded by 50% of revenue growth over 5% and can be used to support the General Fund and SFUSD operating budgets in years when revenue declines. Proposition C passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Reserve into a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve) with each reserve account receiving 50% of the existing balance. Beginning in FY 2015-16, 25% of Rainy Day deposits will go to the School Reserve and 75% will go to the City Reserve. No withdrawals or deposits from the City Reserve are projected in this report.

- **Recreation & Park Budget Savings Incentive Reserve:** The Recreation and Park Savings Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings by the Recreation and Park Department and must be dedicated to one-time expenditures. This report assumes withdrawals of $1.8 million and $5.2 million in FY 2015-16 and FY 2016-17, respectively, exhausting the balance of the reserve.

- **Prior Year Expenditure Savings.** This report assumes that $6.7 million of prior year expenditure savings will offset FY 2015-16 minimum wage cost increases. In FY 2016-17, this one-time source is reduced by $5.5 million and the remaining $1.2 million will expire in FY 2017-18.

Department of Public Health Revenues

The Department of Public Health (DPH) projects a revenue increase of $5.7 million in FY 2015-16, $6.6 million in FY 2016-17, $6.9 million in FY 2017-18, $7.4 million in FY 2018-19, and $6.8 million in FY 2019-20. The increases are due to patient revenues at the San Francisco Health Network. Revenue estimates for DPH's San Francisco Health Network (which includes two hospitals and many clinics) are based on projections from a study commissioned in 2013 to evaluate the effects of the Affordable Care Act (ACA). These projections have been updated based on the August 2014 Medi-Cal Expansion population served by the network. Because of continued uncertainty about the effects of ACA, which began implementation in January 2014, these projections will continue to change as the healthcare landscape shifts in the City and the region.

Office of Community Investment and Infrastructure Tax Increment

Under Redevelopment dissolution law, the Office of Community Investment and Infrastructure (OCII) has much more limited authority to issue debt compared to the former San Francisco Redevelopment Agency. The base case projection assumes that OCII may issue debt to finance infrastructure improvements for the Mission Bay and Hunters Point Shipyard Phase 2/Candlestick Point major development projects, and will fund on a pay-as-you-go basis other infrastructure and affordable housing obligations. This results in a General Fund impact of $7.8 million in FY 2015-16, $6.8 million in FY 2016-17, and $3.9 million in FY 2017-18. Starting in FY 2018-19, the needed tax increment falls by $8.5 million and then an additional $5.6 million in FY 2019-20; the reduction is due to lower outstanding debt service payments and also the completion of some OCII projects over the five year period. The City and OCII will explore alternative solutions to the pay-as-you-go model, but at this time the availability of other options is not certain.

Other General Fund-Supported Revenues

Other General Fund supported revenues are projected to decrease by $6.8 million in FY 2015-16, and then increase incrementally by $4.3 million in FY 2016-17, $4.1 million in FY 2017-18, $4.5 million by FY 2018-19, and $4.3 million in FY 2019-20. These revenues include Fire Department revenues, Human Services Agency revenues and Airport revenues as well as other small changes.

- **Fire Emergency Medical Services Revenue**: The Fire Department's revenues from ambulance transport billings are projected to decrease by $7.4 million in FY 2015-16 primarily because of the loss of a one-time $5.9 million payment that is expected in FY 2014-15. A further reduction of $1.5 million in State Ground Emergency Medical Transport (GEMT) payments starting in FY 2015-16 is projected based on recent trends and changes to State repayment practices. Revenues are assumed to rise with CPI thereafter, by $0.4 million in FY 2016-17 through FY 2018-19 and by $0.5 million in FY 2019-20. Though this report assumes additional staffing at the Fire Department's Ambulance Division, it projects no additional revenue due to ongoing uncertainty related to State and Medi-Cal reimbursement practices.

- **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. The Department estimates they will draw revenues for approximately 38% of salary and benefit costs in each year, resulting in incremental revenue increases of $2.9 million in FY 2016-17, $2.6 million in FY 2017-18, $2.7 million in FY 2018-19, and $2.8 million in FY 2019-20.

- **Airport Revenues:** The General Fund receives a portion of Airport concessions revenue annually. For FY 2015-16 through FY 2019-20, the Airport projects these revenues to increase by $1.2 million, $1.0 million, $2.6 million, $1.4 million, and $1.1 million, respectively.

DETAIL OF BASE CASE CITYWIDE EXPENSE PROJECTIONS

Uses – Baselines & Reserves

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

As a result of growing discretionary revenue, the City's mandated contributions to baselines and set-asides is increasing by $46.1 million, $14.6 million, $39.4 million, $30.3 million, and $27.7 million in FY 2015-16, FY 2016-17, FY 2017-18 , FY 2018-19, and FY 2019-20, respectively. Key changes to baseline contributions are summarized below and in Table 7.

The City's current baselines include:

- **MTA Baselines (including Prop B):** 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 to provide predictable, stable and adequate level of funding for MTA. Consistent with the Charter, the funding for these two baselines is adjusted annually by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). 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. This results in $22.7 million in additional funding per year for the MTA starting in FY 2015-16, and increasing each year by the percent increase in the San Francisco population as calculated by the Controller's Office.

  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.

  Combining all required Muni baselines and parking tax transfers, the MTA is expected to receive additional incremental base line revenue each year over the next five years of $40.6 million, $12.7 million, $16.8 million, $13.8 million, and $14.8 million.

- **Public Education Enrichment Fund Annual Contribution:** Proposition C passed by the voters in November 2014 extended the Public Education Enrichment Fund Annual Contribution (PEEF) for 26 years, until June 30, 2041, eliminated a provision that allowed the City to defer up to a quarter of the contribution to PEEF in any year the City had a budget shortfall of $100 million or more, and eliminated a credit for in-kind services allowed as an offset against the contribution.

  The PEEF contribution is projected to increase by $9.6 million, $2.7 million, $4.2 million, $3.2 million, and $3.5 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, respectively. These increases reflect the loss of the in-kind credit beginning in FY 2015-16 (equal to approximately $4 million annually), and the percentage increase in the City's aggregate discretionary revenue over the next four years, as prescribed by Charter Section 16.123-2.

- **Children's Fund Property Tax Set-aside:** Proposition C extended the Children's Fund and the property tax set-aside for 25 years, until June 30, 2041 and increased the property tax set-aside from $.03 for each $100 of assessed property value in FY 2014-15 growing to $.04 by FY 2018-19. In addition, Proposition C added a new priority population to benefit Transitional Aged Youth (TAY). Without the legislation, the Fund would have grown due to the projected growth in property tax revenue. Combining the planned growth with the new growth due to the policy change, the overall value of the Children and Youth Fund will increase from $51.6 million in FY 2014-15 to $59.3 million in FY 2015-16, $66.7 million in FY 2016-17, $74.7 million in FY 2017-18, $82.9 million in FY 2018-19, and $86.2 million in FY 2019-20. Overall the Children's Fund set-aside is projected to increase by $7.7 million, $7.4 million, $8.0 million, $8.2 million, and $3.3 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20 respectively. However, the impact to the General Fund of this set-aside increase is offset by reductions to other baselines, which is reflected in Table 4. Isolating the policy change of the increased percentage of property taxes dedicated to the Children's Fund, the additional General Fund support that is needed each year is $3.8 million in FY 2015-16, $4.1 million in FY 2016-17, $4.4 million in FY 2017-18, $4.9 million in FY 2018-19, and $0.7 million in FY 2019-20.

- **Children's Baseline:** This report assumes that the required expenditure appropriation for the Children's Baseline is more than exceeded in each year, therefore, no net budgetary impact is projected.
- **Housing Trust Fund:** This report assumes that the Housing Trust Fund will continue to grow by $2.8 million in each year, as prescribed by Charter.
- **Other Baseline and Mandate Requirements:** In addition to those listed above the Charter specifies baseline-funding levels for various programs or functions, including the Public Library, Public Education, Children's Services, the Human Services Care Fund, and the City Services Auditor. Baseline amounts are generally linked to changes in discretionary City revenues, though some are a function of Citywide expenditures or base-year program expenditure levels.

Table 7 shows the City's projected baseline contribution and the change from the prior year over the next five years; it also shows FY 2014-15 budgeted contributions for the City's baselines.

Table 7: Projected Baselines and Mandated Expenditures FY 2015-20 ($ in millions)

Total Contribution	FY 14-15 Budget	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Public Education Enrichment Fund	82.1	91.7	94.4	98.6	101.8	105.2
Children's Fund Property Tax Setaside*	51.6	59.3	66.7	74.7	82.9	86.2
Housing Trust Fund	22.8	25.6	28.4	31.2	34.0	36.8
MTA Baselines (Including Prop B)	315.8	356.4	369.1	385.9	399.7	414.5
Library Preservation Baseline	61.6	65.5	67.4	70.4	72.7	75.1
Controller- City Services Auditor	14.9	15.2	15.6	16.1	16.6	17.0
Municipal Symphony Baseline	2.3	2.4	2.5	2.6	2.7	2.8
	551.0	**616.0**	**644.1**	**679.5**	**710.3**	**737.7**

Change from Prior Year	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Public Education Enrichment Fund	9.6	2.7	4.2	3.2	3.5
Children's Fund Property Tax Setaside*	7.7	7.4	8.0	8.2	3.3
Housing Trust Fund	2.8	2.8	2.8	2.8	2.8
MTA Baselines (Including Prop B)	40.6	12.7	16.8	13.8	14.8
Library Preservation Baseline	3.8	1.9	3.0	2.3	2.5
Controller- City Services Auditor	0.3	0.4	0.5	0.5	0.4
Municipal Symphony Baseline	0.1	0.1	0.1	0.1	0.1
	64.9	**28.1**	**35.4**	**30.8**	**27.4**

** The impact to the General Fund of the Children's Fund Property Tax setaside increase is partially offset by reductions to other baselines.*

The City has a number of reserves that are available to insulate the City's budget and services from a dramatic event and soften the impact of economic shocks.

Projected deposits to City's Reserves include:

- **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 from 1.75% of regular General Fund revenues in FY 2015-16 to 2.0% in FY 2016-17. For fiscal years FY 2017-18 through FY 2019-20, this report assumes the General Reserve will additionally increase to 2.33%, 2.67%, and 3.00% in FY 2017-18, FY 2018-19, and FY 2019-20 respectively, consistent with proposed Controller's Financial Policies that were introduced at the October 7, 2014 Board of Supervisors meeting.

  Projections for deposits to the General Reserve are $15.4 million, $12.1 million, $17.1 million, $17.6 million, and $18.2 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20 respectively. This report also assumes no withdrawals and that unspent monies at the end of each fiscal year will be carried forward to the subsequent year.

- **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 projects withdrawals of $2.7 million, and $8.0 million in FY 2015-16 and FY 2016-17, respectively, exhausting the balance of this reserve.

- **Budget Stabilization 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 a deposit of $4.3 million into the Budget Stabilization Reserve in FY 2015-16 related to projected Real Property Transfer Tax revenues above their five year average. No additional withdrawals or deposits are projected.

- **Salary and Benefits Reserve:** In each of the five years, this Plan projects increasing the Salary and Benefits Reserve by CPI from the $14.0 million level appropriated in FY 2015-16 to support costs related to labor agreements not budgeted in individual departments, and assumes the entire reserve will be fully spent each year.

- **Litigation Reserve:** This reserve supports annual City liabilities related to claims, settlements, and judgments. This Plan assumes $16.0 million in FY 2015-16, as previously appropriated. In the following four years, the reserve is projected to return to $11.0 million, consistent with historic levels and is assumed to be fully spent each year.

Table 8 outlines the projected uses, deposits, and balances of all reserves discussed above and in the Sources section of this Plan.

Table 8: Projected Uses, Deposits & Balances of Reserves FY 2015-20 ($ in millions)

Reserve (Deposits) / Uses	FY 15-16 (Deposit)/ Use	FY 16-17 (Deposit)/ Use	FY 17-18 (Deposit)/ Use	FY 18-19 (Deposit)/ Use	FY 19-20 (Deposit)/ Use
General Fund Reserve	(15.4)	(12.1)	(17.2)	(17.6)	(18.2)
Budget Savings Incentive Fund	-	3.7	-	-	-
Recreation & Parks Budget Savings Incentive Reserve	1.8	5.2	-	-	-
Rainy Day Economic Stablilization Reserve	-	-	-	-	-
Rainy Day One-Time Reserve	2.7	8.0	-	-	-
Budget Stabilization Reserve	(4.3)	-	-	-	-
Salary and Benefits Reserve*	(14.0)	(14.5)	(14.9)	(15.3)	(15.7)
Litigation Reserve*	(16.0)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL	**(45.3)**	**(20.7)**	**(43.0)**	**(43.9)**	**(44.9)**

Reserve Balances	FY 14-15 Ending Balance	FY 15-16 Ending Balance	FY 16-17 Ending Balance	FY 17-18 Ending Balance	FY 18-19 Ending Balance	FY 19-20 Ending Balance
General Fund Reserve	55.6	71.0	83.1	100.3	117.9	136.1
Budget Savings Incentive Fund	3.7	3.7	-	-	-	-
Recreation & Parks Budget Savings Incentive Reserve	6.9	5.2	-	-	-	-
Rainy Day Economic Stablilization Reserve	24.6	24.6	24.6	24.6	24.6	24.6
Rainy Day One-Time Reserve	10.7	8.0	-	-	-	-
Budget Stabilization Reserve	151.4	147.1	147.1	147.1	147.1	147.1
Salary and Benefits Reserve*	-	-	-	-	-	-
Litigation Reserve*	-	-	-	-	-	-
TOTAL	**252.9**	**259.5**	**254.8**	**272.0**	**289.6**	**307.8**

** These reserves are assumed to either be spent or closed to fund balance at the end of each fiscal year.*

Uses – Salaries & Benefits

This report projects General Fund supported salaries and fringe benefits to increase by $33.9 million in FY 2015-16, $58.5 million in FY 2016-17, $76.1 million in FY 2017-18, $72.1 million in FY 2018-19, and $100.0 million in FY 2019-20. These increases, discussed in greater detail below, reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs.

Annualization of Partial Year Positions: In FY 2015-16, the City is projected to incur $12.1 million in additional costs to annualize positions funded for only a partial year in the FY 2014-15 budget.

Previously Negotiated Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be $62.9 million for FY 2015-16, $71.5 million for FY 2016-17, and $7.4 million for FY 2017-18. In February 2014, the City began negotiations with 27 of its employee organizations to craft new labor contracts. The new contracts cover more than 28,000 employees through FY 2016-17. With a few exceptions, the negotiated agreements include raises of 3.0% in October 2014, 3.25% in October 2015, and between 2.25-3.25% (depending on inflation) in July of 2016; this report assumes an increase of 2.28% based on the latest inflation projections from the California Department of Finance for FY 2016-17. The Memorandum of Understanding (MOU) for police officers and firefighters is closed one additional year through FY 2017-18; these MOU include negotiated wage increases of 1.0%, 2.0% and 2.0% over the next three years.

Projected Costs of Open Labor Agreements: Beginning in FY 2017-18, this report assumes that most bargaining units receive salary increases equivalent to the change in the Consumer Price Index (CPI-U), which is projected by the California Department of Finance to be 2.75% through FY 2019-20. For police officers and firefighters, the report also assumes increases of 2.75% in FY 2018-19 and FY 2019-20. The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be $57.5 million, $68.7 million, and $70.4 million in FY 2017-18, FY 2018-19 and FY 2019-20, respectively. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in FY 2016-17 for most employees and FY 2017-18 for police officers and firefighters.

Health and Dental Benefits for Current Employees: Each year, the Health Service System (HSS) negotiates subsequent year rates in the spring, the HSS Board adopts these rates in July, and then HSS holds open enrollment for employees every October.

In order to ensure competition between health plans by minimizing migration, the Health Service Board has used one-time and ongoing strategies to reduce the price gap between plan rates. In order to continue this trend, the health plans will also need to be more efficient and reduce their costs. Industry predictions anticipate that the medical and pharmacy inflation rates will increase at a rate which is greater than the Health Service Board negotiated trends. Therefore projections in this report assume average increases of approximately 5.0% in health and dental rates in each year. Given these assumptions, health and dental insurance premium costs paid by the employer related to current employees are projected to increase by $2.4 million in FY 2015-16, $11.7 million in FY 2016-17, $12.3 million in FY 2017-18, $12.9 million in FY 2018-19, and $13.6 million in FY 2019-20.

The key uncertainty at this time last year was the impact of the federal taxes and fees levied on employer based health plans as part of the implementation of the Affordable Care Act. The initial fees and taxes are taken into account in the 2015 rates; however, the Excise Tax on High Cost Plans will not be effective until 2018, and the impacts on health rates from this policy change are not yet known. No change is assumed in this Plan from the Excise Tax since the outcomes are too uncertain at this time, and challenges in projecting these costs remain. While a new percentage based contribution cost-sharing model was negotiated between the City and the unions, which will go into effect for many employees in January of 2015, the impact on migration among plans including shifting of cost between plans due to demographic changes, plan design, utilization and other factors remain uncertain.

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 mandates health coverage for retired City employees. The cost of medical benefits for retirees is projected to increase General Fund support by $2.1 million, $8.7 million, $9.5 million, $10.3 million, and $11.3 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20, respectively. 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 pay 2.0% and 1.0% 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 and the employer to begin contributing to this fund beginning in FY 2016-17. Starting July 1, 2016, employees hired before January

10, 2009 will begin contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% of each subsequent year, up to a maximum of 1.0%, and the City will match the contribution commensurately. As a result, this report also assumes General Fund support will grow $3.6 million, $4.2 million, $4.0 million, $3.6 million, and $3.3 million each year FY 2015-16 through FY 2019-20, respectively.

Retirement Plan Employer Contribution Rates are beginning to decline. The majority of City employees are part of the San Francisco Employees Retirement System (SFERS), and some public safety personnel are part of the California Public Employees Retirement System (CalPERS). In November 2011, Proposition C changed the way the City and employees share in funding pension benefits. The base employee contribution rate remains at 7.5% for most employees when the City contribution rate is 11% of payroll. When the City contribution rate is above 11%, employees pay an additional amount based on the salary band in which their wages fit.

This report assumes total retirement costs begin to decline after FY 2014-15 and continue to decline through FY 2019-20. This is due to three main factors:

- Several small propositions implemented from 1994 through 1998 have now become fully amortized;
- Asset losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) during the prior recession in 2008/2009 have now been fully recognized; and
- Unrecognized asset gains from the last few years are being smoothed in over the coming five year period.

SFERS employer contribution rates are based on projections prepared by the Retirement System's actuary in August 2014. They assume continuation of the SFERS Board adopted investment return of 7.58%; however, final rates for FY 2015-16 will be adopted by the Retirement Board in the coming months. Projections reflect employee contributions to retirement required under Proposition C. The maximum employer contribution rate for non-safety employees in salary band 2 is 22.4% in the current fiscal year. This rate is projected to decrease to 18.5%, 17.5%, 16.6%, 15.0%, and 14.3% in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, respectively. Rates for Police and Fire safety employees vary based on date of hire. This report assumes the maximum employer contribution rate for FY 2014-15 for police officers and fire fighters was 21.6%; declining to 17.7%, 16.6%, 15.8%, 14.2%, and 13.9% over the next five years.

For CalPERS members, this report includes rate increases starting in FY 2015-16 due to adjusted mortality assumptions adopted by the CalPERS Board in February 2014. The CalPERS rate in the current year is 22.0% and is projected to increase to 23.7%, 26.3%, 28.0%, 29.8% and 31.5% in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20.

The net result of these changes to the employer share for SFERS and CalPERS contribution rates is a decrease in total General Fund support of $58.2 million, $29.2 million, $12.2 million, $23.4 million and $9.2 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20, respectively.

Table 9 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion.

Table 9: Estimated Employer Contribution Rates for the Retirement System

San Francisco Employees Retirement System (SFERS)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Estimated Total Contribution Rates	30.2%	28.1%	26.7%	25.1%	23.8%
Non-Safety Employees					
Employee Contribution (1)					
Band 1, < $26.17/hour	7.5%	7.5%	7.5%	7.5%	7.5%
Band 2, < $51.33/hour	11.0%	10.0%	9.5%	9.5%	9.0%
Band 3, >$51.33/hour	11.5%	10.5%	10.0%	10.0%	9.5%
Additional rate factors					
Band 1, < $26.17/hour	0.8%	0.7%	0.7%	0.6%	0.6%
Band 2, < $51.33/hour	0.7%	0.6%	0.6%	0.6%	0.5%
Band 3, >$51.33/hour	0.7%	0.6%	0.6%	0.5%	0.5%
Estimated Net Employer Contribution (1)					
Band 1, < $26.17/hour	21.9%	19.9%	18.5%	17.0%	15.7%
Band 2, < $51.33/hour	18.5%	17.5%	16.6%	15.0%	14.3%
Band 3, >$51.33/hour	18.0%	17.0%	16.1%	14.6%	13.8%

Police and Fire Safety Employees (2)	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Estimated Total Contribution Rates	30.4%	28.3%	26.9%	25.3%	24.0%
Employee Contribution & additional rate factors	12.7%	11.7%	11.1%	11.1%	10.1%
Estimated Net Employer Contribution	17.7%	16.6%	15.8%	14.2%	13.9%

California Public Employees Retirement System (CalPERS)

Total Estimated Contribution Rate	24.7%	27.4%	29.1%	30.9%	32.6%
Employee Contribution & additional rate factors	1.1%	1.1%	1.1%	1.1%	1.1%
Net Employer Contribution	23.7%	26.3%	28.0%	29.8%	31.5%

(1) Employees are divided into three bands based on wages. The wages shown are based on the FY 2014-15 wage floors.
(2) Employee base contribution rates vary depending on 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. FY 2014-15 is a normal year; however, FY 2015-16 is a leap year and contains 366 days for 24/7 operations and 262 workdays for regularly scheduled shifts; therefore, the City incurs additional General Fund costs of $8.5 million in that year, which go away in FY 2016-17. FY 2017-18 again contains only 260 regularly scheduled workdays and the City expects to see savings in that year of $2.3 million. FY 2018-19 is the same as FY 2017-18, and FY 2019-20 is another leap year, which means the City incurs additional General Fund costs in that year of $10.8 million compared to the prior year. Other salary and benefit changes include changes to costs for unemployment insurance, Long Term Disability, and any changes to the FICA income cap, as well as other small salary and fringe adjustments and MOU-related agreements. The combined effect of these changes is a General Fund cost increase of $9.0 in FY 2015-16, followed by decreases of $8.5 million and $2.3 million in FY 2016-17 and FY 2017-18, no change in FY 2018-19, and finally and increase of $10.8 million in FY 2019-20.

Uses – Citywide Operating 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 $35.4 million, $108.2 million, $97.6 million, $109.1 million, and $51.6 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, respectively. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Minimum Wage (Proposition J): In November 2014, the voters adopted a Charter amendment increasing local minimum wage from $11.05 to $15.00/hour by 2018. After reaching $15.00, the wage will increase by CPI on July 1 of every subsequent year. This report assumes a CPI-U increase of 2.75% in the FY 2019-20.

Table 10: Schedule of Minimum Wage Increases Pursuant to Proposition J

(start date)	FY 14-15 (January 1, 2015)	FY 14-15 (May 1, 2015)	FY 15-16	FY 16-17 (July 1, 2016)	FY 17-18 (July 1, 2017)	FY 18-19 (July 1, 2018)	FY 19-20 (July 1, 2019)
New Wage	$11.05	$12.25	$12.25	$13.00	$14.00	$15.00	$15.41

The major cost driver of the policy change for the city is the In-Home Supportive Services (IHSS) program which employs over 19,000 individuals at a current hourly wage of $12.00. IHSS is a State and County supported program housed within the budget of the Human Services Agency. In addition, there are some City contracts which directly pay for staff and a limited group of city employees whose wages are below $15.00/hour.

Table 11: Impact of Minimum Wage Increases to the General Fund (in millions)

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Annual Cost	1.3	12.6	23.6	39.1	56.3	65.9
Incremental Change		*11.3*	*11.0*	*15.5*	*17.2*	*9.5*

Overall these changes to the City's minimum wage result in an increase in General Fund support of $11.3 million in FY 2015-16, an additional $ 11.0 million in FY 2016-17, $15.5 million in FY 2017-18, $17.2 million in FY 2018-19, and $9.5 million in FY 2019-20. Although $1.3 million was budgeted in FY 2014-15, the final legislation adopted by the voters will cost the General Fund $2.6 million in FY 2014-15; the difference will be covered by other expected current year savings. Outside of the projection period in this Plan, these increases are expected to be partially offset by increased State realignment allocations contingent on state sales tax revenue growth.

Citywide – Capital, Equipment & Technology

Changes in funding for capital, equipment, and technology will result in an increase in General Fund support of $5.0 million in FY 2015-16, $42.3 million in FY 2016-17, $37.3 million in FY 2017-18, $40.4 million in FY 2018-19 and $2.8 million in FY 2019-20.

Table 12: Capital, Equipment and Technology

	2014-15	2015-16	Projected Levels 2016-17	2017-18	2018-19	2019-20
Capital Plan Budget	114.1	102.2	138.1	151.9	167.0	183.7
Capital FF&E, Move, Operating Costs	2.0	11.9	4.4	15.9	35.3	16.4
Equipment	16.2	11.3	16.4	16.9	17.4	17.8
Information & Communication Technology Budget	5.6	3.8	8.6	9.7	10.9	12.2
Major IT Investments	5.4	7.5	16.9	18.6	20.5	22.5
Total One-time Costs	**143.3**	**136.7**	**184.5**	**212.9**	**251.1**	**252.7**

	2015-16	2016-17	Year-Over-Year Change 2017-18	2018-19	2019-20
Capital Plan Budget	11.9	(35.9)	(13.8)	(15.2)	(16.7)
Capital FF&E, Move, Operating Costs	(9.9)	7.5	(11.4)	(19.9)	19.4
Equipment	4.9	(5.2)	(0.5)	(0.5)	(0.5)
Information & Communication Technology Budget	1.8	(4.9)	(1.1)	(1.2)	(1.3)
Major IT Investments	(2.2)	(9.4)	(1.7)	(1.9)	(2.0)
Capital One-Time Bond Reimbursements *	(11.6)	7.2	(7.2)	-	-
Department of Technology Rates *	(0.0)	(1.7)	(1.6)	(1.9)	(1.7)
Year-Over Year Change	**(5.0)**	**(42.3)**	**(37.3)**	**(40.4)**	**(2.8)**

** Capital One-Time Bond Reimbursements are excluded from the "Projected Levels" table above because they are a source.*

** Department of Technology rates are excluded from the "Projected Levels" table above they represent an on-going cost, rather than a one-time cost.*

This report assumes that capital budget funding will increase based on preliminary levels assumed in the City's FY 2015-25 Draft Ten-Year Capital Plan for FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20 which represents an increase in General Fund support of $35.9 million, $13.8 million $15.2 million and $16.7 million, respectively in each year. For FY 2015-16, the capital projection reflects the previously adopted FY 2015-16 budget, which did not include full funding of the Capital Plan.

This report also assumes $7.2 million in one-time bond reimbursements in FY 2016-17 from a future Department of Public Health bond for planning dollars funded through the City's pay-as-you-go General Fund capital budget. The FY 2015-16 budget includes the loss of one-time revenue of $11.6 million from the second Earthquake Safety and Emergency Response bond.

Additionally, the City is experiencing changing costs related to furniture, fixture and equipment (FF&E) associated with new and upgraded City facilities in the amounts of $9.9 million in FY 2015-16, a decrease of $7.5 million in FY 2016-17, an increase of $11.4 million in FY 2017-18, $19.9 million in FY 2018-19, and a decrease of $19.4 million in FY 2019-20. These costs are related to projects including: the ESER 1 and 2 bonds (for the Police Department, the Medical Examiner's Office, and the Fire Department); the next Department of Public Health bond (seismic upgrade to San Francisco General Hospital Building 5); fund lease rental payments for Animal Care and Control seismic rebuild; City proposal to consolidate permitting staff and one-stop permit shop from various leased and City-owned properties into one building; and other large Certificates of Participation and General Obligation bond capital projects.

Citywide equipment costs are projected to decrease by $4.9 million in FY 2015-16, as reflected in the previously adopted FY 2015-16 budget. To reach previous levels of investment as well as projected need, equipment costs are projected to increase by $5.2 million in FY 2016-17. Increased cost assumptions based on CPI result in annual $0.5 million increases in FY 2017-18, FY 2018-19, and FY 2019-20. 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 five 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.

Citywide technology costs are projected to decrease by $1.8 million in FY 2015-16, as reflected in the previously adopted FY 2015-16 budget. Technology costs are projected to increase by $4.9 million in FY 2016-17, $1.1 million in FY 2017-18, $1.2 million in FY 2018-19, and $1.3 million in FY 2019-20, consistent with the forthcoming City's Information and Communication Technology (ICT) Plan for FY 2015-16 through FY 2019-20. These costs are related to infrastructure and security improvements, as well as department-specific technology updates.

This report also assumes an increase in funding for major Information Technology investments in the amount of $2.2 million starting in FY 2015-16 and increasing by $9.4 million in FY 2016-17, $1.7 million in FY 2017-18, $1.9 million in FY 2018-19, and $2.0 million in FY 2019-20. The $9.4 million increase in FY 2016-17 is the result of a decision to split the previously assumed FY 2015-16 amount between FY 2014-15 and FY 2015-16. The remaining increases reflect 10% growth on the prior year, consistent with ICT Plan assumptions to grow funding for IT as time goes on. This increase in funding is also assumed to reflect the risk the City faces with replacing the City's aging information and communication technology systems over the coming several years – specifically, the continued replacement of the Citywide financial system and the public safety radio system – as discussed in the prior ICT plan.

Finally, the Department of Technology's rates are projected to stay flat in FY 2015-16 as included in the adopted budget. Rates are projected to increase by $1.7 million in FY 2016-17, $1.6 million in FY 2017-18, $1.9 million in FY 2018-19, and $1.7 million in FY 2019-20 due to inflationary increases on salaries and benefits.

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

Over the next four years, this report assumes that the cost of materials and supplies, professional services, contracts with Community-Based Organizations and other non-personnel operating costs will rise by Consumer Price Index (CPI-U) increases of 2.75% for FY 2016-17 through FY 2019-20, respectively. The projection reflects the adopted FY 2015-16 budget spending levels in the first year of the report. This generates an increase in costs to the City of $2.7 million, $36.3 million, $33.1 million, $33.9 million, and $34.7 million in FY 2015-16, FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, respectively.

Citywide – Debt Service & Lease Financings

Over the next five years, total debt service and lease financing costs are projected to increase by $15.2 million in FY 2015-16, $12.6 million in FY 2016-17, $5.3 million in FY 2017-18, $10.4 million in FY 2018-19 and then to decrease by $1.0 million in FY 2019-20. These projections are based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan. These projections do 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 the War Memorial Veterans Building seismic upgrade, equipment leases for SF General Hospital, HOPE SF, and the Jail Replacement project. Decreases in cost in the out years can be attributed to the full refunding of the General Fund's equipment and lease finance debt accrued over the last decade, along with smaller COP project debts becoming fully paid off.

Citywide – 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 2017-18 and will cover the cost of planned capital improvement projects, including the Water System Improvement and the Sewer System Improvement Programs. The final two years of sewer and water rate projections are PUC financial plan assumptions and have not been adopted as approved rate increases. The power rate charged to General Fund rate city departments will increase by one cent per kilowatt hour (kWh) in 2015-16 due to an increase in projected annual costs resulting from the expiration of the PG&E interconnection agreement; additional regulatory mandates from the regional council governing power utilities; increased capital costs related to the Mountain Tunnel rehabilitation project; and revenue reductions due to drought conditions. In FY 2016-17 and beyond, this projection uses PUC financial plan assumptions. In FY 2016-17, the plan assumes a one cent per kWh increase followed by half cent per kWh increases for the final three years. If these increases are implemented, the total General Fund impact resulting from increased sewer, water, and power rates is a cost of $3.3 million, $3.1 million, $2.2 million, $2.3 million, and $2.5 million each year over the next five years.

Other Citywide Costs

This category includes assumed costs of real estate transactions for the City's General Fund departments; increases in the City's workers' compensation costs; the expiration of one-time costs from the prior year budget; and other minor changes. These items together result in General Fund savings of $2.1 million in FY 2015-16, and then increased costs of $2.9 million, $4.3 million, $4.9 million and $3.0 million in the remaining four years of the report.

Uses – Departmental Costs

This section provides a high-level overview of significant departmental costs over the next five years. Table 4 displays departmental cost increases of $40.5 million in FY 2015-16, $3.9 million in FY 2016-17, $14.6 million in FY 2017-18, $16.5 million in FY 2018-19, and $8.6 million in FY 2019-20. More details on departmental costs are provided in the major service area sections of this report.

City Administrator's Office – Convention Facilities Subsidy

This Plan assumes the Convention Facilities Fund will need a General Fund subsidy increase of $4.5 million ongoing starting in FY 2016-17, increasing by another $3.6 million in FY 2017-18 and $1.2 million in FY 2018-19. These cost increases are due to expected lower operating revenue at the facilities due to its partial closure during planned expansions and loss of one-time prior year fund balance.

Elections – Number of Scheduled Elections

The number of elections, and the associated costs for holding elections, vary annually. Currently, two elections are projected in FY 2015-16 (a Municipal Election and a June Presidential Primary,) one Presidential General Election in FY 2016-17, one Gubernatorial Primary Election in FY 2017-18, one Gubernatorial General Election in FY 2018-19, and two elections (a Municipal Election and a June Presidential Primary,) in FY 2019-20. This schedule results in a projected incremental cost of $5.0 million in FY 2015-16, a savings of $5.1 million in FY 2016-17, and an additional cost of $5.1 million in FY 2019-20. 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 13: Number of Scheduled Elections FY 2015-16 through FY 2019-20

Fiscal Year	Date	Type
2015-16	November 2015	Municipal Election
2015-16	June 2016	Consolidated Presidential Primary Election
2016-17	November 2016	Consolidated Presidential General Election
2017-18	June 2018	Consolidated Gubernational Primary Election
2018-19	November 2018	Consolidated Gubernational General Election
2019-20	November 2019	Municipal Election
2019-20	June 2020	Consolidated Presidential Primary Election

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 and equal $2.75 per resident with 15% of the amount available for administrative costs in most years. In the fiscal year of a Mayoral election, the fund is required to contain $7.50 per resident plus an additional 15% for administrative costs. Funds not used in one election are carried over for use in the following election and at no time shall the total amount in the Fund exceed $7.0 million.

The following projection assumes: General Fund deposits in all five years of the forecast; eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals; and that Mayoral elections will be held in FY 2015-16 and FY 2019-20. Under these assumptions, the Ethics Commission assumes a savings of $0.6 million in FY 2015-16, a cost of $0.6 million in FY 2016-17, no change in FY 2017-18, a savings of $0.4 million in FY 2018-19, and a cost of $1.8 million in FY 2019-20. This future cost is highly sensitive to the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Fire and Police – Opening of the Public Safety Building

The City is scheduled to open the new Public Safety Building at 3rd Street and Mission Rock in 2015. This new facility will house the Police Headquarters, the Southern District Station, and a new fire station (Fire Station 4). The total project budget, including development and construction costs, is $243 million. Construction began in October of 2011 with a move-in expected to be complete by the Spring of 2015. Opening of the facility will allow the Police Department to transition critical functions into a seismically safe new building, while the new fire station will provide additional fire suppression capacity in a fast-growing neighborhood. The projected increase in cost related to the opening of the new facilities include $0.6 million in FY 2015-16 for the Police Department and $1.9 million for the Fire Department to annualize expenses added in FY 2014-15 budget.

Public Safety Hiring Plans

Over the next five years, this report assumes a policy to implement multi-year hiring plans for several of the City's public safety departments. Mostly, these plans are meant to backfill retirements to ensure no loss of service, and in some cases to increase capacity and service to the public.

The base case assumes funding to hold three Police classes of 50 officers over the next three years for a total of 150 hires a year until FY 2017-18, which will allow the Police Department to reach its Charter mandated full duty sworn level of 1,971 officers. Then starting in FY 2018-19, the report assumes there will be two classes per year for the Police Department to backfill retirements and ensure staffing levels stay at this new higher level. The increasing cost for these classes are $10.1 million, $10.6 million, $10.6 million, $0.7 million and $0.6 million over the next five years.

For the Fire Department, this report includes an assumption of one class in FY 2015-16, two classes in FY 2016-17 and FY 2017-18, and then one class per year in FY 2018-19 and FY 2019-20 for fire fighters. This will allow the Fire Department to keep pace with an expected surge in retirements and ensure no loss of service. These classes result in an additional cost in FY 2015-16 of $2.6 million, a savings in $0.9 million FY 2016-17, a cost of $0.6 million in FY 2017-18, and then an incremental savings in FY 2018-19 of $2.1 million and $4.7 million in FY 2019-20. The decrease in costs in the out years is the result of the Fire Department costs overall falling since new incoming fire fighters are hired at a lower step and therefore cost less than the fire fighters that are retiring.

The base case also includes increasing costs in FY 2015-16 associated with the addition of 16 Emergency Medical Technicians (EMTs) and Paramedic positions added in FY 2014-15. This additional class will allow the Fire Department to ensure sufficient staffing capacity to meet minimum response time goals. This report assumes an increase in General Fund support at the Fire Department related to these additional EMTs of $2.6 million in FY 2015-16 as these positions annualize in the budget and then increasing slightly by CPI-U in the out years.

Finally, the Department of Emergency Management's 9-1-1 Dispatch Center will hold an annual class of 10 dispatchers to replace retirements and other separations each year over the next five years. Also, this report assumes one additional class in FY 2015-16 of 12 dispatchers to return it to historical staffing levels and ensure the department is keeping pace with retirements; costs related to these classes will require an increase in General Fund support of $0.7 million, $0.5 million, $0.0 million, $0.1 million and $0.1 million over the next five years.

Mayor's Office of Housing and Community Development - HOPE SF and the Local Operating Subsidy Program
Over the next five years, costs related to HOPE SF and the Local Operating Subsidy Program will require an increase in General Fund support of $1.6 million in FY 2015-16, $0.5 million in FY 2016-17, $2.1 million in FY 2017-18, $5.6 million in FY 2018-19, and $0.7 million in FY 2019-20.

Municipal Transportation Agency – Central Subway

Charter section 8A.105 states that contributions to the Municipal Transportation Agency (MTA) must be adjusted when new ongoing transit services are added above the base year (2000-01). In 2019, the Central Subway project will be complete, extending the T Third light rail service to Chinatown and nearly doubling current T Third service levels. This report assumes increasing General Fund baseline contributions to the MTA of $6.8 million in FY 2018-19 and an additional increase of $2.3 million in FY 2019-20 due to the opening of the Central Subway.

Human Services Agency – Aid

The Human Services Agency projects that aid payments (including programs such as IHSS, CalWORKS, Care Not Cash, and others) will require increases in General Fund support of $3.0 million in FY 2015-16, $2.1 million in FY 2016-17, $3.3 million in FY 2017-18, $3.3 million in FY 2018-19, and $3.2 million in FY 2019-20. These changes are primarily due to the Maintenance of Effort (MOE) of the In-Home Support Services program, which mandates that local support for the IHSS program increase by 3.5% each year. In addition, there are changes in support related to state policy changes in the Foster Care program, as well as projected changes in caseloads.

Public Health – SFGH Rebuild on-going and one-time FF&E Costs

The San Francisco General Hospital (SFGH) Rebuild on-going and one-time costs are projected to increase by $17.9 million in FY 2015-16, decrease by $13.0 million in FY 2016-17, and increase by $0.9 million each year in FY 2017-18, FY 2018-19, and FY 2019-20. The projected FY 2015-16 cost is consistent with the previously adopted FY 2015-16 budget.

The new San Francisco General Hospital is expected to open in December 2015. The on-going and one-time costs associated with the rebuild include one-time expenditures for furniture, fixtures, and equipment (FF&E); one-time costs for transition; and on-going costs for a supplemental operating budget:

- Total expenditures for furniture, fixtures and equipment (FF&E) are expected to total $170.0 million, which is already appropriated between FY 2013-14 and FY 2014-15. In FY 2015-16, a $20.0 million decrease in General Fund support is projected as these one-time costs expire.
- Transition costs for moving operations from the old facility to the new facility are estimated to total $26.0 million, already appropriated between FY 2014-15 and FY 2015-16. In FY 2014-15, General Fund support increases by $10.0 million, then decreases by $18.5 million as these one-time costs expire.
- SFGH will require new ongoing operating funds to support additional staff and expanded services in the new facility. This will cost $26.9 million in FY 2015-16, an additional $5.5 million due to annualization of positions in FY 2016-17, and inflationary increases of $0.9 million in FY 2017-18, $0.9 million in FY 2018-19, and $0.9 million in FY 2019-20.

Treasurer-Tax Collector – Gross Receipts Tax Implementation

In November of 2012, the citizens of San Francisco passed Proposition E, mandating the transition of the City's primary business tax from the current payroll tax structure to a new tax based on gross receipts. The Office of the Treasurer-Tax Collector projects costs to decrease for Gross Receipts tax implementation by $1.9 million in FY 2015-16, reflecting the expiration of one-time technology costs in FY 2014-15; increase $1.8 million in FY 2016-17, to accommodate additional staff needed for the implementation; and finally to decrease by $2.0 million in FY 2017-18, and holding flat in FY 2018-19 and FY 2019-20, as the project moves from implementation to on-going operations.

All Other Departmental Savings/(Costs)

This section includes other smaller departmental changes including the expiration of limited-term project costs; costs and savings associated with the closure of Candlestick Park, and several other small changes.

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Fiscal Strategies

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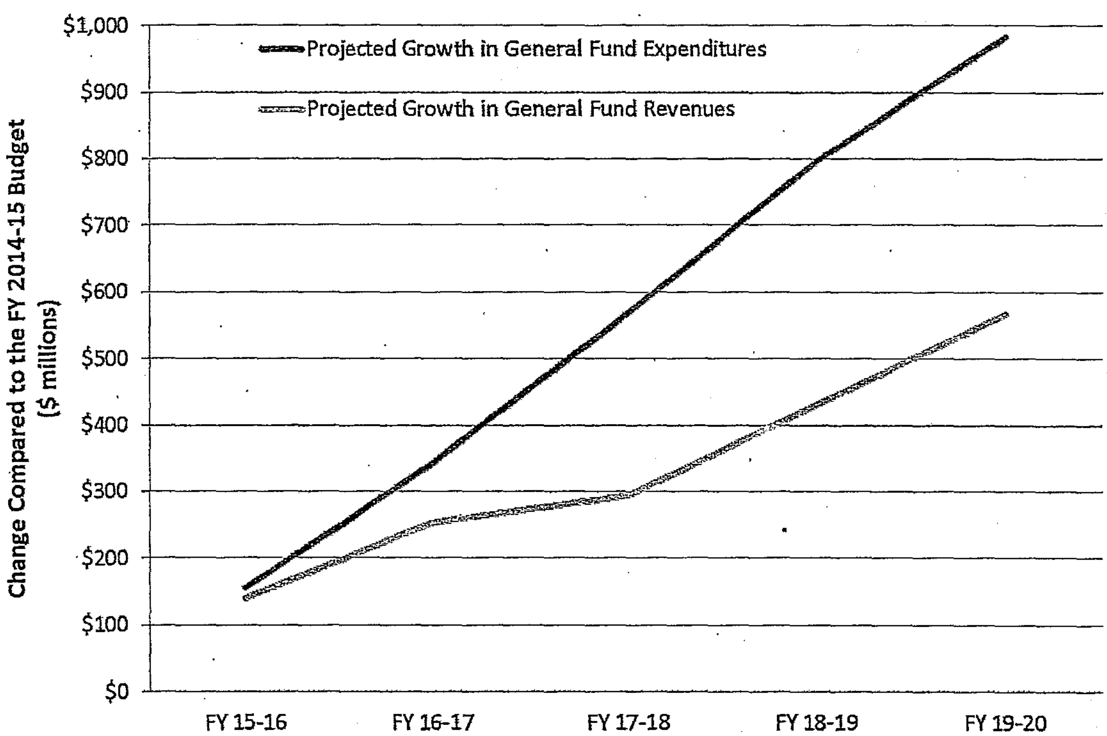
Responsible Stewardship in a Time of Moderating Growth

When Mayor Lee first came into office in 2011, the City's financial outlook was very different than it is today. The unemployment rate was 9.4%, revenues were mostly stagnant, and the City faced budget deficits of nearly $400 million. Many decisions were made during those challenging economic times to balance the City's budget, and as a result the City's financial condition has greatly improved. The unemployment rate has dropped to 4.4%, and the next two budget years show deficits of under $100 million. Now that the City is in a relatively improved economic time, it is important to be responsible stewards of the City's growth, ensuring that new expenditures are added only at a rate commensurate with growing revenues. This will reduce the need for more drastic actions if the economic cycle takes a downward turn in the future.

Financial stability is central to the City's ability to provide services to the public. The projections in this Plan illustrate the importance of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. Figure 11 demonstrates that even in good economic times, if the City does not take corrective action each year, the City's structural deficit will grow larger, making it more challenging to develop a balanced two-year budget that does not require significant operational changes.

Figure 11: Expenditures Growth Projected to Outpace Growth in General Fund Revenues



Actions taken in earlier years of the planning horizon can play a significant role in reducing projected future year deficits, particularly if the actions are on-going in nature. The financial strategies outlined below provide a framework intended to meet two key financial goals for the City during the coming five years: to sustain and enhance the City's fiscal stability and to increase the City's financial resilience in anticipation of future economic downturns. A significant amount of work and planning by City departments and policy makers remains to develop more detailed plans to implement these strategies. The goal of the proposed strategies that follow is to set achievable targets, so the City can begin developing more refined revenue, savings, and operational proposals that may require multi-year planning.

New to the Plan this year is a more detailed focus on the potential impact of an economic downturn on the City's five year outlook. Just as the City plans for an earthquake or other natural disaster, this Plan offers the recession scenario as a planning tool that details how a downturn in the economic cycle might change the City's proposed fiscal strategies.

The base case does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over five years ago, rendering the likelihood of a slowdown or a decline in revenue growth likely during the period that this Plan addresses. If an economic slowdown were to occur, the fiscal strategies (described below) would be insufficient to close broader gaps between revenues and expenditures. In such an event, the City would be required to take more significant measures to bring budgets back into balance.

Understanding the potential impacts of a downturn in the economic cycle allows policy makers to plan for the unexpected, and to understand the impact of choices made today on the future financial resilience of our City.

Fiscal Strategies - Overview

The City must continue to take a balanced approach to solving the City's structural deficit over the next five years. This requires identifying revenue growth as well as expenditure savings over the base case assumptions. The proposed Fiscal Strategies of this Plan are a roughly equal blend of revenue growth and cost constraining ideas. The proposed solutions are shown in Table 14 below.

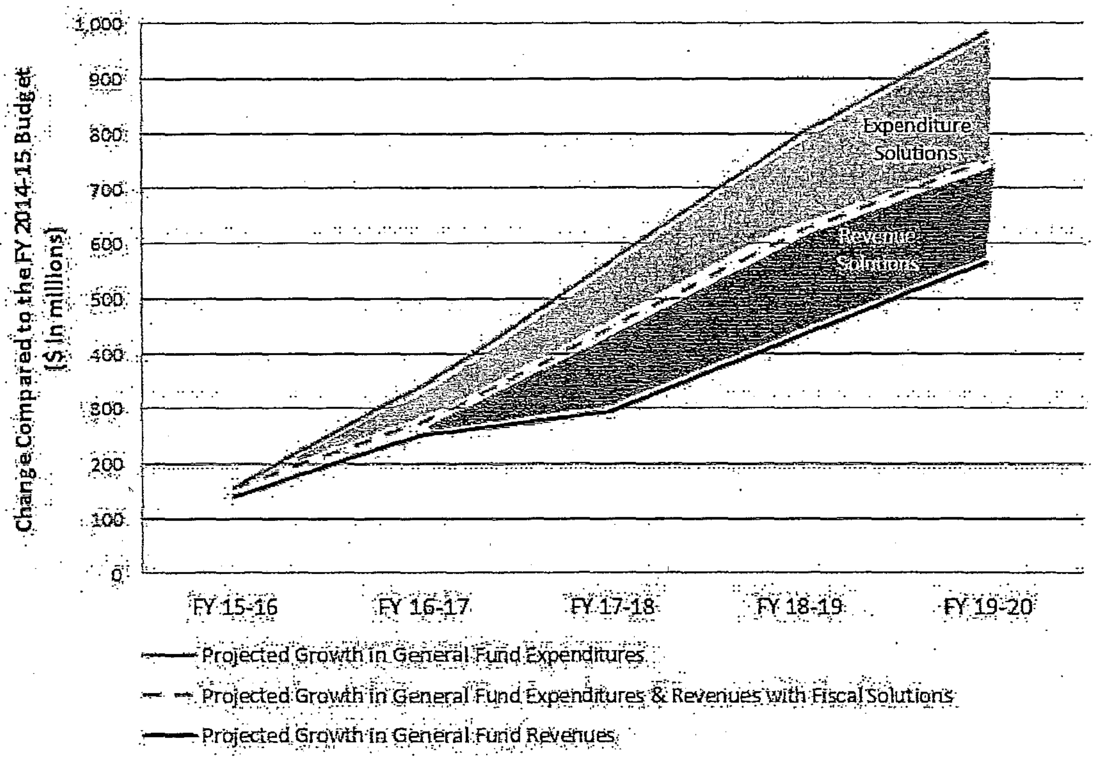
Table 14: Fiscal Strategies ($ in millions)

Base Case Outlook ($ millions)	**FY 15-16**	**FY 16-17**	**FY 17-18**	**FY 18-19**	**FY 19-20**
Cumulative Projected Surplus (Shortfall)	(16)	(88)	(275)	(366)	(418)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	-	37	43	46	50
Manage Employee Wage and Benefit Costs	-	4	30	60	90
Taxes, Fees & Other Revenues	5	10	88	94	99
Limit Non-Personnel Inflation	-	8	17	25	35
On-Going Departmental Revenues & Savings Initiatives	-	16	31	46	61
All Other Revenues and Savings	11	13	67	96	83
Adjusted Outlook	**0**	**0**	**0**	**0**	**0**

If the strategies outlined in Table 14 are implemented, the City will continue to experience significant growth over the next five years, but at a slower pace than the base case projects: expenditure growth will increase by $749 million as opposed to the $985 million assumed in the base case. The proposed solutions to the City's structural imbalance assume more moderate growth in capital spending, personnel expenses, and non-salary expenses while also assuming additional revenue and some departmental solutions. Taken together, these solutions would allow City government to grow by 18% over the next five years.

Figure 12 illustrates the gap between revenues (lower line) and expenditures (top line) in the base case outlook. The middle line shows the growth trend for the City's budget should the fiscal strategies be implemented as described: significant growth from where the City budget is today, but moderated to ensure it is affordable.

Figure 12: General Fund Expenditures can grow by 18% over next 5 years if fiscal strategies are implemented



These financial strategies provide a framework for the City to continue to provide excellent services for the public while remaining fiscally prudent over the coming five years. The remainder of this section discusses the options available to the Mayor and the Board of Supervisors to balance the budget over the five year planning horizon, and provides a recession scenario for planning purposes that details how a downturn in the economic cycle might change the City's proposed fiscal strategies.

Fiscal Strategies: Capital Spending and Debt Restructuring

- Capital Spending: Since its inception in 2007, the City's Capital Plan has called for an annual 10% increase in the level of General Fund cash investment in City-owned infrastructure. This level of investment is included in the Plan's base case projected costs, with the exception of the first year of the Plan, which assumes a lower level of investment consistent with the adopted FY 2015-16 budget. For the first time in many years, the FY 2014-15 capital budget matched the Capital Plan recommended funding level of $114 million.

The next iteration of the Ten-Year Capital Plan, which will be released in March 2015, will mark the 8th year that the City has been developing this long range planning document. The Capital Plan's funding approach has not been revisited since the inception of the plan, and it makes sense for the Capital Planning Committee to review and potentially revise its policy based on present day spending and updated information about capital needs.

Some ways this policy could be altered include:

- Change the rate of inflation for the fully funded level. For example, the Capital Plan currently uses 5% as the inflation factor on its projects and most of the City's other expenditures are projected to increase by CPI-U each year (approximately 2.75%), including employee costs and non-salary spending.
- Identify an increased goal for other non-City funds to comprise a portion of the pay-as-you-go capital funding; or
- Identify new one-time sources to fund future G.O. bond planning work.

The City should continue to make significant investments in capital spending that continue to allow growth annually through the plan's horizon.

- Managing the City's Debt Portfolio: In recent years, the City has successfully pursued refinancing and restructuring of existing debt obligations, resulting in lower annual debt service costs. This element of the fiscal strategy expects that the City will continue to proactively manage and restructure planned debt to achieve additional savings, as well as use debt restructuring and bonding capacity to complete obligations of the Office of Community Investment and Infrastructure instead of cash funding a pay-as-you-go capital program. In addition, the City has adopted a policy to limit the General Fund Certificates of Participation Program (COP) debt program to 3.25% of aggregate discretionary revenue, and each year the City's Capital Plan assumes that the City fully expends this program and uses all available capacity. However, this does not mean that the City must fund projects using debt. The fiscal strategies shown above assume that the City will use 75% of the available debt capacity, or 3.1% of aggregate discretionary revenue, through the COP program starting in FY 2016-17.

Taken together, these strategies could comprise $37 million in General Fund savings in FY 2016-17, rising to $50 million by FY 2019-20. This still allows for growth in expenditures, but just at a slower rate than currently proposed in the base case projection.

Fiscal Strategies: Manage Employee Wage and Benefit Costs

The five year outlook anticipates that, absent change, the rate of growth in employee salary and fringe benefit costs will rise significantly during the coming five years, representing 35% of all projected expenditure growth. In order to minimize service reductions and impacts on the City's workforce, this Plan assumes that the City will take actions to reduce the growth in employee costs through a combination of approaches, including negotiation of future labor contracts, management of health benefit costs, and implementation of a wellness plan for City employees.

- Labor Costs: The majority of City employees are covered by labor contracts that expire at the end of FY 2016-17 and the remainder, mostly police officers and fire fighters, by contracts that expire at the end of FY 2017-18. The base case assumes the implementation of previously negotiated closed labor agreements, which include cost-of-living adjustments in FY 2014-15 through FY 2016-17 for most employees, and cost-of-living adjustments from FY 2013-14 through FY 2017-18 for police officers and fire fighters.

The base case outlook also assumes additional cost-of-living adjustments commencing in FY 2017-18 for most employees, and for all employees for FY 2018-19 through FY 2019-20. However, given the gap between revenue and expenditure growth, it is unlikely the City can afford these increases without additional service reductions beyond those assumed in this Plan. Over the next five years, the City will need to set goals for labor contract agreements that reduce costs relative to the projections assumed above. For example, each one percentage point reduction in the rate of wage growth would result in approximately $25 million in General Fund savings in FY 2018-19.

- Pension Costs: The City has made significant progress in recent years in managing employee benefit costs through responsible fiscal practices as well as reforms passed by the voters. This effort is largely visible through the reductions in the City's employer contribution rates assumed in the base case for retirement benefits. As mentioned earlier in this report, the City hit the peak year of employer contribution rates in FY 2014-15, and is seeing a reduction in rates over the next five years. Additionally, if the economy continues to improve and the retirement system sees annual returns greater than 7.58%, mandatory employer contribution rates will be further reduced.
- Health Benefits: Employer contributions for active and retiree health benefits are expected to grow over the next five years. Reducing this rate of growth is a top priority for the Health Service Board and the City. The Health Service System (HSS) continues to explore innovative ways to promote competition between plans by reducing the gap between premium rates, thereby reducing costs while maintaining quality care. Strategies have included: the development of accountable care organizations to decrease unnecessary utilization; conversion of Blue Shield to a flex funded plan; and recently negotiated changes to employee contribution levels. These changes have yielded the lowest overall rate increases of any city in the Bay Area and are expected to maintain a lower cost trend. If the City reduced the employer share of health benefit growth for active employees and retirees by one percentage point per year starting in FY 2016-17, this would result in $4 million in savings in FY 2016-17, rising to $20 million a year by FY 2019-20.
- Employee Wellness: Starting in FY 2012-13, the City began to explore ways to control rising health care costs by focusing on employee health. The Strategic Wellness Plan developed by the Controller's Office, HSS, the Department of Human Resources, the Mayor's Office, and labor leaders was released in 2014. The Plan addresses key health risk factors that can be modified through behavior change and is intended to support choices that improve the health, well-being, and morale of City employees, dependents, and retirees. Over the next five years HSS will continue to create a culture of wellness through the departments and individual Wellness Champions, and continue to promote individual services available to employees through the health plans and HSS. These initiatives seek to increase awareness, facilitate access to wellness services, support interpersonal connections, build environments conducive to wellness, and implement policies to support wellness with the ultimate goal of decreasing chronic illness and injuries while improving productivity.

General Fund savings resulting from these strategies are estimated to generate approximately $4 million in FY 2016-17, growing to $90 million by FY 2019-20. These proposals represent planning goals, and many of these solutions will require agreements with employee unions and health care providers, as well as a continued strong economic outlook. To the extent the City is unable to constrain the growth in wages and benefits costs, it will need to make up the difference through other means such as holding positions vacant as employees move on or retire.

Fiscal Strategies: Taxes, Fees & Other Revenues

The most significant factor impacting City revenue growth is economic activity. In the base case projections, the Five Year Financial Plan assumes revenue growth of $567 million over the coming five years as the economy continues to expand. This projected growth plays a significant role in balancing revenue and expenditures over the Plan's five year horizon.

In addition to the revenue growth generated by increasing economic activity, the City should develop options to increase revenues over and above the base projection by $5 million beginning in FY 2015-16, growing to $99 million in the last year of the Plan. This assumption is consistent with the addition of a new revenue source, such as the recommendation by the Transportation 2030 Task Force, which called for the City to pursue a sales tax or vehicle license fee (VLF) in 2016. Either of these sources could generate between $70 million to $80 million annually beginning in Fiscal Year 2017-18.

The City also has some degree of control over existing revenues through its ability to adjust rates for permits, fees, and other revenues. However, there are significant restrictions in State law on the City's ability to adjust the rates of taxes and many other revenues. Property taxes are the City's single largest General Fund revenue source, but authority to adjust property tax rates is highly restricted in the State Constitution. Proposition 26, approved by State voters in 2010, places limits on local governments' ability to establish new fees and increase existing fee rates. Where tax rate increases are allowed, voter approval is generally required. Over the horizon of the Five Year Financial Plan, only two elections (November 2016 and November 2018) will provide an opportunity to adjust tax rates with a simple majority vote under State law. In each of the other elections, a two-thirds majority vote would be required.

Fiscal Strategies: Limit Non-Personnel Inflation

The base case of this Plan assumes inflationary increases on most non-salary costs for the City, including spending on contracts, materials and supplies, and services provided by other City departments. Given the projected deficits facing the City, this Plan's fiscal strategies assume some growth in non-salary costs; however, this growth in the final four years of the Plan is assumed to be more modest than the rate of inflation (CPI-U). This will likely require continual reevaluation by City departments of priority purchasing needs and an improved focus on effective purchasing practices to ensure the lowest possible price.

Similar to assumptions for capital and employee cost spending levels, the Plan assumes no inflationary increases in non-salary expenses during FY 2015-16 that were not included in the adopted FY 2014-15 and FY 2015-16 budget. Included in this category are a large portion of community-based health and human services, which are provided through non-profit organizations. The Mayor included a 1.5% on-going cost-of-doing business increase to non-profit contractors in the adopted FY 2014-15 budget, which is reflected in the base case of this report.

Given cost increases assumed in the base case, General Fund savings resulting from growing non-personnel inflationary costs more slowly are estimated to be $8 million in FY 2016-17, increasing to $35 million by FY 2019-20.

Fiscal Strategies: On-Going Departmental Revenues and Savings Initiatives

Given the depth and duration of the last economic downturn, the City has actively employed a number of strategies in recent years to balance the budget. This Five Year Financial Plan relies much less heavily on departmental savings initiatives to balance projected deficits than prior Plans. This is in recognition of the continued improvement in the City's economy, and the need to maintain services to the public while also ensuring that services are provided in the most efficient method possible.

This section assumes no additional departmental solutions in FY 2015-16, and solutions equal to 1% of General Fund support per year from departmental revenues and savings initiatives over the remaining four years of the Plan, which will generate savings of $16 million starting in FY 2016-17 and increasing to $61 million by FY 2019-

20. This is significantly more modest than department targets in the five years following the 2008 downturn, which ranged from 5-25% each year. The goals set forth in this Financial Plan will allow departments to anticipate the size of likely future year reduction targets and plan accordingly for this gradual phase-in over the next five years; it will also allow departments to prioritize revenue increases and efficiencies as opposed to service reductions.

Fiscal Strategies: All Other Revenues and Savings

The financial strategies outlined above will not be sufficient to fully restore structural balance to the City's budget during the Plan period, even assuming additional improvement in the local economy versus the current forecast. Accordingly, the Mayor and Board of Supervisors through the annual budget development process will be required to implement program changes, develop alternate funding strategies, prioritize services, and adjust service levels to balance each year's budget. These choices will require detailed analysis and work, and in many cases, more than a single year to implement. This Plan assumes the City will be able to continue to utilize these strategies to draw additional projected savings of $11 million in FY 2015-16, increasing to $83 million by FY 2019-20.

Other Factors that Could Affect the Forecast

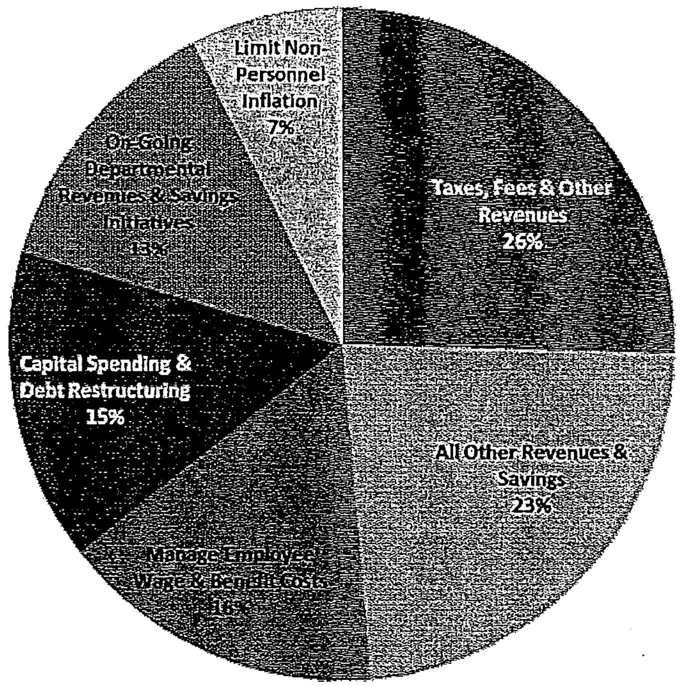
As noted earlier in the base case projection, uncertainties exist regarding key factors that could affect the City's financial condition, for example changes to the economic cycle or impacts from state and federal policy changes.

A Balanced Approach

The strategies outlined above represent a balanced approach to correcting the structural imbalance between the City's projected revenues and expenditures. If these strategies are implemented over the five year period, the City will be in a more stable financial position and better able to weather any potential economic downturns.

No single approach to reducing the City's structural imbalance will be sufficient to eliminate the projected shortfalls. However, by constraining growth across multiple categories of expenses, developing revenue solutions, and focusing on departmental revenue and efficiency measures, San Francisco will be able to meet this challenge and provide excellent services for the public into the future.

Figure 13: Fiscal Strategies – Each Strategy as a Percent of Total Solution



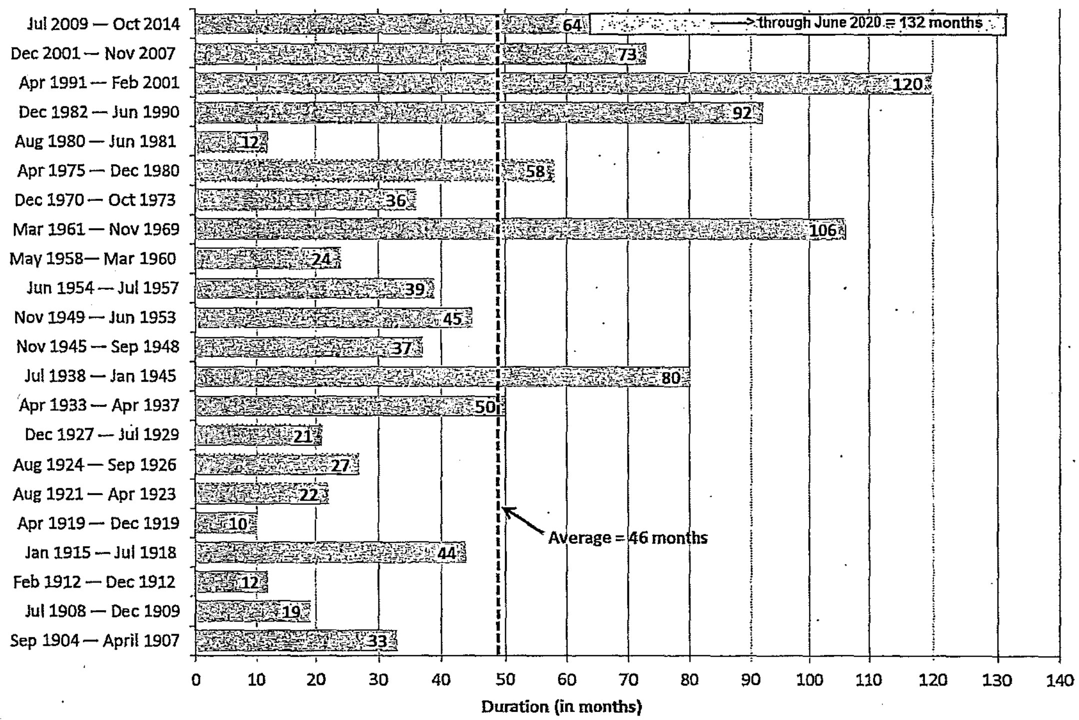
The projections in this Plan illustrate that the City can still grow by approximately 18% over the next five years; however, this is slower than the expenditure growth rate of 23% currently projected in the base case. The fiscal strategies are almost equally split between revenue solutions (49%) and expenditure reductions (51%). These strategies represent more modest expenditure reduction proposals than in past years; specifically, the projection assumes limited growth in capital spending, personnel expenses, and non-salary expenses. Also, additional on-going and one-time revenue represents a significant part of the balancing plan, while departmental expenditure reductions represent a modest part of this balancing plan as compared to past Five Year Financial Plans. These fiscal strategies provide a framework for the City to continue to provide excellent services to the and remain fiscally prudent during the coming five years.

Planning Scenario: Economic Recession

Due to the difficulty of predicting recessions, the base case of this report does not anticipate a decline in the economy in any of the next five years. However, it would be an historical anomaly if the City did not experience an economic downturn over the next five years.

As Figure 14 shows, since 1900, the average length of time between recessions in the United States has been 46 months. The current economic expansion has lasted over 64 months. The base case in this Plan assumes sustained rates of revenue growth in FY 2015-16 and FY 2016-17, and then lower rates of growth in the succeeding three years. At no time during the forecast period are revenues projected to decline. If there is indeed no recession through FY 2019-20, as the projection assumes, it will mark the longest economic expansion since 1900.

Figure 14: Number of months between recessions in the U.S. (1904 to 2014)



Source: National Bureau of Economic Research (NBER)

Based on the historical length of economic expansions as discussed above, it is likely that a significant economic slowdown or recession will occur prior to FY 2019-20.

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; 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; while actual revenues were more than 4% below budgeted revenues in FY 2002-03 and FY 2008-09, years of sharp economic contractions.

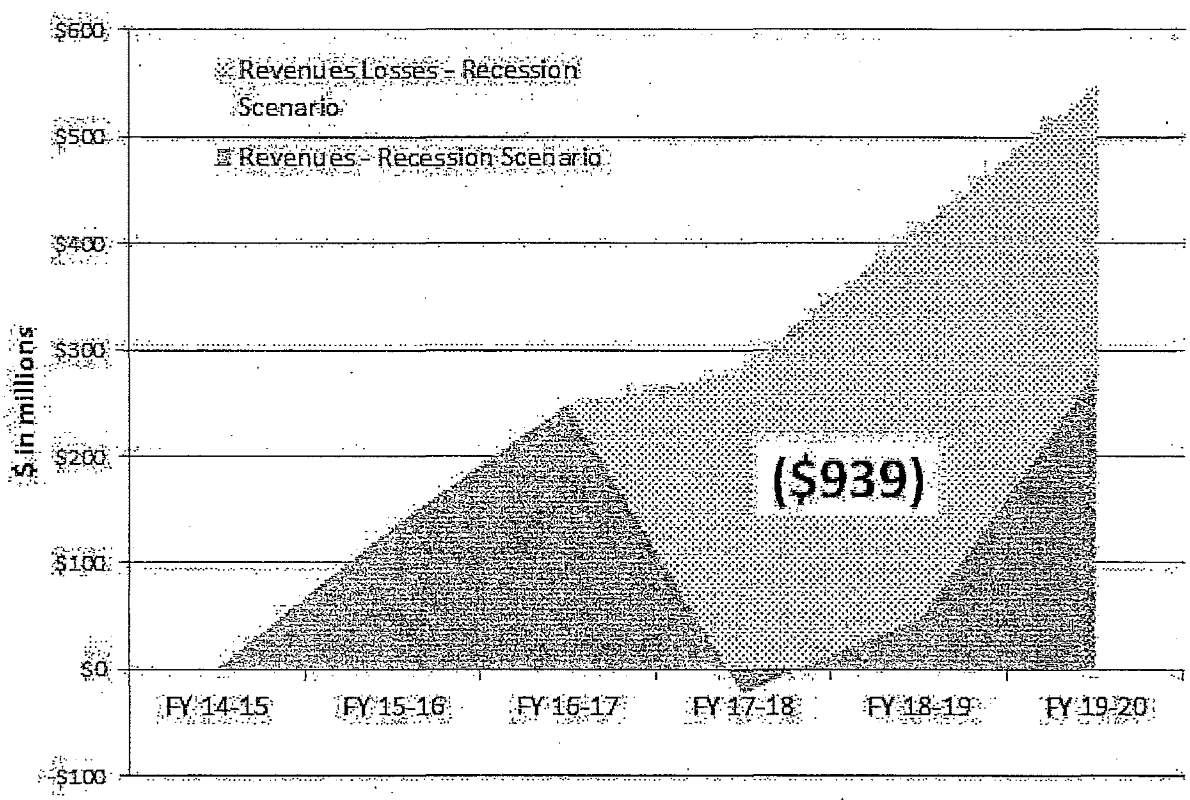
To illustrate the effect of a hypothetical slowdown on San Francisco's budget condition, this section describes a recession scenario that assumes weakness in the California and San Francisco economies beginning in FY 2016-17.

Economic Assumptions included in the Recession Scenario

Recession Scenario – Impacts on Revenue Projections: To develop a recession scenario for financial planning purposes, this report assumes reductions to major local tax sources consistent with the averaged impact of the City's actual revenue performance during the last two major 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 Financial Crisis). Declines in the City's projected aggregate discretionary revenue will result in reduced contributions to baselines and set-asides, which is also assumed in the recession scenario (affecting the MTA, DCYF, the Library, Recreation and Parks, First Five Commission, and the School District). If the City were to experience a recession similar in magnitude to either of the last two recessions during FY 2016-17, it would lose approximately $939 million in revenue over the three final years of this report in comparison to the recession-free base case described in this Plan.

Figure 15 shows the difference between the base case and recession scenario revenue projections. In the latter, revenue drops below current year (FY 2014-15) value, and takes three years to recover.

Figure 15: Comparison of Revenue in Base Case and Recession Scenarios



In addition to a reduction in the revenue projected in the base case, it is also unlikely that the additional revenue solutions assumed in this Plan's fiscal strategies would be available in a recession. Therefore, this scenario also reflects the loss of revenue as a solution to close the imbalance between revenues and expenditures.

Recession Scenario – Impacts on Pension Contributions: An economic recession will also likely result in a significant increase in the employer share of retirement contribution rates. The recession scenario therefore assumes a shock to the Retirement System's (SFERS) assets during FY 2016-17, which first impacts contribution rates in FY 2018-19 as the valuation at 7/1/2017 determines the contribution rates for the fiscal year beginning 7/1/2018. The FY 2016-17 asset loss is then smoothed into the July 1, 2017 actuarial value of assets and employer contribution rates would increase over a five year period beginning in FY 2018-19. In this scenario, employer contribution rates would rise by 3.8% in FY 2018-19 and by 8% in FY 2019-20, greatly reducing the savings from projected rate decreases anticipated in the base case scenario. This estimate is intended to demonstrate sensitivity to a large negative return and should not be relied upon for any other purpose.

This Plan projects that if an economic downturn similar to the two most recent recessions were to begin in FY 2016-17, it would increase the City's projected deficits by $281 million, $407 million, and $403 million in FY 2017-18, FY 2018-19, and FY 2019-20, respectively.

Table 15: Projected General Fund Shortfall in Recession Scenario

Recession Scenario - Five Year Forecast	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Base Case Deficit Projection	(16)	(88)	(275)	(366)	(418)
Updated Projection - Savings/(Cost)					
Reduction in base case revenue available	-	-	(303)	(369)	(268)
Reduction in mandatory baseline spending	-	-	44	54	39
Fiscal strategies no longer available (i.e., additional revenue)	-	-	(22)	(37)	(76)
Increase employer share cost of retirement rates	-	-	-	(55)	(99)
Updated Deficit Projection	**(16)**	**(88)**	**(556)**	**(773)**	**(821)**
Amount of New Fiscal Strategies Needed:	*-*	*-*	*(281)*	*(407)*	*(403)*

San Francisco's Charter requires that each year's budget be balanced. Balancing the budget in each year with this recession scenario would require an even greater combination of expenditure reductions and/or additional revenues as compared to the fiscal strategies discussed earlier in this Plan.

Fiscal Strategies in Recession Scenario

Under the recession scenario, the City's cumulative deficit in FY 2019-20 would increase from $418 million to $821 million. If this were to happen, the fiscal strategies offered earlier in this report would not be sufficient to close the projected gaps between revenues and expenditures; additional more drastic expenditure reductions would be required to balance, as shown in Table 16 below.

Table 16: Fiscal strategies in a Recession Scenario ($ in millions)

Recession Scenario Outlook ($ millions)	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Change in Projected Surplus/(Shortfall)	-	-	(281)	(407)	(403)
Proposed Financial Strategies - Savings					
Use of reserves and reduction to reserve deposits	-	-	101	81	72
Capital Spending and Debt Restructuring	-	-	67	83	51
Manage Employee Wage and Benefit Costs	-	-	35	87	107
Taxes, Fees & Other Revenues	-	-	-	-	-
Limit Non-Personnel Inflation	-	-	20	38	55
Departmental Revenues & Savings Initiatives	-	-	59	119	119
All Other Revenues and Savings	-	-	-	-	-
Adjusted Outlook	-	-	**0**	**0**	**0**

As shown in Table 16, a recession scenario would require the City to adjust the fiscal strategies outlined earlier in this Plan in order to balance. What follows is a high level overview of what some of the required solutions might look like in comparison to the base case fiscal strategies:

- **Use of reserves and reduction to reserve deposits:** The City has adopted a number of financial policies in recent years to reduce the impact of economic volatility on City revenues and expenditures, including the creation of stabilization reserves that capture a portion of peak revenues for use in downturns. These reserves serve as the first solution in the recession scenario, as year-over-year declines in revenues would allow the City to withdraw from the Budget Stabilization and Rainy Day Reserves. In addition, should the Board of Supervisors adopt a proposed change to the City's General Reserve policy later this year, as assumed in the base case, the City would be able to reduce its required deposit to the General Reserve in FY 2017-18. As shown in Table 16, reserves alone are not sufficient to address the entire shortfall in the recession scenario; however, they would bridge $254 million over the last three years, likely preventing further cuts to critical services. In recent years since the 2008 recession, the City has improved its long range fiscal outlook as a result of stronger reserve balances. For example, the City withdrew $34.1 million from the Rainy Day Reserve in FY 2009-10 in the aftermath of the 2008 financial crisis, which bridged approximately 8% of the $438 million shortfall projected in the May, 2009 Joint Report. By comparison, the $84 million in solutions projected to be available in FY 2017-18 solves approximately 15% of the $556 million deficit projected in the recession scenario.
- **Capital spending and debt restructuring:** As in prior downturns, the City will likely need to reduce one-time expenditures such as expenditures on capital, equipment and IT in any future downtown as part of our balancing approach. In this Plan's base case fiscal strategies, the City continues to increase spending on these important infrastructure needs throughout the Five Year planning period. If a recession were to occur; however, the City would need to consider reducing these expenditures. In addition, the City may also need to utilize the lease finance program instead of cash funding equipment and fleet needs.
- **Manage employee wage and benefit costs:** This Plan's base case fiscal strategies continue to assume expenditure growth to allow for employee cost-of-living increases after current contracts expire. However, in the recession scenario with significant revenue losses, it is more likely the City will need to

implement a variety of measures to constrain employee wage and benefit costs in order to correct the greater imbalance between revenues and expenditures. These measures could include freezing wages, eliminating vacant positions, implementing a hiring freeze and/or instituting layoffs if necessary.

- **Taxes, fees, and other revenues:** During a downturn, it will be more difficult for the City to rely on new revenue as a solution due to underlying weakness in economic activity in the recession scenario.
- **Limit non-personnel inflation:** This Plan's base case fiscal strategies assume slower but moderate growth in non-personnel expenditures. However, under the recession scenario, it is likely that the City would need to constrain or entirely eliminate growth on non-personnel expenditures in order to close the imbalance between revenues and expenditures.
- **On-going departmental revenues and savings initiatives:** In the event of a recession, the City will likely rely more heavily on departmental solutions to correct the imbalance between revenues and expenditures than currently planned. This Plan's base case fiscal strategies assume departments reduce General Fund support by 1% per year during the final four years of the Plan. In the recession scenario; however, these reductions would likely fall in the range of 5% per year.
- **All other revenues and savings:** In the recession scenario, one-time revenue sources will likely decrease and not be available as a solution to correct the imbalance between revenues and expenditures.

At a high level, the recession scenario would necessitate much larger reductions in expenditures than the base case fiscal strategies section of the report. In the base case projection, the report assumes expenditure growth of 23%; in the fiscal strategies section a more modest growth rate of 18% over the next five years is assumed, which contains both revenue and expenditure solutions. In the recession scenario, expenditures grow by 9% over the next five years to match the slower projected rate of revenue growth.

As is not possible to predict an economic slowdown, the recession scenario detailed in this Plan is hypothetical. However, it is wise to consider the implications of this scenario, as it would be an historical anomaly not to experience a slowdown in the economy over the next five years. The recession scenario detailed in this Plan was modeled after the City's financial experience during the last two recessions; future economic slowdowns could be less or more severe than the scenario developed for this hypothetical exercise. No matter how large or small the next change in the economic cycle, continuing to improve reserve balances and investment in critical one-time capital, equipment, and IT needs during good economic times will help the City better weather the next economic downturn.

Conclusion

Financial stability is central to the City's ability to provide services to the public. Although the City is currently experiencing an improved economic climate, it is important that the City continue to be responsible stewards of public resources. The projections in this Plan illustrate the significant value of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. This Plan suggests strategies to bring expenses and revenues into alignment that balance the need for responsible growth with fiscal prudence and accountability to the citizens of San Francisco.

In addition, this Plan recognizes that while it is impossible to predict the time and magnitude of an economic recession, the number of consecutive months of revenue growth that the City has currently experienced renders an economic downturn at some point over the next five years likely. The City has adopted a number of financial policies in recent years to reduce the impact of economic volatility on City revenues and expenditures, including the creation of stabilization reserves that capture a portion of peak revenues for use in downturns. While these reserves will be the City's first line of defense against a recession, it will also be likely that, in the event of a large economic slowdown, policymakers will have to make difficult decisions to constrain expenditure growth.

By continuing to follow responsible financial policies outlined in this and previous Five Year Financial Plans, the City is in a strong position to continue to provide quality, effective services to the citizens of San Francisco.

Strategic Issues

Public Protection
Public Works, Transportation & Commerce
Human Welfare & Neighborhood Development
Community Health
Culture & Recreation
General Administration & Finance

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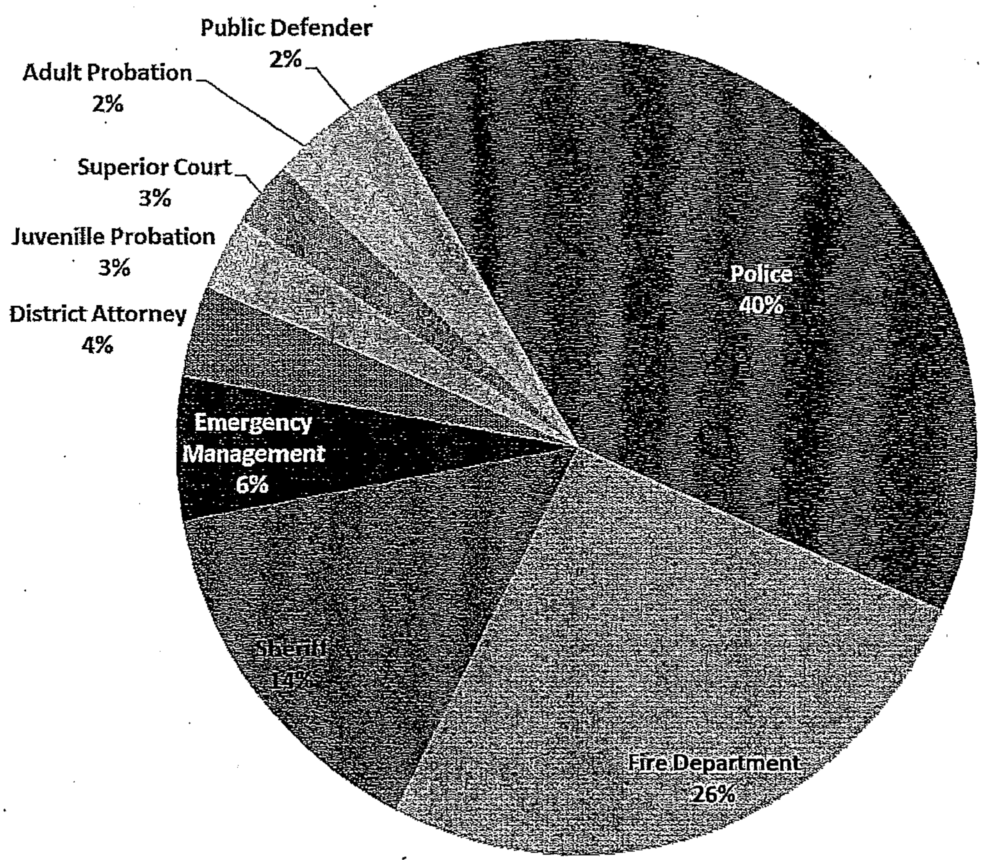
Public Protection

OVERVIEW

The Public Protection major service area includes the Police Department, the Sheriff's Department, the Superior Court, the District Attorney's Office, the Public Defender's Office, the Juvenile Probation Department, the Adult Probation Department, the Fire Department and the Department of Emergency Management. These departments ensure that our City is safe, secure, and prepared for unforeseen emergencies. Most of the departments in this major service area are funded through an annual allocation of General Fund revenues. Several departments, including the Fire Department and the Police Department, have mandated levels of staffing that are key factors influencing their budget development each year.

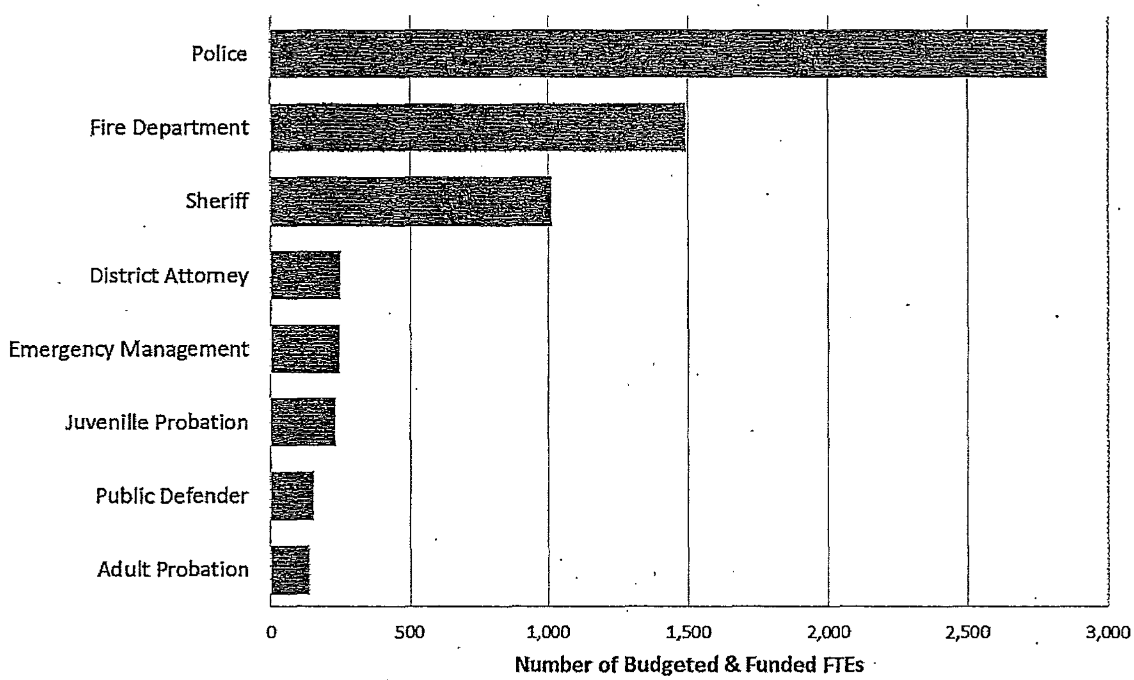
Together these nine departments have a total budget of $1.3 billion in FY 2014-15 and represent 15% of total Citywide expenditures.

Figure 16: Public Protection Total Budget by Department FY 2014-15



The Public Protection departments have 6,341 full-time equivalent positions (FTEs) in FY 2014-15; this represents 22.3% of FTEs Citywide.

Figure 17: Public Protection Full-time Equivalent Positions by Department FY 2014-15



STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by departments over the coming five years. The major issues related to public protection are discussed in detail below, and include hiring plans to either maintain or enhance staffing levels at four public safety departments and strengthen the City's emergency medical ambulance transport system. Additional investments are being made to replace aging public safety facilities and equipment while seismically reinforcing critical infrastructure.

Public Safety Staffing

Over the past several years, multiple public safety departments have been grappling with the aging of their respective workforces into retirement eligible years. While each department requires a specific, detailed analysis of their hiring and retention practices, a general trend has been to develop and implement multi-year hiring plans to ensure that public safety agencies can continue to provide the same level of service to a growing city.

Department of Emergency Management – 9-1-1 Dispatch Center Staffing and Hiring Plan

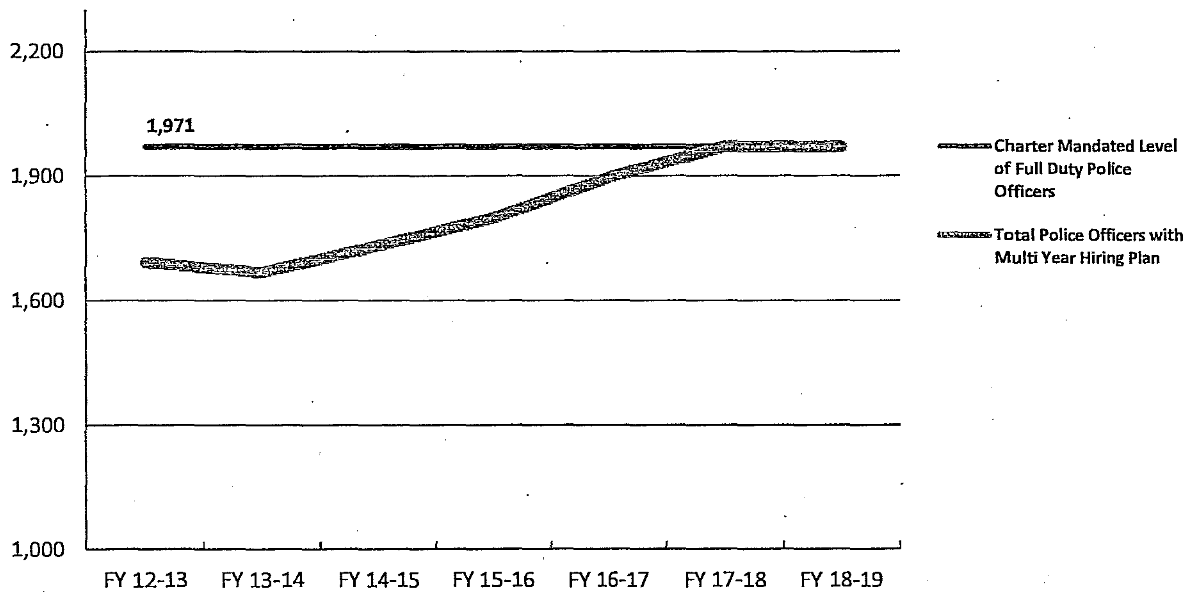
The City has seen increases in 9-1-1 call volume that outpace population growth while the Department is projecting a number of retirements due to an aging workforce. In addition to replacing retiring employees through annual dispatcher classes, the Department will need to hire at least 10 additional dispatchers to meet rising service demands while maintaining call answering time standards. The Department will also work to better manage employee leave.

Police Department – Multi-Year Hiring Plan

In FY 2011-12, the City identified a surge of retirements slated to occur in the Police department due to the aging of the force and the expiration of the Deferred Retirement Option Program. With over 517 officers projected to retire by 2018, the City began a comprehensive Police Hiring plan, which funded three 50-recruit Police Academy Classes per year beginning in FY 2012-2013, continuing until FY 2017-2018, with two classes of recruits per year to reach and maintain the Charter mandated staffing level of 1,971 full duty sworn officers.

Additionally, over the past five years the Police Department has continued its yearly assessment of sworn officers working in potential civilian positions. Work between the Police and Controller's departments in FY 2011-12 and FY 2012-13 resulted in a list of 53 positions that could be civilianized, starting in FY 2012-13. Since that report the City has funded all 53 positions, which will be filled by the end of FY 2014-15; this supports the Police Department staffing plan and moves the department closer to the 1,971 level at a faster rate. The Police Department will continue to pursue civilianization as part of its budget analysis and submission over the next five years to return more police officers to the street.

Figure 18: Police Department – Multi-Year Staffing Plan FY 2012-13 through FY 2019-20



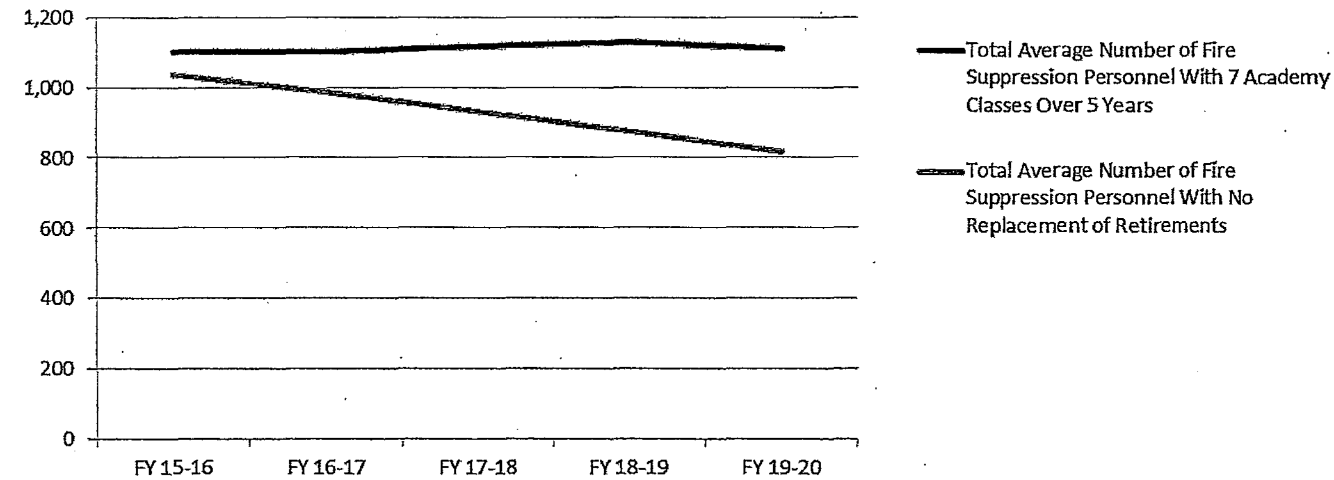
Sheriff's Department – Hiring Plan

The Sheriff's Department is projected to hire a class of 20 recruits yearly to ensure the backfilling of deputies retiring. The Department is also working closely with the Health Services System and the Controller's office on addressing its higher number of employees on long term disability.

Fire Department – Multi-Year Hiring Plan

The FY 2013-14 through 2017-18 Five Year Financial Plan assumed funding for one 42-person fire academy class each year. An additional academy class was funded in FY 2013-14, resulting in a total of 126 new hires to date. These classes have enabled the Department to backfill retirements, reduce dependence on overtime, and staff the new Fire Station 4 in Mission Bay. Due to a large hiring initiative in the mid-1980's, above-average numbers of employees are expected to retire in the next several years. The Department plans to maintain its current staffing level of 1,070 firefighters by hiring between 42 and 74 new firefighters a year between FY 2015-16 and FY 2019-20.

Figure 19: Fire Department – Multi-Year Staffing Plan FY 2015-16 through FY 2019-20



Fire Department Ambulance Service

The next five years will see the continued development of Emergency Medical Service (EMS) system protocols and rules outlining the role of the Fire Department and private ambulances in the City. In addition to meeting minimum response requirements, the Department must maintain market share levels for volume of emergency transports. Beginning in the Summer of 2014, a working group consisting of numerous stakeholders began meeting to address two key issues: ambulance transport response times and rebuilding the Fire Department's share of those transports in the City from 74% to 80% of the total in order to comply with State-mandated Exclusive Operating Area (EOA) requirements. The working group was tasked with developing a multi-year staffing, deployment, capital, and fleet plan to address these issues by January 31, 2015. It is likely that the adopted recommendations will result in increased expenditures for the Fire Department's Ambulance Division.

Uncertainty in revenues from EMS service is an additional issue facing the Fire Department over the coming five years. Historically, revenues have not matched projections, and payments from the State to the Department for transport of Medi-Cal patients have been reduced and received late. Additional uncertainty in the overall health care market stemming from the Affordable Care Act is expected to have an effect on the Department's revenues, especially as the share of uninsured patients declines and reimbursement models are modified.

The Department is also beginning the planning process to incorporate a new facility for the Emergency Medical Services (EMS) division (known as Station 49) in the City's Capital Plan.

Public Safety Capital & Equipment

Investments in Emergency Communications and Public Safety 800MHz Radio Replacement

The Department of Emergency Management continues to move forward with its multi-year initiative to update and upgrade the City's emergency communications systems. In FY 2013-14, the Department switched over to its new Computer Aided Dispatch (CAD) system, which is being fully implemented over the course of FY 2014-15. The new system replaced an outdated legacy system and offers improved dispatching of emergency responders and better logging capabilities. The Department will also replace its aging 9-1-1 phone system in FY 2014-15 and its phone logging recorder system in FY 2015-16.

The Department has also received funding through the Committee on Information Technology (COIT) to lead the Public Safety Radio Replacement project, which will upgrade the Citywide Radio Communications System for public safety departments. This system is used primarily by the City's public safety agencies for emergency, push-to-talk voice communications between the 9-1-1 Dispatch Center and officers in the field to relay incident information, as well as day-to-day communications between units. The current system was installed in 2000, and is nearing the end of its service life. The replacement of this system, phased in over a number of years, is estimated to cost $69.0 million. Identified as a major IT investment in the City's Five Year ICT Plan, an initial COIT allocation for project development was made in FY 2013-14, while additional funding to replace end-of-life radios was made in FY 2014-15. The project is planned to be fully implemented by FY 2020-21.

Facility Master Plan for the Juvenile Probation Department

The Juvenile Probation Department has multiple aging physical assets with significant capital needs in order to function safely, securely, and effectively. Additionally, the Department is adapting to a smaller, but higher need, client population. The currently adopted FY 2014-15 and FY 2015-16 budget included funding to the Department to develop a Master Plan around the Department's future facilities needs including its Administration and Court Building, Log Cabin Ranch, and Hidden Valley Ranch. Over the next five years, the Department will work closely with the Capital Planning Program and the Department of Public Works to ensure that its facilities support its programmatic goals and future population needs.

The Justice Facilities Improvement Plan

From February 2006 through January 2009 a comprehensive planning effort was undertaken to analyze the Hall of Justice, located at 7th and Bryant Street, and determine the best way forward to replace the seismically unsafe facility. The resulting Justice Facilities Improvement Plan (JFIP) serves as the guiding document for the drawdown of departments at the seismically unsafe Hall of Justice (HOJ) into newly built or leased facilities.

The units departing the Hall of Justice include the Police Department Headquarters, Southern District Police Station, Police Investigations Unit, Police Traffic Company, Police Forensic Services Division, Adult Probation's Offices, District Attorney's Office, Office of the Medical Examiner, and County Jails 3 and 4. The report recommended the use of both General Obligation Bond and Certificate of Participation debt to be issued by the City to finance new facilities for these building occupants.

Since 2009, much progress has been made in implementing the JFIP. The Earthquake Safety and Emergency Services bond of 2010 (ESER 1) is providing for the delivery of a new Public Safety Building (PSB) to be located in Mission Bay. The first units departing the Hall of Justice will move in Spring 2015, when the Police Department's Headquarters and Southern District Station move to the new Public Safety Building.

In June 2014, San Francisco voters approved the $400 million Earthquake Safety and Emergency Response Bond (ESER 2) to continue the vital work of the ESER and JFIP programs. ESER 2 will provide funding for replacement facilities for the Office of the Medical Examiner and for the Police Department's Traffic and Forensic Services units opening in FY 2016-17 and FY 2018-19, respectively.

As a part of the JFIP, the City also plans to replace County Jails 3 and 4. Subject to the funding approval, construction is scheduled to begin in 2017, with completion and occupancy in late 2019. The project size, scope and budget are currently under development. Recent analysis suggests that the overall size of the replacement jail will likely reduce the overall housing capacity of the City's jail system, in line with a general trend of reduced incarceration seen across the State. The replacement facility will be a podular design for increased safety of inmates and staff and will include program space for classrooms, computer and vocational training to foster Sheriff's department rehabilitative programs, and medical and mental health units for inmates.

Finally, as the final part of the JFIP, the Adult Probation Department and the District Attorney's Office will be relocated from the Hall of Justice to a seismically safe facility.

Earthquake Safety and Emergency Response Bond Program

Over the past five years, the Fire Department has used proceeds from the 2010 Earthquake Safety and Emergency Response (ESER) 1 bond to renovate 23 of the City's 43 neighborhood fire stations, made improvements to the Emergency Firefighting Water System (formally called the Auxiliary Water Supply System, or AWSS), and fund the construction of Fire Station 4. The Department is in the process of closing out the 2010 ESER 1 bond. The 2014 ESER 2 bond, passed in June 2014, provides an additional $140 million in capital funding for further improvements to neighborhood stations and the AWSS.

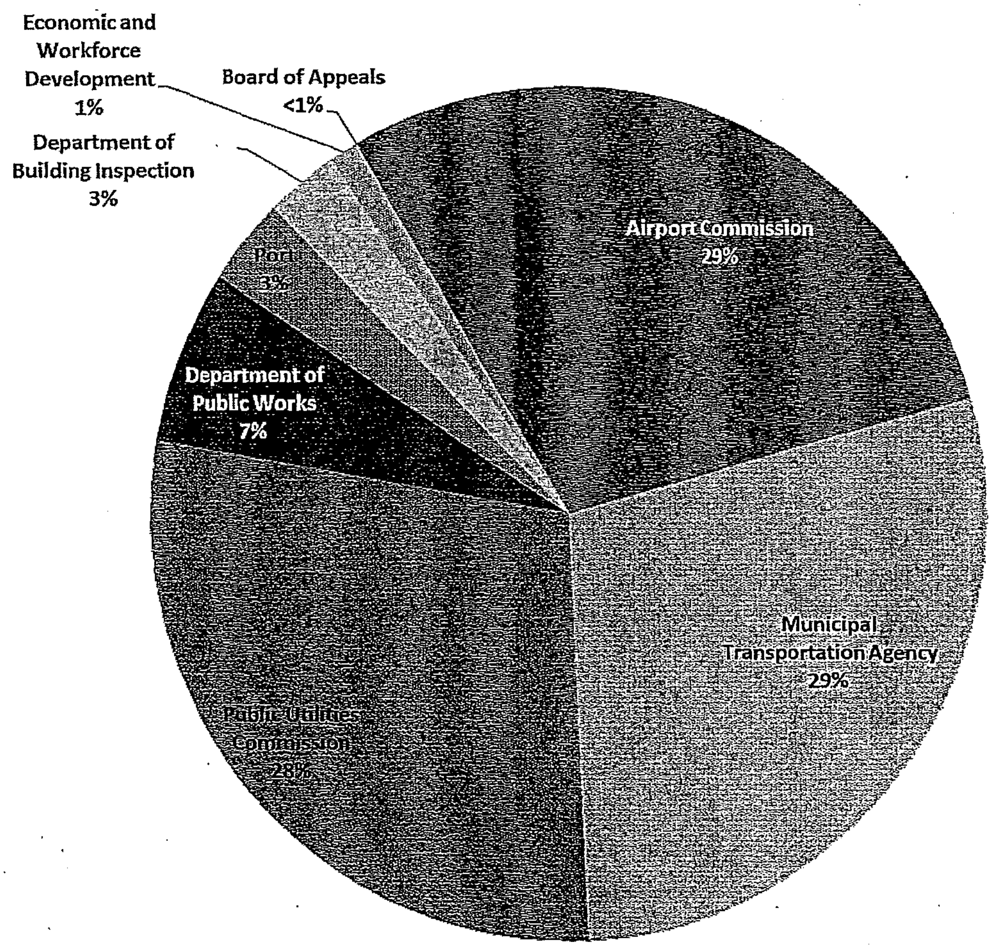
Public Works, Transportation & Commerce

OVERVIEW

The Public Works, Transportation and Commerce major service area includes the Airport, the Board of Appeals, the Department of Building Inspection, the Office of Economic and Workforce Development, the General Services Agency – Department of Public Works, the Municipal Transportation Agency, the Port, and the Public Utilities Commission. Most of the departments in this service area are funded by operating revenues and payments from customers. However, the Department of Public Works and the Office of Economic and Workforce Development, also receive a General Fund allocation. The Municipal Transportation Agency also receives the largest Charter mandated set-aside from the General Fund.

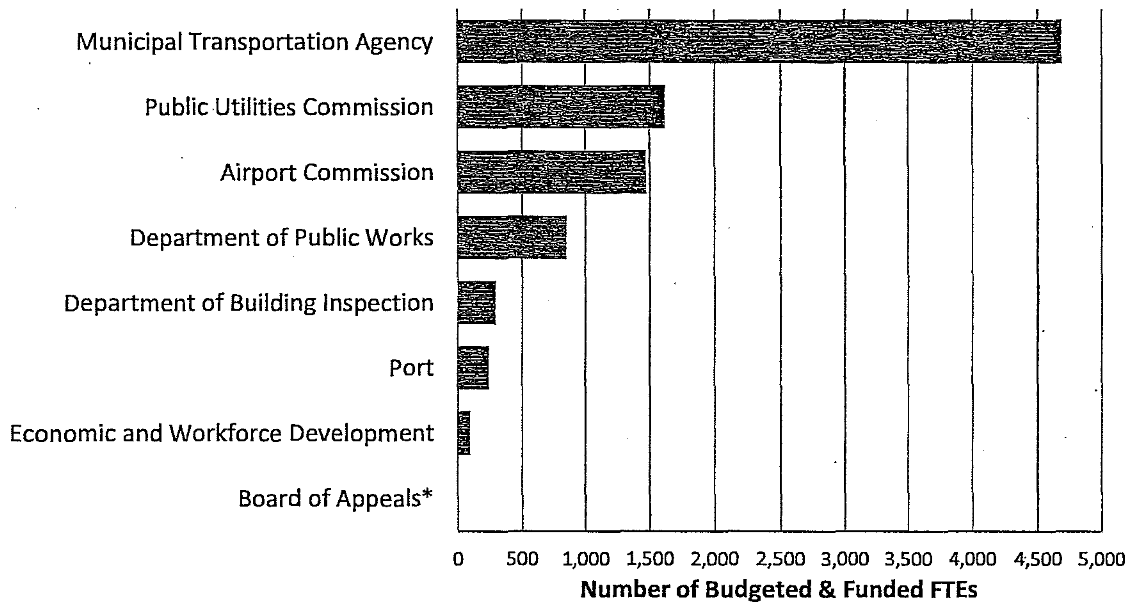
Together these eight departments have a total budget of $3.3 billion in FY 2014-15 and represent 37% of total Citywide expenditures.

Figure 20: Public Works, Transportation and Commerce Total Budget by Department FY 2014-15



The Public Works, Transportation, and Commerce departments have 9,254 full-time equivalent positions (FTEs) in FY 2014-15; this represents 32.5% of FTEs Citywide.

Figure 21: Public Works, Transportation and Commerce Full-time Equivalent Positions by Department FY 2014-15



**The Board of Appeals has less than 10 FTE, which do not show up on this chart.*

STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by these departments over the coming five years. The major issues related to public works, transportation, and commerce are discussed in detail below. These issues include preserving and improving key infrastructure to facilitate commerce and ease of transportation while improving the urban environment. The primary targets of these improvements are streets, sidewalks, the urban forest, public transportation, and the water and sewer systems. In addition to building on physical infrastructure investments, additional efforts will be taken to strengthen neighborhood commercial corridors, streamline the business licensing and permitting process, and collaboratively work with private and non-profit partners to maximize public benefits from important development projects.

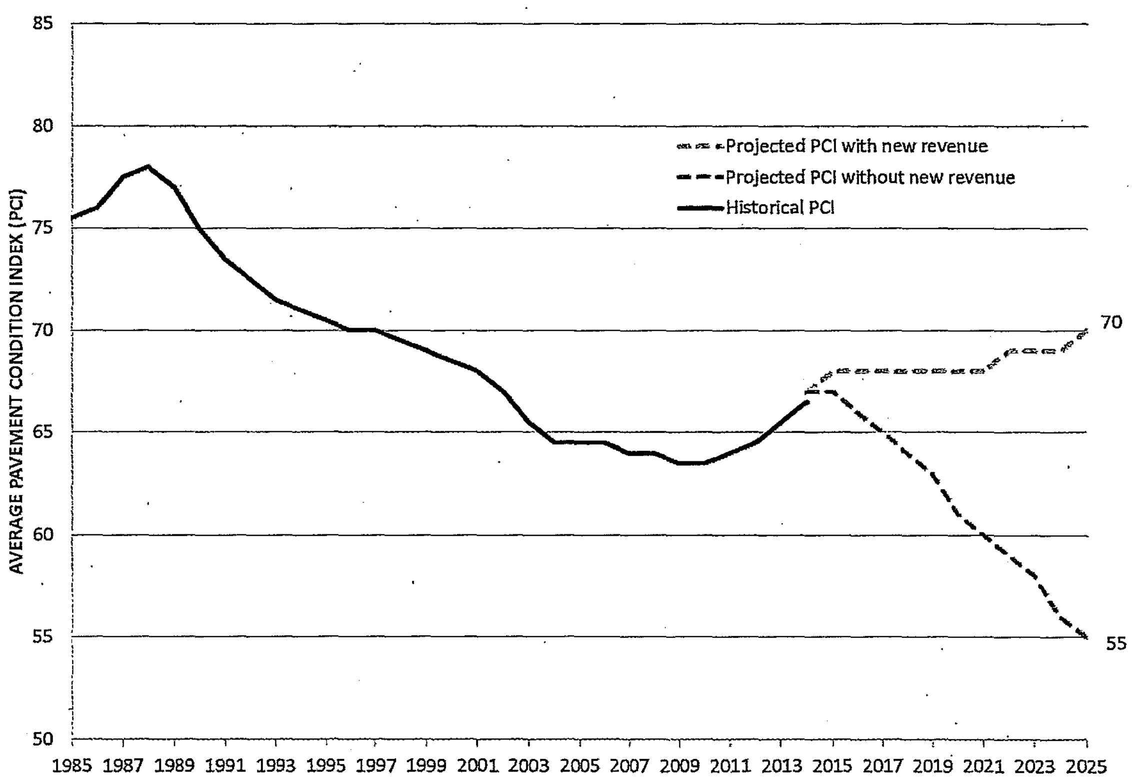
Preserving Key Infrastructure

Street Repaving Program

The City is responsible for maintaining 850 miles of streets containing 12,857 block segments. As of 2011, the City's streets were at an average Pavement Condition Index (PCI) level of 63 and declining, which is 7 points below the 70 score that indicates 'good' pavement condition. Since taking office, the Mayor has made street funding a top priority. With the support of voters through the passage of the Road Repaving and Streets Safety Bond, by the end of FY 2015-16 the City's overall PCI will reach 68. The FY 2014-15 and FY 2015-16 adopted budget included $41.5 million and $42 million, respectively, to continue to fully fund the road repaving program after the expiration of the Road Repaving and Street Safety bond. Total street repaving funding will pay for an average of 800 blocks of paving and maintenance to occur on an annual basis Citywide.

San Francisco is now achieving its first continual improvements in PCI since scores started to decline two decades ago from underinvestment. Today's investment will save the City millions on future street repaving costs, save Muni on fleet repairs, and reduce citizens' annual car maintenance costs. It also improves safety for bicyclists and increases accessible paths of travel at intersections.

Figure 22: Pavement Condition Index, 1985-2025 (projected past FY 2014-15)



This report assumes full funding of the street repaving program in every year between now and FY 2019-20 through the Capital Planning General Fund pay-as-you-go program. Through this level of commitment, the City is continuing to move the overall PCI score toward its goal of 70, or a "good" pavement condition index, Citywide by 2025. This is a change from the past goal of PCI 70 by 2020; due a recent change in federal regulation, it is now mandatory to upgrade curb ramps when doing micro-surfacing (DPW's primary method of roadway maintenance).

Sea Level Rise

As a consequence of rising sea levels due to climate change, San Francisco is at risk of more frequent and severe coastal flooding over the next several decades. As new infrastructure projects are planned along the shoreline, or existing assets are modified or improved, flooding due to rising sea levels – in combination with storm surge and wave run up – must be evaluated. A Citywide, multi-departmental committee has developed guidance on how to incorporate sea level rise into new construction, capital improvement, and maintenance projects. This guidance identifies and describes four key steps for assessing and adapting to the effects of sea level rise in capital planning:

- Sea Level Rise Science Review: What does the science tell us today?
- Vulnerability Assessment: Which assets are vulnerable to sea level rise?
- Risk Assessment: Of the vulnerable assets, which are at greatest risk to sea level rise?

- Adaptation Planning: For those assets at risk, what can we do to increase their resilience to sea level rise?

Although sea level rise is not expected to impact the City's budget for many years, this guidance is a first step toward understanding how the City can adapt in the future as our climate changes.

The City's Street Lights

In September 2014, the San Francisco Public Utilities Commission (PUC) conducted a baseline street light pole assessment study to determine the condition and repair needs of the approximately 25,000 PUC owned streetlights. Based on the study, it is estimated that urgent repair needs for City street lights and poles range between $1.5 and $5.7 million. In FY 2014-15 funding was increased by $5.1 million to help fund urgent repairs of lights and poles in poor and critical condition. An additional $1.6 million was added in FY 2014-15 to help fund the repair and maintenance of existing street lights as well as the addition of new street lights in areas where lighting is insufficient or none is in place. Informed by sample data from the assessment study and with the increased budget for street light repairs, the PUC is better equipped to repair and replace City street lights in need of urgent repairs and to improve the reliability and performance of City street lights. Further, the PUC now has the assessment methodology established to inform the funding program and where to concentrate resources for the best outcomes.

Additionally, Pacific Gas and Electric (PG&E) owns and operates approximately 19,000 street lights in the City. In August 2014, PG&E's General Rate Case went before the California Public Utilities Commission (CPUC). Part of the CPUC proceedings focused attention on street light reliability issues for PG&E owned lights and as a result, PG&E is now required to annually produce formal, written performance goals related to street light burnouts and replacements. Additionally, the CPUC will hold PG&E responsible for adhering to improved and timelier service level goals for repairs. The City will follow up on the new performance goals and annual reporting of PG&E service levels to help ensure overall performance and reliability of street lights Citywide.

With increased City funding dedicated to street light repairs coupled with new reporting and performance goals for PG&E, the City is poised to significantly improve the reliability and effectiveness of street lights Citywide over the coming five years.

Water System Improvement Program (WSIP)

As the largest infrastructure project ever undertaken by the San Francisco Public Utilities Commission (PUC), and one of the largest in the nation, WSIP is composed of 83 projects to upgrade, repair, and replace aging water infrastructure. Currently 84% complete, the $4.6 billion program has employed 11,000 workers since 2007, and repaired or replaced more than 280 miles of pipeline. WSIP objectives include:

- Improving the system to provide high-quality water that reliably meets all current and foreseeable local, State, and Federal requirements;
- Reducing vulnerability of the water system to damage from earthquakes;
- Increasing system reliability to deliver water by providing the redundancy needed to accommodate outages;
- Providing improvements related to water supply/drought protection; and
- Enhancing sustainability through improvements that optimize protection of the natural and human environment.

WSIP is funded by revenue bonds authorized according to Propositions A and E, which were approved by San Francisco voters in November 2002. Revenues to pay off the bonds come from retail customers in San Francisco and 27 wholesale customers that serve Alameda, San Mateo, and Santa Clara counties.

Sewer System Improvement Program (SSIP)

After eight years of public input and feedback along with in-depth analysis of long-term sewer capital projects, the PUC is now moving forward with a plan to upgrade, replace, and seismically retrofit the City's sewer system, parts of which are over 100 years old. This system consists of 1,000 miles of pipes which collect sanitary sewage from homes, businesses, and stormwater runoff, large transport storage box facilities, 27 pump stations that transport wastewater, three treatment plants and 8 deep water outfalls that discharge treated water into San Francisco Bay and the Pacific Ocean.

The PUC plans to implement the comprehensive $6.9 billion Sewer System Improvement Program (SSIP) over the next 20 years. This series of major capital improvement projects are intended to bring the City's wastewater and stormwater system into a state of good repair, and meet SFPUC Commission-endorsed levels of service goals. SSIP is funded by revenue bonds authorized according to Proposition E, approved by San Francisco voters in November 2002.

Improving Neighborhoods and the Urban Environment

Street Trees and Urban Forest

Currently, the Department of Public Works (DPW) is in the process of implementing the Tree Maintenance Transfer Plan, under which responsibility for about half of the approximately 40,000 trees it has maintained will be transferred to private property owners. Developed as a cost savings measure after the economic downturn in 2008, the City's long term maintenance costs will be reduced by this program, though the transfer entails significant short term inspection, pruning, and sidewalk repair costs before transfers can occur.

Recently, the City Planning Department released a number of recommendations designed to reduce costs of the urban forest while expanding it. The study recommends that DPW take control of all 105,000 street trees in the City under a comprehensive street tree plan/program. The report states that a routine maintenance plan would allow for block-level pruning, instead of only responding to emergency calls on specific trees, driving down per tree maintenance costs and increasing overall tree health. Benefits would include more tree plantings by property owners, who would not be burdened with the trees' direct maintenance costs, as well as a reduction in liability stemming from broken and uneven sidewalk pavement, which would be better maintained.

The Mayor's Office plans to review the findings of this report and work with DPW and the City Planning Department to determine how the City can best maintain and improve the urban forest. At this time, the cost of taking back ownership and maintaining the 105,000 trees as contemplated in the urban forest study are not yet accounted for in this plan, and without new revenue to cover this cost would increase the City's projected budgetary deficits. Additionally, the City will also need to analyze and include in this process the trees located throughout the City's open space and public parks.

Transportation and Road Improvement Bond (Proposition A)

In 2013, Mayor Lee convened the Transportation 2030 Task Force, which identified the need to invest $10 billion in the City's transportation infrastructure over the next 15 years; $4 billion of this funding was already identified and the Task Force recommended several new revenue sources to fund an additional $3 billion of the remaining $6 billion gap. The first revenue source the Transportation Task Force recommendations is a $500 million General Obligation bond to improve transit and make streets safer for all users. The Transportation and Road Improvement bond passed with 71.3% of the vote in November 2014. The following is an overview of the large projects included:

- ***Muni Forward Rapid Network Improvement Projects***: These projects will restructure transit service on Muni's high ridership lines to improve efficiency and connectivity. This program consists of targeted engineering improvements designed to minimize transit service delays at key intersections and along the busiest transit corridors in the City. These improvements include lane modifications, traffic signal and stop sign changes, transit stop changes, parking and turn restrictions, and pedestrian improvements. The Rapid Network Improvements will make Muni approximately 20% faster and significantly more reliable.

- ***Market Street Improvements***: San Francisco's vision for a better Market Street is a comprehensive program to reconstruct the City's premier cultural, civic, and commercial center and the region's most important transportation corridor from Octavia Boulevard to the Embarcadero. Key goals include bringing new life to the sidewalks, providing more opportunities for adjacent neighborhoods to influence the look and feel of Market Street, enabling faster and more reliable surface transit, and improving safety, accessibility, and mobility for everyone – pedestrians, bicyclists, and buses. Market Street improvements are currently in the environmental review phase. Construction is estimated to begin in 2018.
- ***Vision Zero***: Vision Zero is a long-term continuing effort to improve safety on City streets. Over the next 24 months and as part of the Citywide commitment to Vision Zero, the MTA will implement 24 near-term engineering projects that will improve safety for all road users. These projects include initiatives such as slowing down vehicle speeds, installing signals at intersections, and while building new bikeways and enhancing existing ones.

The MTA currently projects that all funds from the G.O. bond will be expended by FY 2020-21.

Service Expansion at the Municipal Transportation Agency

Muni Forward service changes have been legislated by the MTA's Board to include a 12% increase in service over existing levels. The Board of Supervisors recently approved a two year budget that identifies a 10% service increase in FY 2014-15 and FY 2015-16. The remaining 2% service increase is anticipated to be advanced in the subsequent two-year budget cycle. Examples include increasing the 28L 19th Avenue Limited from a school tripper to all day service, 10 minute service; providing Sunday service on the 38L Geary Limited; initiating a new route called the 11 Line to provide a connection between North Beach, Chinatown, and SoMa; and increasing the 10 Townsend from its current 20 minute frequency to 6 minutes.

New Cruise Terminal and Increased Capacity

The new James R. Herman Cruise Terminal at Pier 27 opened in September of 2014, becoming the primary berth for the Port of San Francisco. The 91,000 square foot building has the capacity to serve the increased length and passenger capacity of new cruise ships. The renovated Pier 27 also includes a new 2.5 acre public park. Over the next five years, the Port of San Francisco anticipates higher volumes of passenger visitors due to its increased capacity and the continuing strong economy. This will lead to additional revenue of $1.3 million in the first full year of use, FY 2015-16, with continued growth each year in the foreseeable future.

Invest in Neighborhoods

The Invest in Neighborhoods (IIN) Initiative, which started in 2012, provides focused, customized assistance to meet the specific needs of San Francisco's neighborhood commercial districts by leveraging existing programs from across departments and nonprofit partners. The 25 pilot participating neighborhood commercial districts have received an initial corridor assessment, an assigned staff person at City Hall, an opportunity to apply for small project grants, and access to a range of other services aimed at strengthening neighborhood commercial corridors. Additionally, customized business assistance programs, beautification and greening projects, business attraction and retention campaigns, and safety and cleanliness programs have been developed and deployed in each district based on the findings of the corridor assessment, resource availability, and community engagement. In neighborhoods demonstrating high need, opportunity for economic growth, and community capacity, the City provides operational support for a community-based organization that will engage community stakeholders and help implement programs. Over the next five years, IIN will continue to accomplish measurable economic outcomes related to job creation, increased sales tax revenues, increased private investment, and lower vacancy rates. IIN will continue to build relationships among community members, cultivate local leaders, and create stronger connections between City staff and programs and the communities they serve.

Business License Portal

The San Francisco Business Portal is a collaborative effort between the Mayor's Office, Department of Technology, Office of Economic and Workforce Development, and Office of Small Business. The project team began in December 2013, and set out to build an online resource for starting, running, and growing a business in San Francisco. With comprehensive information and tailored tools, the Portal helps business owners navigate the complex processes and access resources that can help them every step of the way. The Portal officially launched in November 2014, with over 1,000 unique users in its first two days. The majority of users are local but some come from other major US cities such as Seattle, New York, and Washington DC, as well as foreign countries like the UK, India, and New Zealand. Feedback from business owners and City departments has been overwhelmingly positive.

The collaborative effort to build the Business Portal demonstrates that departments can work together to achieve a common goal of improving the way the City interacts with its constituents. The Portal is only the first step to improving the business experience in the City. Over the next five years, further phases are in the planning stages to add functionality, including online form submission, individual profile generation, customized dashboards for business owners, and automated processes to further streamline the business permitting and licensing process and ensure that the City is providing the best possible service to the public.

Joint Development Projects

In recent years, the City has actively sought out and promoted a number of joint development opportunities. These include valuable, but under-utilized federal, State and City-owned parcels, as well as large privately owned parcels whose owners wish to develop them in exchange for benefits to the public. Through the vehicle of lease or sale disposition agreements (for publicly-owned parcels) or development agreements (for privately-owned sites), the City is able to leverage the opportunity to create needed public benefits without diverting scarce public resources.

The Office of Economic and Workforce Development's Joint Development Division is tasked with realizing the promise of these important development projects, and over the next five years will guide the return of the Golden State Warriors to San Francisco in a state-of-the-art multipurpose arena in Mission Bay, facilitate the opening of new California Pacific Medical Center hospitals on Cathedral Hill and in the Mission District, and oversee the rise of new mixed use neighborhoods in Park Merced, Bayview Hunter's Point, the former Schlage Lock industrial site, on Pier 70, in the parking lot south of AT&T Park, along mid-Market, in India Basin, and on small City-owned parcels throughout the City. Together these projects will leverage private investment to create dozens of acres of new publicly accessible open space, build thousands of market rate, middle income, and affordable housing units, modernize aging utility infrastructure, generate thousands of local construction and end use jobs, and enable transformative public transit improvements such as Van Ness and Geary Bus Rapid Transit, the M-Oceanview realignment, BART and Caltrain capacity improvements, new light rail vehicle acquisition, trackway improvements, and the reconstruction of formerly industrial streets.

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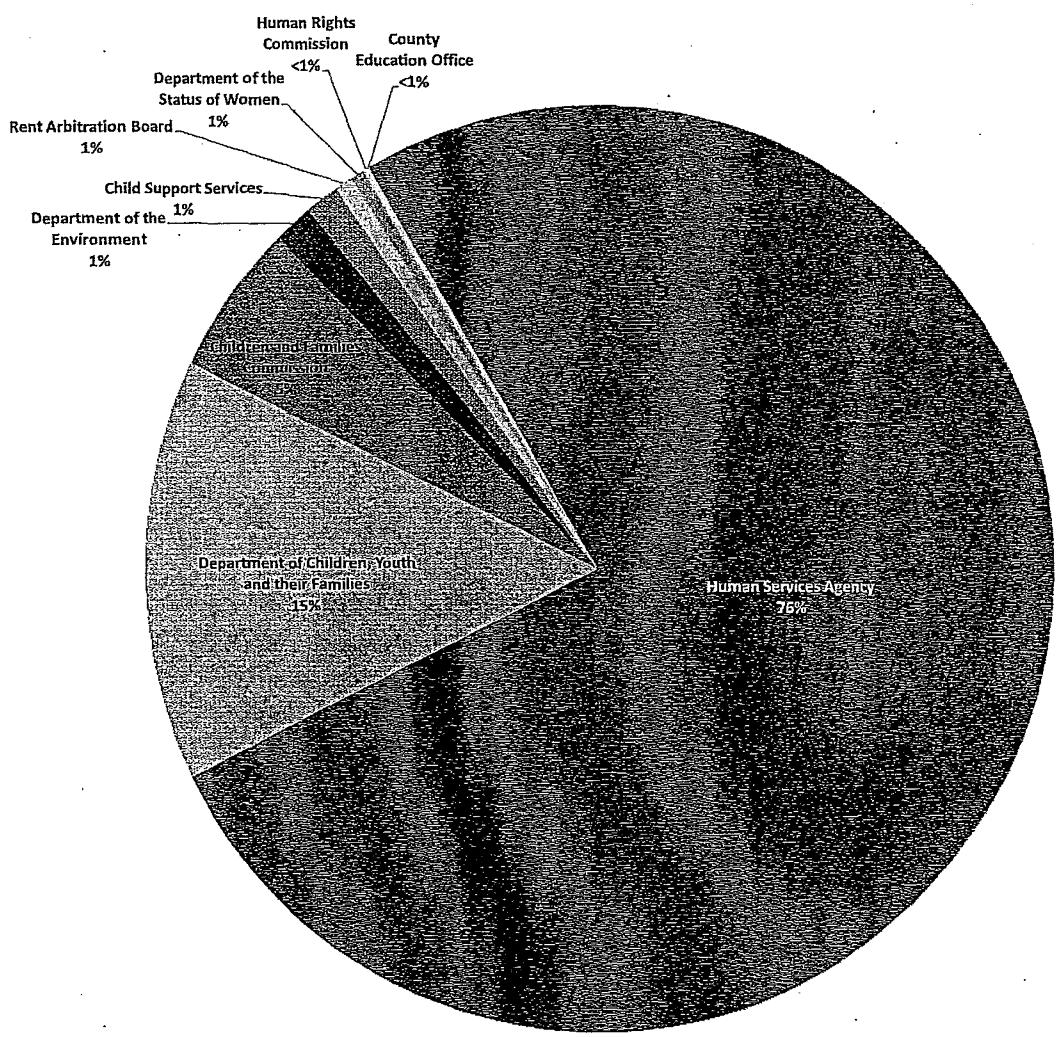
Human Welfare & Neighborhood Development

OVERVIEW

The Human Welfare and Neighborhood Development major service area includes the Children and Families Commission (CFC), the Department of Children, Youth and their Families (DCYF), Child Support Services, the Department of the Environment, the Human Rights Commission, the Human Services Agency, the Rent Arbitration Board, and the Department of the Status of Women. Departments in this major service area are funded through a combination of state and federal revenue sources, voter mandated set-asides (DCYF and CFC), and on-going General Fund allocations.

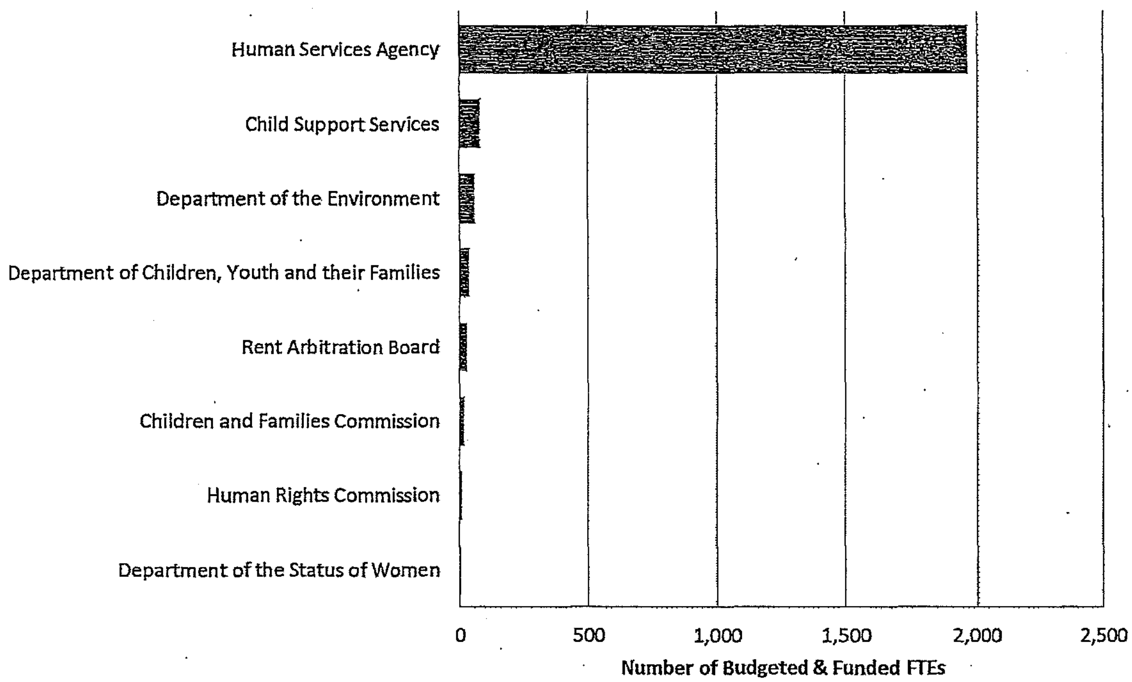
Together these nine departments have a total budget of $1.1 billion in FY 2014-15 and represent 12% of total Citywide expenditures.

Figure 23: Human Welfare and Neighborhood Development Total Budget by Department FY 2014-15



The Human Welfare and Neighborhood development departments have 2,210 full-time equivalent positions (FTEs) in FY 2014-15; this represents 7.8% of FTEs Citywide.

Figure 24: Human Welfare and Neighborhood Development by Full-time Equivalent Positions Department FY 2014-15



STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by departments over the coming five years. The major issues related to human welfare and neighborhood development are discussed in detail below. These issues include structural changes to programs that serve low-income and at-risk populations, increased resources and programs for children and youth, and changes in state and federal revenue sources.

Improving Supports for Low-Income Residents

Ongoing Implementation of Health Care Reform

Since the federal Affordable Care Act (ACA) took effect on January 1, 2014, the Human Services Agency has enrolled more than 50,000 low-income San Franciscans into the new expanded Medi-Cal coverage, with thousands of caseloads still pending. In preparation for the expansion of coverage, the Human Service Agency accelerated its transition to a service center business environment, eliminating traditional caseloads, adopting new technologies and cross-training staff to determine eligibility for multiple programs. The result is a much more efficient operation, and clients have expressed satisfaction with the more business-like model that emphasizes customer service. By expanding Medi-Cal eligibility to new groups, the ACA also eroded the barriers between Human Service Agency programs, allowing it to integrate services and become more effective at meeting the multiple needs of San Francisco's low income residents.

The Human Services Agency processes Medi-Cal applications, determines initial eligibility and performs ongoing case maintenance. New ACA enrollments represent a 43% increase to the number of Medi-Cal enrollees in San Francisco in September 2013, the month prior to ACA roll-out. In the FY 2014-15 budget, the state continued to budget an additional $240 million in the Medi-Cal Administration allocation to county social services agencies to cover ACA administrative costs; the Human Services Agency received $5.2 million. A mid-year supplemental allocation is currently under consideration at the state level and is anticipated to be approved for distribution effective January 2015. Due to the uncertainty around both the amount and the timing of these funds, they have not been assumed in the Department's or the City's revenue projections.

Redesign of County Adult Assistance Programs (CAAP)

In FY 2014-15, the Human Services Agency initiated a limited redesign of its County Adult Assistance Programs (CAAP), which offers cash assistance and supportive services to single indigent adults. The redesign is intended to streamline program rules and processes in order to better serve clients and achieve operational efficiencies for the Agency. The Agency is monitoring its CAAP caseload closely and hopes to be able to secure or reallocate resources to move forward with other elements of the redesign over the next five years. One goal of redesign is to reduce client churning, the on-and-off cycling of clients in the program. The agency is exploring ways to improve client continuity, hoping to provide the stability low income individuals need to take advantage of CAAP's Supplemental Security Income advocacy and employment benefits.

Enhancing Services for Children and Youth

Passage of Proposition C

In November of 2014, voters approved Proposition C, the Children and Families First Initiative. Key issues related to the passage of this legislation are described below; for additional costing information related to the passage of this legislation please see the base case section of this report.

Creation of the 'Our Children, Our Families' Council

Proposition C mandates the formation of the 'Our City, Our Families Council' to develop a Citywide vision, shared priorities, program goals, and best practices for youth and children's services in the City. The Mayor and the Superintendent of the San Francisco Unified School District (SFUSD) will serve as co-chairs of the Council. Other members of the Council include the heads of City departments with responsibilities for services to children and families, members of the community, stakeholders, and invitees of relevant SFUSD divisions.

The Council is tasked with creating a San Francisco Children and Families Plan which identifies goals and strategies to align and coordinate children and youth services provided by City departments, SFUSD, and community partners. The Council must adopt the Children and Families Plan by July 1, 2016, and every fifth year thereafter. The cost of staffing and funding for implementation will be included in the upcoming FY 2015-16 budget.

Public Education Enrichment Fund Renewal

Proposition C renews and modifies the Public Education Enrichment Fund (PEEF). The PEEF was originally passed in March 2004 and mandated the annual investment of General Fund dollars in San Francisco Unified School District enrichment programs as well as early education through the Preschool for All (PFA) Program. The PEEF allocation was split into thirds, with one-third allocated equally between: 1) Universal Preschool through PFA; 2) San Francisco Unified School District (SFUSD) for sports, libraries, arts, and music programs; and 3) SFUSD discretionary funds. The PEEF contribution was fully funded in FY 2014-15.

Proposition C renews PEEF for 26 years, through FY 2040-41, and makes the following key policy changes:

- Removes the City's ability to decrease the payment of the full PEEF by 25% in budget years when the budgetary deficit is projected to be $100 million or more; and eliminates the in-kind contribution to SFUSD;
- Preschool for All funds (PFA) are renamed "Universal Early Education" funds and allowable services are expanded to include three to five year olds; and,

- Universal Early Education funds will be allocated to the Office of Early Childhood Education. The office, created in 2012 within the Human Services Agency, is tasked with managing all funds for early care and education. The former PFA funds were allocated to and managed by the First Five Commission.

Children's Amendment Renewal

Proposition C renews and modifies the Children's Amendment, which was originally passed in 1991 and reauthorized in 2000. The Children's Amendment originally mandated that the City set-aside a portion of local property tax revenues to be used for children's services as administered by the Department of Children, Youth and their Families (known as the "Children's Fund") and established a baseline of funding for Children's services that grows with Annual Discretionary Revenue. Proposition C renews the Children's Amendment for another 25 years, through FY 2040-2041, and makes the following key changes to the legislation:

- Changes the name of Children's Fund to the "Children and Youth Fund" and expands services covered by the fund to include disconnected transitional age youth (TAY); and
- Increases the property-tax set-aside from $0.03 to $0.04 per $100 of property tax revenue over a four year period to be fully funded by FY 2018-19.

Youth Employment

SF Summer Jobs+ is a Citywide summer employment program for young adults, ages 16-24. The program was launched by Mayor Lee in summer 2012 and connects San Francisco employers with local low-income and disconnected youth. The initiative is a strong community partnership uniting the San Francisco business community, youth serving community organizations, the United Way of the Bay Area, the San Francisco Unified School District, as well as City of San Francisco departments. Since SF Summer Jobs+ began in 2012 it has exceeded job placement targets and seen placements grow annually; 5,200 young adults were placed in jobs in 2012, in summer 2013 over 6,000 young people participated, and 7,600 job placements were made in summer 2014. SF Summer Jobs+ program has set thousands of San Francisco youth on a pathway toward finding success in 21st century careers.

Title IV-E Waiver

In the fall of 2014, the Human Services Agency, in partnership with the Juvenile Probation Department, joined a Title IV-E Waiver program through the California Department of Social Services to allow greater flexibility in child welfare programming. Title IV-E is the federal funding source for child welfare services, parts of the juvenile probation system, and foster care. Under the waiver, counties can use Title IV-E money to fund service alternatives that should lead to safe reductions in foster care utilization. The goals of California's waiver include improving permanency outcomes and timelines; increasing child safety without an over-reliance on out-of-home care; improving the array of services for children and families; and decreasing recidivism and delinquency for youth on probation. This change is not projected to have a General Fund impact due to increased projected revenue offset by new family support services costs under the waiver.

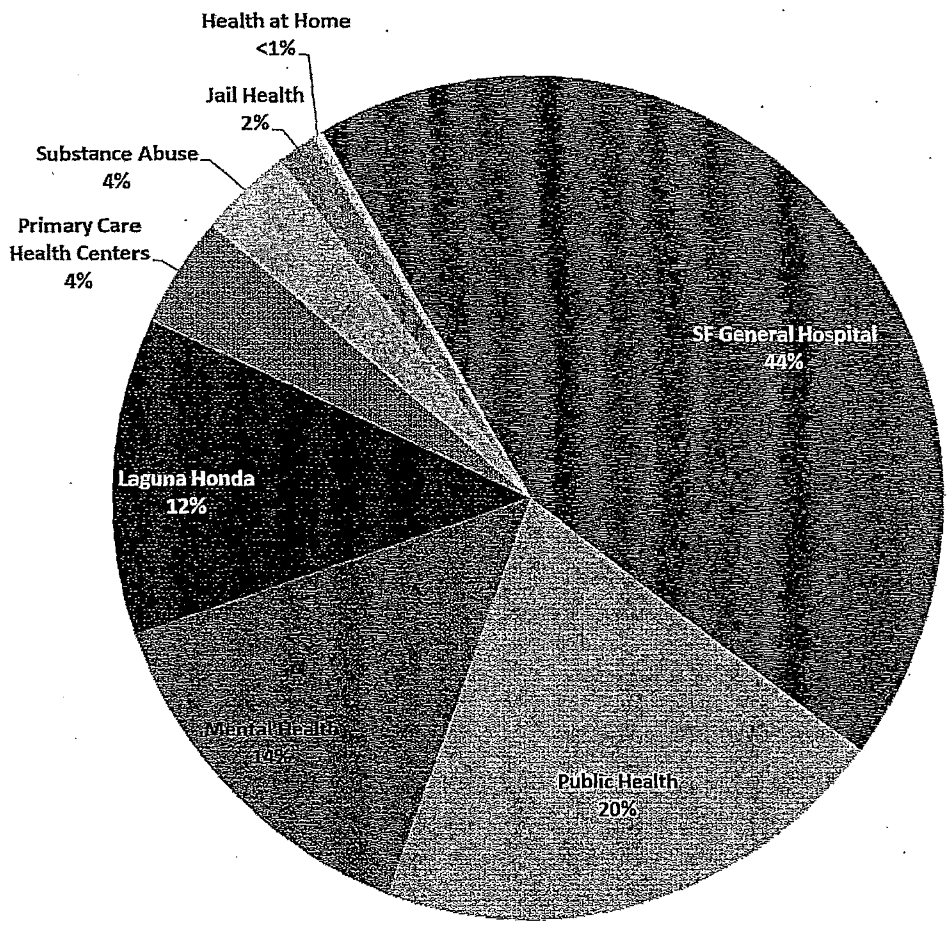
Community Health

OVERVIEW

The Community Health major service area includes only one department, the Department of Public Health (DPH). The Department of Public Health is the largest department in the City and County of San Francisco and receives the largest General Fund allocation.

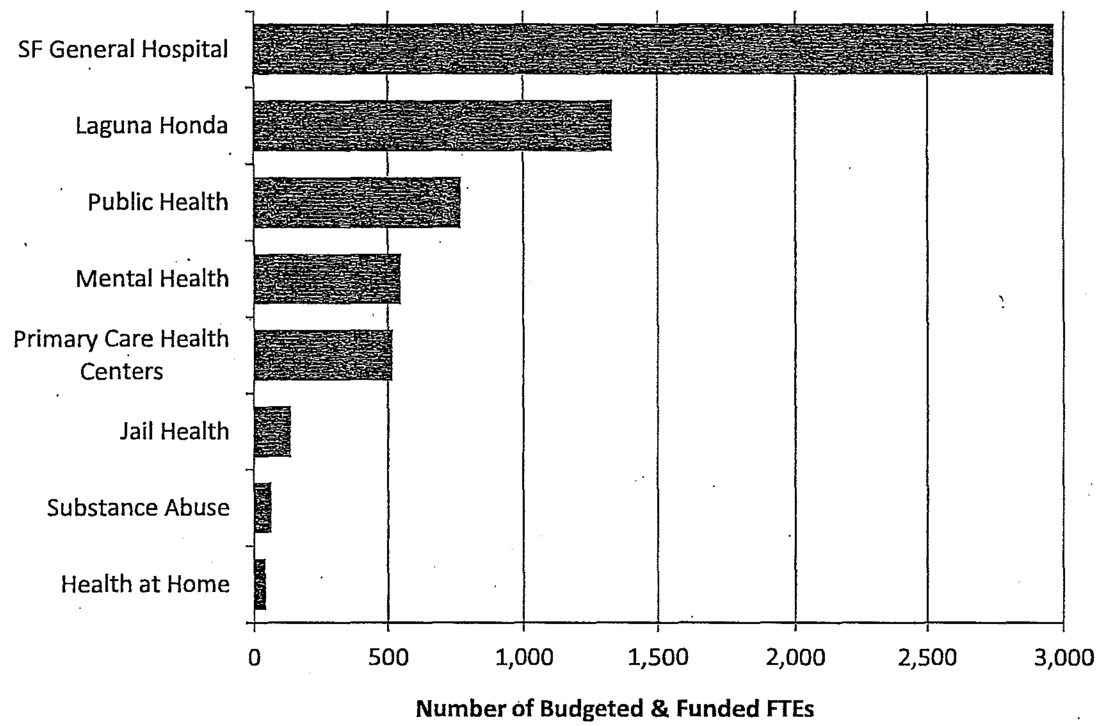
The Department of Public Health has a total budget of $2.0 billion in FY 2014-15, which represents 22% of total Citywide expenditures. This also includes $614.1 million in General Fund support (14.4% of the total General Fund budget). The largest program area within the Department of Public Health is the operation of two hospitals: San Francisco General Hospital and Laguna Honda Hospital.

Figure 25: Total Budget by Program Area FY 2014-15



The Department of Public Health has 6,284 full-time equivalent positions (FTEs) in FY 2014-15; this represents 22.1% of FTEs Citywide.

Figure 26: Community Health Full-time Equivalent Positions by Program Area FY 2014-15



STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by the Department of Public Health over the coming five years. The major issues related to community health are discussed in detail below. On the services side, the primary issues include providing effective health services, continued implementation of the Affordable Care Act, and managing changes in state and federal revenue sources. On the infrastructure side, ongoing capital and IT investments, including the new San Francisco General Hospital, and an upcoming public health general obligation bond, are the dominant issues.

Implementing Health Care Policy Changes

The Affordable Care Act – Federal Health Care Reform

On March 23, 2010, President Obama signed into law the Affordable Care Act (ACA), which is designed to expand health insurance coverage, improve health care delivery systems, and control increasing health care costs. On January 1, 2014, a number of key ACA provisions went into effect, including the individual mandate to have health insurance; roll-out of state health exchanges; and expansion of Medicaid, known as Medi-Cal in California. While it is still too early to know the long-term financial impact of these provisions on the Department, the City has observed the following trends:

- **Increased Coverage of and Decreased Compensation for the Uninsured**: The expansion of Medicaid—known in California as Medi-Cal—eligibility and the creation of health insurance exchanges (Covered California) have increased coverage for City residents who were previously uninsured. Over 40,000 San Franciscans purchased insurance through Covered California during its inaugural open enrollment period, and approximately 50,000 have newly enrolled in Medi-Cal as of September 2014. Although the effect of the ACA on the City's uninsured will not be clearly quantifiable for a few years, enrollment in

Healthy San Francisco, the City's health access program for the uninsured, has declined from nearly 55,000 prior to ACA implementation to 21,000 in September 2014. However, Healthy San Francisco does not account for all uninsured San Franciscans, and the City estimates that at least 30,000 people remain without insurance. The residually uninsured will include those ineligible for the insurance expansions offered under the ACA and those who are eligible but who, for a variety of reasons, do not enroll. The San Francisco Department of Public Health will continue to be a key provider of safety net services for these individuals.

Beginning in FY 2013-14, the State began to "claw back" realignment revenues paid to county governments for care of uninsured individuals. The federal government will also reduce Disproportionate Share Hospital (DSH) funding beginning in FY 2016-17. The methodology and timeline for taking back these funds is not yet finalized.

- **Expanded Choices for Current/New Clients:** As the City's formerly uninsured residents have obtained coverage under the ACA, health care consumers will increasingly have choices about where they receive medical care. As a result, to remain financially viable, the Department is working to become a "provider of choice" to retain a stable revenue base needed to maintain safety net services. To do so will require a focus on ensuring quality, access, and a positive customer experience. To this end, the Department has invested in its primary care operations – expanding clinic hours and capacity as well as creating a consolidated call center for appointment scheduling and inquiries.
- **Shift from Fee-for-Service to Managed Care Model:** The Department's funding continues to shift from a primarily fee-for-service reimbursement model to a managed care system with a fixed capitated rate. This funding model shifts financial risk to providers including the Department, and alters financial incentives to limit costs. Moreover, the Department could face additional financial pressure if capitated rates are set at levels inadequate to meet provider costs.

Medi-Cal Waiver

A new five year Medi-cal waiver will be implemented in FY 2015-16 through FY 2019-20. As this waiver is just beginning to be developed, it is unclear how it will impact the Department of Public Health. However, as the last two waivers have led to significant program changes such as Healthy San Francisco and program enhancements due the Delivery System Reform Incentive Pool (DSRIP), the Department expects additional changes in the future. The Department is working with other counties to create a successor DSRIP that will allow public hospital systems to become innovative centers of care.

Dual-Eligibles and the Coordinated Care Initiative

In 2013, California launched a pilot project for 8 counties to automatically enroll clients who are eligible for both Medi-Cal and Medi-Care into Medi-Cal managed care directly. By FY 2016-17, additional counties may be added to this program. When San Francisco County joins this initiative, Laguna Honda Hospital will receive per-member-per-month capitated payments rather than fee-for-service per-diem payments. Depending on the capitated rates for this population and other State and federal reimbursement policy decisions, Laguna Honda Hospital could lose significant amounts of revenue annually. In addition, this change could affect the administration of the In Home Supportive Services (IHSS) program.

Reduction of Federal Funding for HIV / AIDS Prevention and Services

The Center for Disease Control and Prevention (CDC) and Health Resources and Services Administration (HRSA) continues to adjust funding formulas for local governments in their disease control efforts. While the CDC has likely already implemented the most significant cuts to HIV Prevention funding, small cuts may continue. The CDC will announce its next funding cycle in 2015. Furthermore, the future of funding from the federal government for Ryan White HIV/AIDS programs remain uncertain as health coverage is more wide spread in the post-ACA world. Since FY 2012-13, Ryan White funding to San Francisco has been cut drastically: $7.1 million in

FY 2012-13, $11.3 million in FY 2013-14, and $14.4 million in FY 2014-15. The City has entirely backfilled these cuts with General Fund support in each year. If federal funds continue to be cut, additional General Fund support would be required to maintain current service levels.

Launching New Medical Facilities and IT Systems

Upgrading Legacy Information Technology Systems and Infrastructure

In September 2014, the Federal Trade Commission approved Cerner Corporation's purchase of Siemens Hospital IT unit, which supports many of the Department's clinical and revenue systems. As a result, in the next 3 to 5 years, the Department will need to transition to a new system, as legacy systems will no longer be supported. In order to make the transition a success, the Department plans to focus on strengthening its IT infrastructure over the next two years. The Department's end goal is to transition to a single, fully-integrated electronic medical record (EMR). The implementation plan and financial impacts of this change are in development.

San Francisco General Hospital Rebuild

In 2008 the voters approved an $887.4 million SF General Hospital Rebuild (SFGH) G.O. bond to allow SFGH to comply with new State seismic safety standards. The San Francisco General Hospital is a comprehensive medical center, providing 20% of the City's inpatient care, offering compassionate care to a diverse community of patients in more than 20 languages. The new facility will have space for 283 beds, an increase of 31 beds from the existing facility. The emergency department (ED) alone, will increase from 27 to 58 beds, including six resuscitation rooms. As San Francisco's only Trauma Center and the City's busiest emergency room, this expansion will alleviate pressure in the ED. The hospital rebuild is currently scheduled to be completed on-time and on-budget in FY 2015-16, and is expected to open to the public in December of 2015. Financial details are included in the base case section of this report.

Upcoming Public Health G.O. bond

In addition to the General Hospital rebuild, the City plans to bring a $311 million G.O. bond before the voters either in November 2015 or June 2016, which will include seismic strengthening of the SF General Hospital building 5, expanding the South East Health Center to allow improved coordination of primary care and behavioral health services in one of the most underserved areas of the City, seismically strengthening and renovating the City's Animal Care and Control facility, and relocating and rebuilding the Fire Department's Emergency Medical Service (EMS) facilities. This bond and these critical capital projects will be included in the City' upcoming Ten-Year Capital Plan.

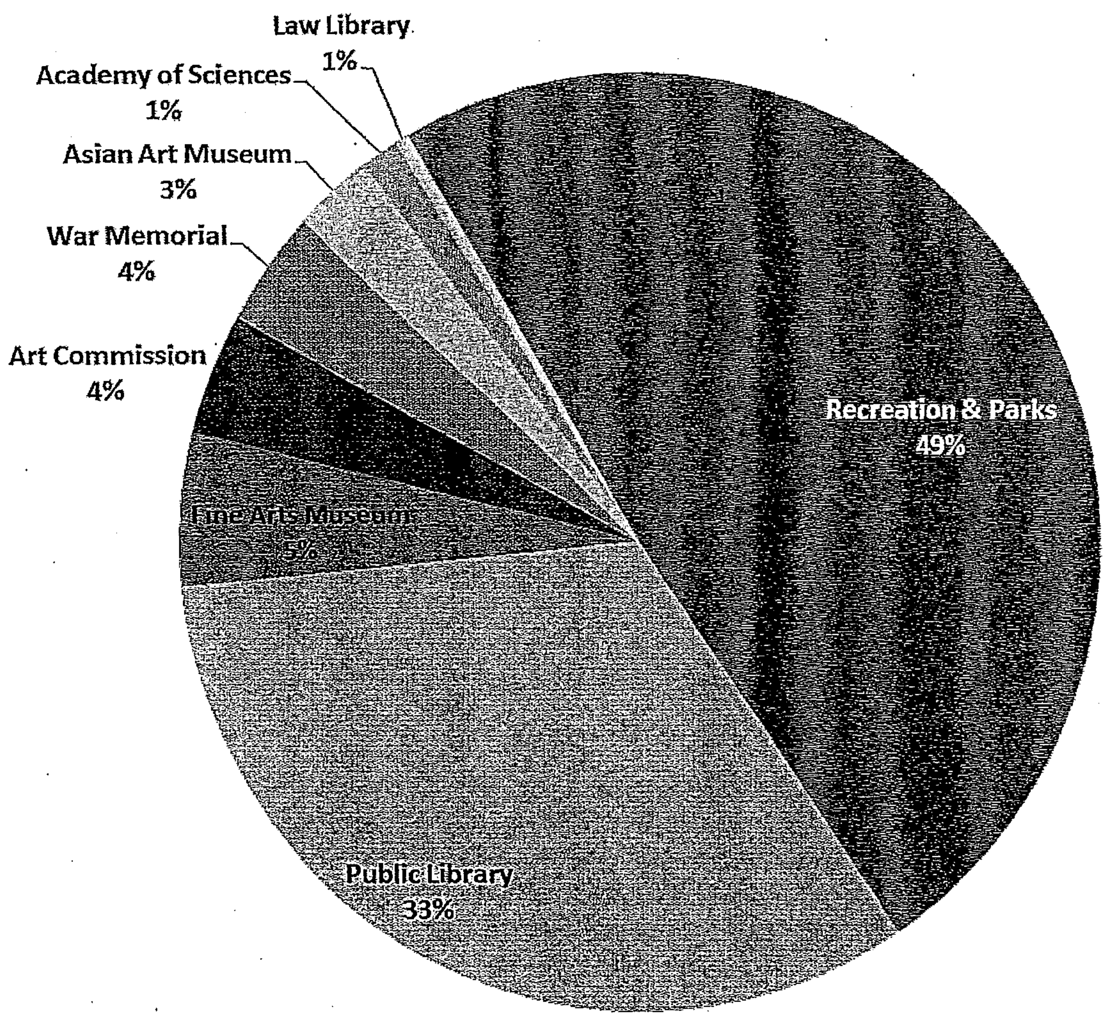
Culture & Recreation

OVERVIEW

The Culture and Recreation major service area includes the Asian Art Museum, the Arts Commission, Fine Arts Museums, the Public Library, the Law Library, the Recreation and Parks Department, the Academy of Sciences, and the War Memorial. The majority of these departments receive General Fund monies through annual budget allocations. However, the Recreation and Parks Department also receives funding from the Open Space and Park Fund set-aside as well as earned revenue, and the Public Library is largely funded through a voter mandated set-aside.

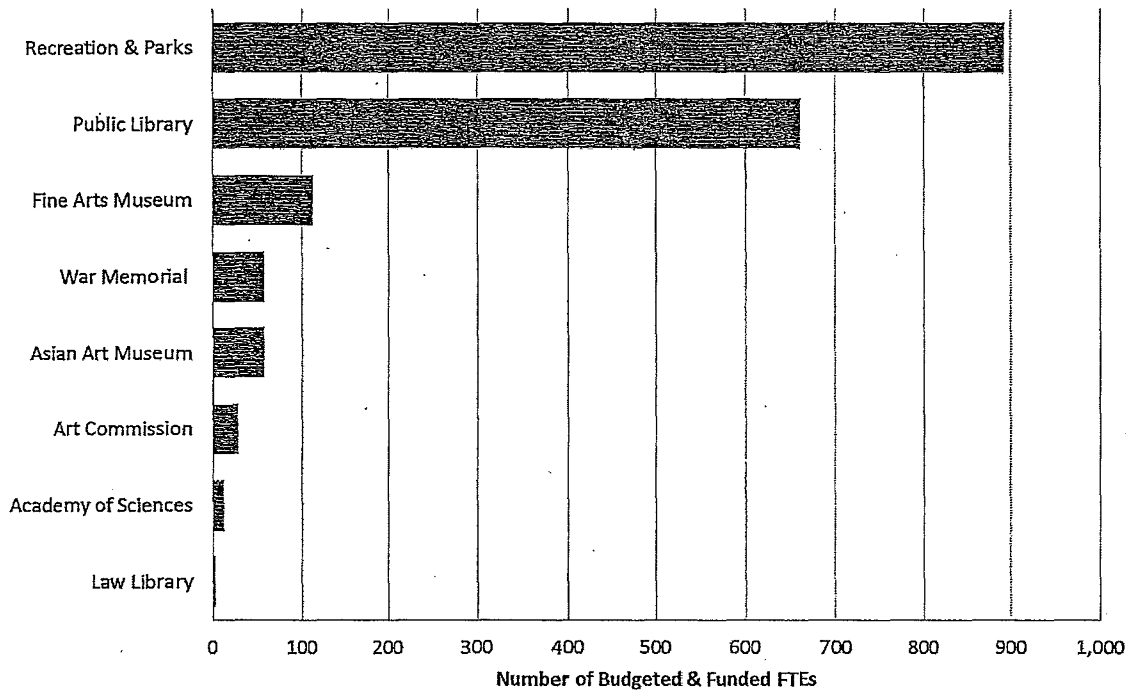
Together these eight departments have a total budget of $333.5 million in FY 2014-15 and represent 4% of total Citywide expenditures.

Figure 27: Culture and Recreation Total Budget by Department FY 2014-15



The Culture and Recreation departments have 1,826 full-time equivalent positions (FTEs) in FY 2014-15; this represents 6.4% of FTEs Citywide.

Figure 28: Culture and Recreation Full-time Equivalent Positions by Department FY 2014-15



STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by departments over the coming five years. The major issues related to Culture and Recreation are discussed in detail below. These issues include the preservation and improvement of recreational and cultural assets (notably the Veterans Building and a new Teen Center at the Main Library), a mandated review of library operating hours, implementation and completion of bond funded projects including the Branch Library Improvement Project and the 2008 and 2012 Clean and Safe Neighborhoods Park bonds, and the continued renovation and acquisition of parks and open space.

Preserving and Improving Recreational and Cultural Assets

Veterans Building Seismic Upgrade and Improvements Project

The two-year construction of the Veterans Building Seismic Upgrade and Improvements Project is over 70% complete with total completion scheduled for August 2015. The seismic upgrade and improvements project provides the City with the opportunity to save and transform this historic civic asset into a vibrant and lively home for arts and veterans organizations, which in turn will contribute to the revitalization of the Civic Center District over the next five years and beyond. The building will continue to house the American Legion and other veterans' organizations and welcome the City's Art Commission and a portion of San Francisco Opera as new tenants. The renovated building will provide new gallery space for the Art Commission to display the City's civic art collection, while also providing safe and secure storage space for the collection while not on display. The renovated fourth floor of the building will house a new, smaller performance venue for both the San Francisco

Opera to rehearse and perform and for the City's War Memorial Trust to rent to local art and performance groups for smaller performances throughout the year.

Completion of the Branch Library Improvement Plan (BLIP) and Opening of Teen Media Center

In November 2000, voters approved a $105.9 million bond measure to renovate, replace, and construct branch libraries throughout the City. The Branch Library Improvement Plan (BLIP) provided seismic, accessibility, and technology upgrades to 24 branch libraries, including 16 renovations, eight new buildings, and one support service center. In the 24 BLIP branches, over 48,000 square feet of combined new library space was added and ten new community rooms were constructed.

In the fall of 2014, the new adult, youth, and family literacy center – the Bridge at the Main – opened on the 5th floor of the Main Library. This space has classrooms, including a computer center with digital literacy and introductory coding programming, and resources collections curated to support literacy and learning. A new Teen Center is scheduled to open in late spring of 2015. It will be 4,770-square feet of space and equipment for middle and high school-age youth to create and develop digital media and computer skills. In addition to this physical space, youth-focused digital media programs are planned throughout the Library's 27 branches over the coming five years.

Mandated Review of Library Operating Hours

The Library Preservation Fund, renewed by Proposition D (November 2007), requires that the Library Commission assess and modify as appropriate the hours of operation of the main and branch libraries at least once every five years. Additionally, the Library Commission must gather community input to help set the criteria for determining service hours.

During the last mandated review, the San Francisco Public Library added hours and days of service at branch libraries after an extensive year-long assessment of library public service hours. In total, 39 additional hours of library service took effect in FY 2013-14, in addition to increased hours at three centers of the Main Library. Nineteen of San Francisco's 28 libraries are now open every day of the week.

The Public Library must complete its next planning process and set its adjusted open hours by July 1, 2018. Determining system-wide open hours impacts major staffing, administrative, and facilities decisions and will be a major driver of the Public Library's future budget planning. Any recommended modifications to operating hours must occur during the same fiscal year; any recommended expansion in hours may be implemented over more than one fiscal year, dependent on the availability of staff and funding resources.

Recreation and Parks Department General Obligation (G.O.) Bond Program

As part of the 2008 Clean and Safe Parks Bond Program, the Recreation and Parks Department has renovated 12 neighborhood parks. Improvements include upgrades to park landscape, amenities, playgrounds, buildings, and overall seismic safety. Ten neighborhood parks have been completed, with the final two projects in construction phase and scheduled to be completed in 2015. Additional 2008 Clean and Safe Neighborhood Parks bond project allocations include money dedicated to upgrades for park restrooms, playfields, forestry, trails, and waterfront parks repairs, renovations, and development programs.

The 2012 San Francisco Clean and Safe Neighborhood Parks bond generated $195 million in additional funds for the Recreation and Parks Department to continue the renewal and repair of parks, recreation, and open space assets. The bond included funding for 15 neighborhood parks, long-awaited investment in Golden Gate Park, McLaren, and Lake Merced, as well as renovations to the parks' support infrastructure. Specifically, the 2012 Bond proposal allocates $99 million for neighborhood parks, selected based on community feedback, physical condition, the variety of amenities offered, seismic safety risk, and neighborhood density. Phase one of bond-funded neighborhood parks projects includes planning and construction for seven parks by 2016 and another eight to be completed by 2018.

New Parks and Open Space

Over the next five years, Recreation and Parks plans to develop new parks and open space at the Noe Valley Town Square, Francisco Reservoir, 900 Innes, 17th and Folsom, Guy Place, and yet to be determined locations in District Six and the eastern neighborhoods of the City. These new parks represent quality-of-life improvements for everyday San Franciscans, and also begin to address the need for additional service in response to growth that is occurring across the City.

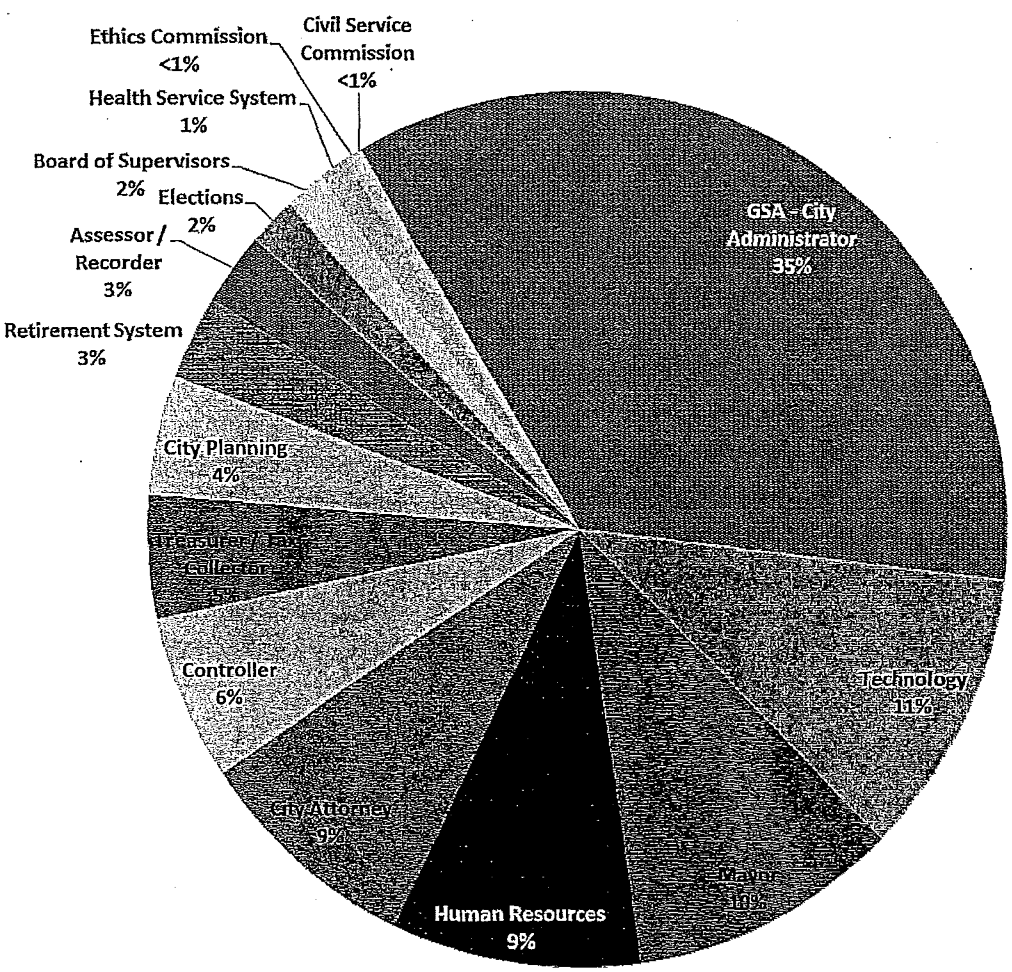
General Administration & Finance

OVERVIEW

The General Administration and Finance major service area includes the General Services Agency (GSA) – City Administrator's Office, the Office of the Assessor-Recorder, the Board of Supervisors, the City Attorney's Office, the Controller's Office, the City Planning Department, the Civil Service Commission, the Ethics Commission, the Human Resources Department, the Health Service System, the Mayor's Office, the Department of Elections, the Retirement System, the Department of Technology, and the Office of the Treasurer - Tax Collector. Departments in this major service area are funded through an annual allocation from the General Fund, a rate model charged to City departments, and through fees for services provided to the public.

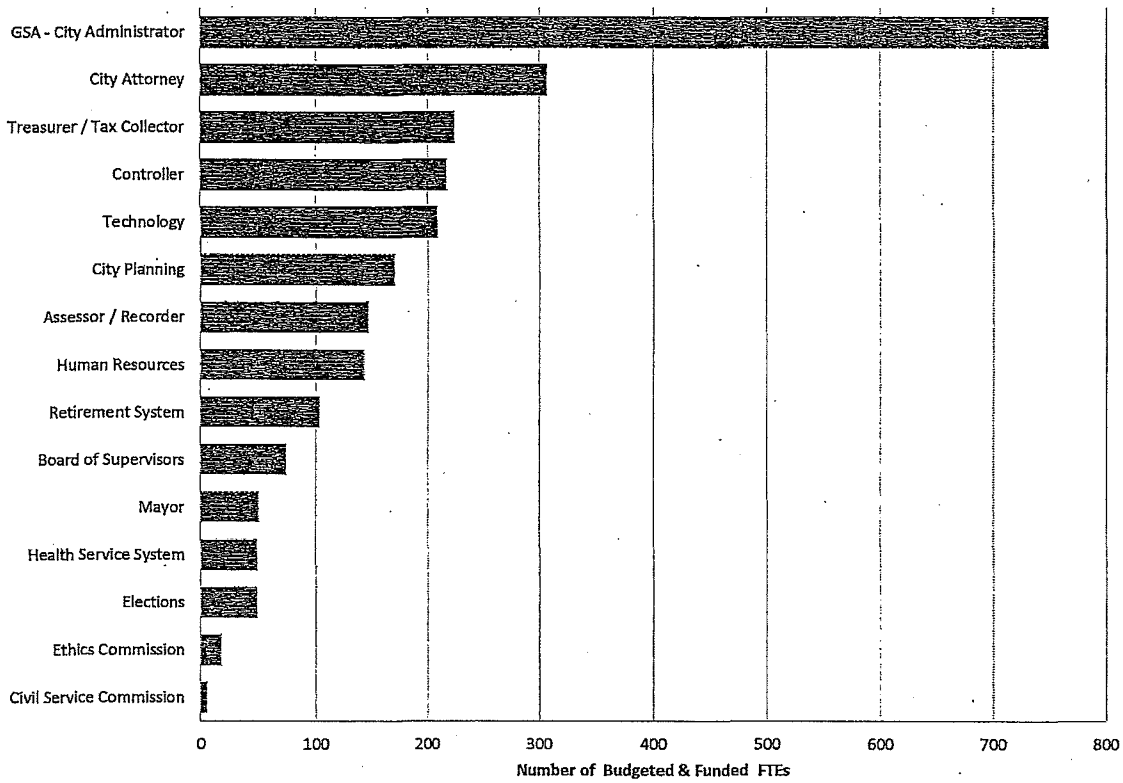
Together these fifteen departments have a total budget of $879.0 million in FY 2014-15 and represent 10% of total Citywide expenditures.

Figure 29: Total General Administration and Finance Budget by Department FY 2014-15



The General Administration and Finance departments have 2,520 full-time equivalent positions (FTEs) in FY 2014-15; this represents 8.9% of FTEs Citywide.

Figure 30: General Administration and Finance Full-time Equivalent Positions by Department FY 2014-15



STRATEGIC ISSUES

In addition to the base case projection in this report, the City will work to address a number of strategic issues faced by departments over the coming five years. The major issues related to general administration and finance are discussed in detail below. These issues include significant efforts to preserve and create new affordable and public housing as well as investments to replace aging and outdated IT systems and equipment (including the City's financial system, property tax database, and voting system). Additional investments are also planned for IT infrastructure and Citywide connectivity, while the Assessment Appeals Project and strengthening of the City's investment strategy will improve responsible stewardship of City resources.

Expanding and Improving Affordable Housing

Creation of the Housing Trust Fund

In FY 2013-14, the City began implementing the Housing Trust Fund (HTF), an annual set-aside approved by voters in November 2012. Beginning at $20 million, the HTF is scheduled to grow by $2.8 million per year until it reaches $50.8 million in FY 2024-25. As per the authorizing legislation, the funding is reserved for a variety of housing-related uses, including the financing of new multifamily affordable housing development, down payment assistance, foreclosure and eviction prevention services, and a small site acquisition and rehabilitation program.

The adopted FY 2014-15 and FY 2015-16 budget includes a one-time infusion of $50 million in additional funding over two years secured by future HTF growth. This funding is being used to speed up the development of new multifamily affordable housing developments currently in the City's pipeline.

Public Housing Re-Envisioning and HOPE SF

Over the past several years, the City has worked closely with the San Francisco Housing Authority (SFHA) on two major undertakings: to rehabilitate and ensure the long-term financial stability of public housing stock throughout the City as well as continued implementation of HOPE SF, a signature initiative to replace four of the City's most distressed public housing developments with mixed-income developments.

In October 2013, the City released its SFHA Re-Envisioning plan, which laid out a strategy to make needed capital investments in the SFHA's 5,383 unit portfolio and ensure the organization's long-term financial stability. A key component of this Plan is the transition of management and ownership of approximately 3,500 units to non-profit providers selected through a competitive process. Additionally, SFHA has applied for inclusion in the Rental Assistance Demonstration (RAD) program, offered by the federal Department of Housing and Urban Development (HUD). Acceptance into the program will provide access to much-needed long-term rental vouchers, which will secure funding for critical repair and rehabilitation work. The first phase of the program is expected to close financing in the second half of 2015; until then, potential financial impacts on the City are undetermined.

The City continues to make progress in implementing HOPE SF. New units at Hunters View, the first development in the program, have opened for occupancy, with more currently under construction. Construction at the second site, Alice Griffith, is beginning in FY 2014-15. Final entitlements for the final two developments, Potrero Hill and Sunnydale-Velasco, are projected in FY 2014-15. Over the next five years, the City will work to secure full funding for these two remaining sites and begin construction.

Improving Key IT Infrastructure

Replacement of the City's Financial System

The City's mainframe-based central financial and accounting information system (FAMIS) is more than twenty-five years old and is the process of being replaced. Project implementation began in FY 2014-15. The remaining cost of replacement of the system is estimated at $70 million over the next several years. The Department will evaluate multiple strategies to implement the project, including a phased approach, which will allow the City to receive the benefits of the investments as each module is complete while phasing the cost over time. As a Citywide project, the costs of this project are allocated between General Fund and Enterprise departments. This project reports to Committee on Information Technology (COIT) on a regular basis on the scope, budget and timeline for the project implementation, and is identified as a major IT investment in the City's Five Year ICT Plan.

Property Tax Database Replacement Project

The Assessor-Recorder's legacy property tax database is reaching the end of its useful life and will need to be replaced in the next five years. The Department is currently investigating internal needs to design a new database which supports the Department's goals of improving efficiency and effectiveness. This project will require initial funds for critical project development through COIT to determine the scope and final budget for this project. This project is identified as a major IT investment in the City's Five Year ICT Plan.

Plan for Citywide Connectivity

The Department of Technology, the Committee on Information Technology, and the Mayor's Office of Civic Innovation have joined together to create a cohesive, Citywide plan to provide guidance for future City investments in connectivity and Wi-Fi expansion. The team is currently conducting research and outreach and expects to release the plan in early 2015. Potential costs associated with its recommendations are unknown at this time; however, this process will impact how the City funds and expands its fiber ring and deploys public wi-fi over the next five years.

Elections – Expiration of Voting Systems Contract

In December 2007, the City entered into a contract with Sequoia Voting Systems, Inc. for the purchase of new voting equipment and services. The original term of the contract was for four years with two one-year extension options that were exercised by the City in 2011. The City extended the contract with Dominion Voting Services, Inc., the company that acquired Sequoia in 2010, an additional three years in December 2013. The previously adopted extension is now scheduled to expire on December 11, 2016.

Prior to 2017, the City has four policy options to explore to replace this system:

1. Outright purchase of new voting equipment, software, and relevant services;
2. Further extensions of the existing contract for the current voting system as well as associated services;
3. The lease of new voting equipment and software under a revised payment schedule for necessary services. Equipment would return to the vendor after the lease term expires; and
4. A hybrid agreement that would allow the City the flexibility to modify or replace equipment, software, and services as better products become available.

Future costs are dependent on the policy option chosen and the selected vendor's price proposal; however, the Department estimates the system could cost up to $10 million one-time with annual increases of $200,000 to $300,000 per year.

Responsible Stewardship of City Resources

Assessment Appeals Project

Two years ago, the Assessor's Office experienced a historically high level of property assessment appeals resulting from the previous years' depressed real estate market and decline in real estate values. By the end of FY 2013-14, the appeal backlog totaled over 6,800, equivalent to approximately $388 million in property tax revenue. In order to address this significant backlog, the Department received funding to create a term-limited team of appraisers for the Assessment Appeals Board. Although new filings have returned to near historical levels, the Department projects needing to retain additional staffing through FY 2017-18 in order to comply with the statutory deadlines for completing the appeals process, with a return to normal staffing levels in FY 2018-19.

Strengthening the City's Investment Strategy with the Retirement System

Over the next five years, the City's Retirement System will transition from a consultant-driven investment model to an in-house staff-driven investment model. The goal is to stabilize and diversify the City's investment portfolio to guard against future downturns, and also to bring expertise in-house. The Department's staff has been significantly increased in recent years to begin to implement this policy change; investment staff will go from 15 in FY 2013-14 to 22 by the end of FY 2015-16. The increases in in-house investment staff are intended to result in higher returns on investment, increase the City's ability to invest in alternative strategies that are not currently available, and position the Retirement System to reduce the services and fees currently being paid to outside investment consultants.

Appendices

Other Long-Range Financial Planning Documents
Major Department Issues and Goals

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Other Long-Range Financial Planning Documents

In addition to this document, which provides a high level look at projected revenues and expenditures in the next five years, the City puts forth two other Citywide long-term plans specifically focused on investments in capital projects and information and communication technology. These plans inform the Five Year Financial Plan base case, and the Five Year Financial Plan fiscal strategies inform the development of the funding for each of these two plans.

Ten-Year Capital Plan

The Ten-Year Capital Plan represents the City's commitment to building a stronger, more vibrant future for residents, workers, and visitors of San Francisco. Updated every other year, the Capital Plan is a fiscally constrained ten-year expenditure plan that lays out infrastructure investments over the next decade. The upcoming Capital Plan, set to be adopted by the Capital Planning Committee in March 2015, will cover fiscal years 2015-16 to 2024-25.

There are two main funding sources for General Fund capital projects outlined in the plan:

- **General Fund pay-as-you-go program:** this category is supported through the annual budget process with General Fund cash. It is used to fund on-going maintenance, American Disabilities Act (ADA) improvements, critical project development, right-of-way infrastructure investments, facility renewals, and critical enhancement projects. Currently, this category is inflated each year by 10%. In FY 2014-15, the City's adopted budget included full funding for this program.
- **Debt financing tools:** this category includes the General Obligation (G.O.) bond program and the Certificates of Participation (COP) program. Debt financing is an appropriate revenue source for major capital projects, given these projects involve assets with long useful lives and high upfront costs which the City would not be able to cover through its annual pay-as-you-go program. The City has adopted policies to limit the use of both of these debt programs, including:
    - When issued, G.O. bonds proposed by the Capital Plan will not increase voters' long-term property tax rates above 2006 levels. Therefore, new G.O. bonds are typically used as existing approved and issued debt is retired and/or the property tax base grows.
    - The City will maintain the percentage of the General Fund spent on debt service at or below 3.25% of discretionary revenues. As a result, the City's ability to issue secured debt is limited. Financing instruments will only be used when existing General Fund debt is retired and/or the City's General Fund grows.

Since the first Capital Plan was created in 2007, the City has made significant progress in addressing critical infrastructure needs. In particular, over the last six years, voters have approved seven Capital Plan recommended G.O. bonds totaling close to $3 billion. These investments enable the City to make critical capital investments that strengthen aging infrastructure, increase the City's ability to respond to and recover from an earthquake, foster safe and thriving communities, and promote economic development

For more information on the City's Ten-Year Capital Plan please visit: ***http://onesanfrancisco.org/***

Five Year Information and Communication Technology Plan

The Five Year Information and Communication Technology Plan (ICT Plan) provides a framework over the next five years for the City to proactively plan, fund, and implement projects which align with the City's goals of being innovative, sustainable, and resilient. The ICT Plan outlines a path for coordination and planning to maximize current and future resources for IT projects. As with the Capital Plan, it is updated every other year and released by March. The next iteration will cover FY 2015-16 through 2019-20 and is expected to be adopted by the Committee on Information Technology (COIT) in the spring of 2015.

Since the adoption of the first ICT Plan in spring 2011, the City has begun implementation of several key priorities including the email migration to Microsoft O365, the expansion of #SFWiFi along Market Street and in 30 public parks, and the consolidation of City data servers. In the next five years, COIT will prioritize IT investments for public safety improvement projects, and the replacement of outdated financial systems.

There are two main funding sources for General Fund IT projects outlined in the plan:

- **General Fund pay-as-you-go program**: this category is supported through the annual budget process with General Fund cash. It is used to fund projects such as enhancements, new projects, renewals, and critical project development. This category is inflated each year by 10%.
- **Major IT investments**: this category is also supported through the annual budget process with General Fund cash; however, it is intended to address funding needs for major IT projects that are large in scale, complex and that face longer timelines and need significant financial investments. This category was added to the City's Joint Report in FY 2014-15, and it also increases annually 10% each year to address the City's aging information and communications infrastructure.

COIT prioritizes funding towards proposed IT projects that support the City's strategic IT goals. In the FY 2014-15 budget planning process, COIT made the following recommendations to replace three Major IT Projects:

- The City's financial information system ($70 million);
- Public safety radio replacement project ($69 million); and
- The Assessor-Recorder's property tax systems ($13 million).

For more information on the City's Five Year ICT Plan please visit: ***http://www.sfcoit.org/***

Major Department Issues & Goals

Over the next five years, each City department will strive to accomplish organizational goals in the face of distinct challenges. This section provides a high-level overview of major departmental issues and goals.

Academy of Sciences

- Implement a strong business model with a feasible funding and resource plan;
- Become the world's leading institution for sustainability education; and
- Continue to invest in STEM education initiatives and the Academy's youth workforce development program.

Airport

- Be ranked #1 by passengers among U.S.-based international gateway airports as measured by the ASQ survey;
- Maintain San Francisco Airport's (SFO) airfield in as safe as possible condition through the use of technology, procedures, inspections and continual evaluation of airfield best practices;
- Ensure SFO can meet passenger growth in the next five years while improving airline on-time arrival rates to 75%; and
- Improve Airport sustainability by maintaining 100% carbon mitigation and achieve 25% reduction in baseline GHG emissions controlled by the Airport by 2016.

Adult Probation

- Continue to refine and implement the City's plans to respond to State Bill 678 , Evidence-based Probation Supervision, and Assembly Bill 109, Public Safety Realignment;
- Invest in IT to increase the efficiency of departmental operations; and
- Continue to lead the State in reentry services, reducing barriers to employment, housing, healthcare, civic engagement, and public assistance programs for SFADP clients and the broader criminal justice population.

Arts Commission

- Review and evaluate the grant making process to ensure alignment with the Department's core values including cultural equity and access for all;
- Continue to provide leadership and support to nonprofits facing displacement and space affordability challenges; and
- Relocate into the War Memorial Veterans building after the completion of the building's seismic retrofit.

Asian Art Museum

- Increase audience reach and impact by offering fresh experiences to repeat visitors;
- Enhance the donor value proposition and improve financial stability;
- Improve organizational effectiveness through investments in personnel and IT capabilities; and

- Implement the multiyear strategic business plan to include reinstallation of permanent galleries, designing a stronger pipeline of special exhibitions, and adding to the endowment.

Assessor-Recorder

- Implement key technology projects including eRecording, the digitization of property assessment files, and the transition to a new property tax database system;
- Improve the customer experience and customer service; and
- Eliminate the backlog of pending assessable events and reduce the number of open AAB appeals.

Board of Appeals

- Ensure that staff is properly trained and materials are developed so that customers are provided with the information necessary to effectively participate in the hearing process; and
- Enhance the Appeal Management Database to better process, track, and report on matters filed and heard by the Appeals Board.

Board of Supervisors

- Continue to provide comprehensive, accurate, timely, and transparent information to the public and leveraging technology to enhance and improve the efficiency and efficacy of the Board of Supervisors;
- Continue to support the public's "right to know" as it pertains to governmental processes;
- Work toward making the Legislative Research Center (LRC) the City's central access point for all legislative information; and
- Improve agenda management through technological upgrades and streamlining processes.

Building Inspection

- Improve service delivery through increased training, technology improvements, expanded community outreach, and continuing emphasis on structural safety and emergency response preparedness;
- Implement major initiatives such as mandatory seismic retrofitting of soft story buildings, legalization of secondary ("in-law") units, and efforts to expedite permitting of housing; and
- Implement and improve the Permit and Project Tracking System in collaboration with the Department of City Planning to allow City agencies to more effectively track projects and provide the public with greater transparency.

Child Support Services

- Raise additional revenue and make responsible spending cuts that will sustain current service levels despite growing operating costs and flat state and federal funding; and
- Realign Department IT systems to better maintain operations and innovatively meet the needs of family clients.

Children and Families Commission

- Continue to implement the Quality Rating Improvement System to promote high quality early care and education across San Francisco;

- Coordinate the transfer of Preschool for All funding (now called Early Education funds) to the Office of Early Care and Education pursuant to Children and Families First Initiative (Proposition C); and
- Continue to invest in child development, family support, child health, and systems of care to ensure that that San Francisco children ages birth to five are socially, emotionally, physically and academically prepared to succeed in school.

Children, Youth and their Families

- Implement the Children and Families First Initiative (Proposition C), the renewal of the Children's Fund with increased funding and an increased scope of service;
- Develop policies and strategies targeted at serving Transitional Age Youth; and
- Assist in the coordination and development of the Our City, Our Families Council, including the creation of a data sharing system.

City Administrator

- Strengthen the local economy through the development of the Mid-Market area, expansion of the Moscone Convention Center, and development of Treasure Island and inclusionary policies implemented in the City's purchasing processes and the Local and Small Business practices;
- Improve government services by increasing language access and immigrant services, increasing responsiveness through technology and innovation, and mobilize City Hall services to the neighborhoods;
- Strengthen the City's capital planning and infrastructure, including: renovating the Animal Care and Control facility; replacing the Office of the County Medical Examiner; expanding the Moscone Convention Center; and consolidating complementary City services into a new, resilient, accessible, city-owned office building.

City Attorney

- Retain and recruit quality employees by developing strategies for succession planning, as well as professional development and leadership training; and
- Continue affirmative litigation efforts, with a focus on matters related to the City's most economically vulnerable.

City Planning

- Continue to engage in interagency and regional dialogue to understand how the City's infrastructure, governance and finance systems can accommodate adequate levels of jobs, housing and transportation growth for diverse populations and neighborhoods to ensure a vibrant, thriving and inclusive San Francisco;
- Implement the Permit and Project Tracking System in collaboration with the Department of Building Inspection to allow City agencies to more effectively track projects and provide the public with greater transparency;
- Improve revenue forecasting and consistency by responding quickly to economic changes by shifting resources when necessary and bringing on new staff when appropriate; and

- Manage the additional analytical and procedural work related to changes made at the state and local level such as: the Short Term Rental Legislation, regulation changes related to the California Environmental Quality Act (CEQA), and recently enacted legislation requiring monitoring of efficiency units, student housing, and quarterly reporting of new and affordable housing units.

Civil Service Commission

- Increase access to and utilization of Civil Service Commission information;
- Create greater transparency and efficiencies in the Civil Service Commission's processes and procedures;
- Ensure timely resolution of appeals; and
- Seeks ways to address City departments' need for flexibility in personnel management issues while maintaining the integrity of the City's merit system.

Controller

- Modernize the City's financial management systems through FAMIS replacement;
- Plan for the City's financial resiliency following a disaster;
- Continue to improve the City's enterprise payroll, human resources, and benefits systems; and
- Attract, train, and promote financial management professionals as significant numbers of staff in the Controller's Office and City departments retire.

District Attorney

- Use all available data sources to determine: driving factors of crime, optimal prosecutorial strategies, crime prevention measures, and the overall volume, efficiency and quality of Department work;
- Increase the use of Neighborhood Courts for misdemeanor cases, simultaneously moving work outside of congested courtrooms and off of prosecutor caseloads; and
- Relocate departmental operations out of the Hall of Justice into a new seismically strengthened location.

Economic and Workforce Development

- Prepare San Franciscans for and connect them to good jobs through sector-based training and targeted employer engagement;
- Create a strong climate for job growth and retention in San Francisco, particularly good middle income jobs;
- Strengthen small businesses and neighborhood commercial corridors through the Invest in Neighborhoods program;
- Support increasing the affordability of housing in San Francisco;
- Leverage joint development opportunities to create needed public benefits including open space, affordable housing, streetscape and transit improvements, and access to jobs and workforce training; and
- Use technology to make government more responsive and effective.

Elections

- Find a suitable site in San Francisco for the Department's warehouse and election night operations center;
- Replace existing voting equipment by exploring the possibility of leasing new equipment and software or extension of the existing voting services contract with Dominion Voting Systems, Inc.; and
- Implement the Statewide Registration Database Platform and same-day voter registration.

Department of Emergency Management

- Improve the City's resiliency and ability to recover from an emergency event or natural disaster;
- Improve performance of the 9-1-1 call center for both call-taking and dispatch services to public safety partners as well as the general public; and
- Replace the Citywide Emergency Radio System (CERS) in collaboration with the Department of Technology.

Environment

- Reduce San Francisco greenhouse gases emissions 25% below 1990 levels by 2017 by taking priority actions in the building, energy and transportation sectors and working with City departments as well as external partners;
- Achieve zero waste Citywide;
- Reduce environmental pollution and health disparities in the City's affected communities, specifically the southeast neighborhoods;
- Conduct multi-lingual outreach and education and offer supportive services on sustainability policies and programs in all communities and in our schools;
- Develop new department strategic plan; and
- Identify strategic funding opportunities.

Ethics Commission

- Continue to move towards all-electronic filing;
- Expand Departmental data visualization project;
- Improve timeliness of audits; and
- Simplify and improve understanding of pertinent laws and regulations with expanded education and outreach.

Fine Arts Museums

- Implement a new strategic plan in early 2015 to guide the institution's sustainability and growth through 2020, establishing goals and objectives for all areas of the institution, (from curatorial, publications, and conservation to membership, development, and education);
- Steward the permanent collections and expand display of objects under the Museums' care, rotating the work on display periodically throughout the year, and reconfiguring the galleries to more closely align with the history of the artistic movements represented; and
- Develop infrastructure and technology that will enable the Museums to offer expanded and innovative digital tools for audiences.

Fire Department

- Formalize roles and responsibilities for private and public ambulance services, and improve ambulance transport response times throughout the City;
- Ensure adequate capital and equipment improvements to fire stations and apparatus; and
- Plan for future service needs within the context of a growing city.

Health Service System

- Negotiate rates for health benefits for active and retired City employees through innovative efforts to drive down health premium costs while maintaining quality care;
- Understand the potential impact of the Affordable Care Act's Excise Tax on High-Cost Coverage (Cadillac Tax) to City employees' health plan designs and rates;
- Improve employee wellness and implement the City's Wellness Plan; and
- Implement online benefits enrollment through the City's eMerge program.

Human Resources

- Invest in technology to create electronic personnel files including automation and streamlining of appointment processing and develop online on-demand, un-proctored civil service examinations;
- Modernize the City's merit system;
- Improve Workers' Compensation program to expedite the resolution of claims;
- Expand workforce development opportunities; and
- Negotiate prudent and well-balanced labor contracts on behalf of the City for FY 2016-17.

Human Rights Commission

- Continue to investigate and mediate discrimination complaints across San Francisco;
- Provide ongoing non-discrimination outreach and training, partnering with external institutions;
- Work with stakeholders through the LGBT Advisory Committee and Equity Advisory Committee; and
- Address violence prevention and intervention services for LGBTQ communities in San Francisco.

Human Services Agency

- Continue to monitor and adapt to State and federal policy changes, including social service realignment, Medi-Cal expansion, changes to In-Home Supportive Services, implementation of the Title IV-E waiver, and the transition to Managed Care;
- Implement the Children and Families First Initiative (Proposition C), which moves Public Education Enrichment Funding and oversight for early care and education from the First Five Commission to the Office of Early Care and Education;
- Further advance cross-program integration of business processes, staff training and technology systems to better serve clients and achieve operational efficiencies; and
- Monitor and adapt to changing demographics and needs in San Francisco.

Juvenile Probation

- Continue to address the Department's many capital and facility maintenance needs through the development and implementation of a master plan;
- Build organizational capacity for research, analysis, and evaluation; and
- Monitor and adapt to state and federal policy changes including the CCSF participation in the Title IV-E waiver, and the continued implementation of the Prison Rape Elimination Act.

Law Library

- Continue to provide the public with legal information services and resources; and
- Provide training and outreach to the community on the use of electronic resources.

Mayor

- Ensure that San Francisco is a place where all residents can live full lives in a safe, prosperous, and vibrant environment;
- Ensure that the needs of constituents are addressed quickly and effectively;
- Develop, administer, and monitor Mayor's policy initiatives and the City budget;
- Advocate for the City's interests at the local, regional, state and federal levels of government; and
- Continue to implement major housing initiatives, including the Mayor's Seven Point Housing Plan, the construction of 30,000 units by 2020, the Housing Trust Fund, HOPE SF, and working with the San Francisco Housing Authority on long-term financial stabilization and capital renewal.

Municipal Transportation Agency

- Successfully manage increasing demands on the transportation network;
- Reduce the state-of-good repair backlog; and
- Implement funding changes for the new G.O. bond and population based revenue increase including: implement Vision Zero projects, procure new light rail vehicles and new buses, and implement Muni Forward by providing additional transit service and increasing reliability.

Police

- Continue to implement the Police Department's multi-year hiring plan, which will bring the Department up to Charter-mandated staffing levels;
- Ensure adequate investing in technology to improve officer connectivity and enable officers to spend more time out of the office and on the street; and
- Conduct a redistricting assessment on changes in the population and how this relates to the current number of police stations, which will also account for the movement of Southern Station to the new Public Safety Campus in the South of Market neighborhood.

Port

- Plan and implement a stable financial future for the City's Port;
- Redevelop and rehabilitate aging waterfront piers, wharfs, and seawall lots;
- Lead an effort to rebuild the seawall and adapt the Port waterfront and its seawall to global warming and sea level rise;
- Preserve industrial and commercial maritime tenants and users; and
- Maintain sufficient space for production, distribution, and repair uses and non-profit entities.

Public Defender

- Fully implement departmental case-management system and move towards a paperless file system;
- Ensure client connection to appropriate reentry services; and
- Increase productivity, representation quality, and accountability.

Public Health

- Deliver quality health services efficiently and effectively as the healthcare landscape shifts due to the Affordable Care Act; and
- Modernize IT systems and applications, including the development of a fully integrated electronic medical record (EMR) system; and
- Monitor and adapt to continuing changes in federal and state funding for health and social service programs; and
- Open, staff, and furnish the new San Francisco General Hospital in December 2015; and
- Continue planning for potential additional facility improvements.

Public Library

- Monitor and evaluate infrastructure needs of branches not updated during BLIP;
- Continue and expand on public access to technology by providing free high-speed Internet access and laptop/tablet loan kiosks;
- Open the new Teen Digital Media Center at the Main Library; and
- Reevaluate operating hours through a comprehensive assessment and public planning process in 2018.

Public Utilities Commission

- Successfully complete the Sewer System Improvement and Water System Improvement Programs on-time and on-budget;
- Ensure financial sustainability for all Enterprises; and
- Improve and repair City streetlights.

Public Works

- Continue to ensure safe, clean and green public rights-of-way and deliver world class public service;
- Continue to design, manage and implement large capital projects that are a high priority for the City;
- Identify stable funding sources to support and improve the City's street infrastructure and growing urban forest; and
- Continue to use data to drive decisions in order to effectively deploy resources and improve the quality and efficiency of service delivery.

Recreation and Parks

- Inspire active living with dynamic programs and special events;
- Foster a sense of place for all San Franciscans by stewarding beautiful open space, preserving our heritage, and building tomorrow's great parks;
- Implement 2012 General Obligation bond projects;
- Increase investment in parks through advocacy, innovation, and partnerships;

- Protect San Francisco's natural resources through conservation and sustainable land and facility management practices, including reduction of water usage to meet local and state requirements;
- Broaden community support through caring and responsive engagement with park users; and
- Pursue organizational excellence by cultivating an engaged, energetic and aligned workforce.

Rent Arbitration Board

- Continue to hold expedient hearings on tenant and landlord petitions, and continue aggressive investigation of tenant allegations of wrongful eviction;
- Respond to an increase in demand for Department services projected as a result of the recovering economy and new legislation; and
- Maintain and support the public kiosks which allow the public to access information in a convenient manner and at their own pace.

Retirement System

- Transitioning from the current face-to-face customer service model to a more self-service delivery model over the next three to five years;
- Enhancing the Retirement System's website to provide 24/7 on-line member access to personal retirement information, products and services through a secure member portal; and
- Transition from a consultant-driven investment model to an in-house staff-driven investment model to stabilize and diversify the City's investment portfolio to guard against future downturns by bringing expertise in-house.

Sheriff

- Continue to move the Hall of Justice Jail replacement project forward, estimated to break ground January 2017 with an estimated completion date of December 2019;
- Implement a hiring plan to backfill retirements; and
- Continue to improve in-custody rehabilitation opportunities for inmates.

Status of Women

- Focus policy goals on advancing women's human rights, including the rights to health, safety, and workplace equity;
- Identify and develop potential external funding sources; and
- Continue to expand policy work to address the emerging issue of human trafficking

Technology

- Develop and maintain a skilled pool of staff members to support the City's IT initiatives;
- Expand Wi-Fi connectivity and access;
- Improve IT asset management and increase inter-agency coordination; and
- Expand and maintain infrastructure in order to secure and strengthen the City's network.

Treasurer-Tax Collector

- Improve customer service through the utilization of 311 and web-based applications;
- Replace major technology systems including the existing business tax system;
- Implement the gross receipts tax; and

- Partner with other City departments to provide financial empowerment tools in coordination with existing service delivery.

War Memorial

- Maintain, upgrade and preserve the War Memorial buildings as important and historic facilities for the future;
- Complete the Veterans Building Seismic Upgrade and Improvement Project, occupy the improved space and begin expanded operations of new and renovated facilities; and
- Maximize utilization of the Performing Arts Center by providing safe, first-class facilities that promote and support the cultural, educational, and entertainment activities of users.

OFFICE OF THE MAYOR
SAN FRANCISCO

EDWIN M. LEE
MAYOR

TO:	Angela Calvillo, Clerk of the Board of Supervisors
FROM:	Mayor Edwin M. Lee
RE:	Adopting the Five-Year Financial Plan – FYs 2015-2016 through 2019-2020
DATE:	December 9, 2014

Attached for introduction to the Board of Supervisors is a resolution adopting the City's Five-Year Financial Plan for Fiscal Years 2015-2016 through 2019-2020 pursuant to Charter Section 9.119.

Should you have any questions, please contact Nicole Wheaton (415) 554-7940.

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File# 141268
Received in Committee 4/15/15

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

MEMORANDUM

TO: Mayor Edwin Lee
Members of the Board of Supervisors

FROM: Ben Rosenfield, Controller
Kate Howard, Mayor's Budget Director
Severin Campbell, Budget & Legislative Analyst's Office

DATE: March 12, 2015

SUBJECT: Update to the City's Proposed Five Year Financial Plan

On December 9, 2014, the Proposed Five Year Financial Plan for FY 2015-16 through FY 2019-20 was jointly released by Controller's Office, Mayor's Office, and Board of Supervisors Budget and Legislative Analyst's Office. This memo updates the Plan with the most recent information on the City's fiscal condition.

Total expenditures are projected to grow by $1,011.5 million over the next five years, which represents an increase of 24%. In contrast to this expenditure growth, available General Fund sources are projected to grow $609.5 million over the same period, for an overall growth rate of 14%. The cost of City services is projected to outpace revenue growth. If the City does not take corrective action, the projected gap between revenues and expenditures will rise from $21.2 million in FY 2015-16 to approximately $402.0 million in FY 2019-20, as shown in the Table 1 below.

Table 1: Updated Base Case – Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall)

	Savings/ (Cost) Change from Prior Year, $ Million				
Sources	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(41.0)	6.7	(146.4)	-	-
Regular Revenues, Transfers, & Other	232.6	109.9	147.2	149.4	151.1
Subtotal - Sources	**191.6**	**116.7**	**0.8**	**149.4**	**151.1**
Uses					
Salaries & Benefits	(33.9)	(80.2)	(71.6)	(85.2)	(95.6)
Other Expenditures, Reserves & Transfers	(178.9)	(81.8)	(151.8)	(151.2)	(81.3)
Subtotal - Uses	**(212.8)**	**(162.0)**	**(223.3)**	**(236.4)**	**(176.9)**
Total Net General Fund Impact (from Prior Year)	(21.2)	(45.3)	(222.5)	(87.1)	(25.9)
Projected Cumulative Surplus / (Shortfall)	**(21.2)**	**(66.5)**	**(289.1)**	**(376.1)**	**(402.0)**

Since December, the City has seen modest changes to its fiscal outlook due to:

- Additional sources identified in the Controller's FY 2014-15 Six-Month Budget Status Report and a revision of the City's revenue projections based on recent information;
- Increased inflationary costs, as projected by the California Department of Finance;
- Changes in projected expenditures for capital improvements and information technology, as recommend by the City's Capital and Information and Communications Technology Plans, released in early March 2015; and
- Potential impacts from the proposed State budget.

Background

The Five Year Financial Plan is required under Proposition A, a Charter amendment approved by the voters in November 2009. The City Charter requires the plan to forecast expenditures and revenues during the five year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The Proposed Five Year Financial Plan for FY 2015-16 through FY 2019-20 was jointly released by the Mayor's Office, Controller's Office and Budget and Legislative Analyst's Office on December 9, 2014.

This memo serves as an update to that Plan. It updates the deficit projected in the Plan with recent information on the City's fiscal condition. This memo also addresses Charter Section 9.101, which requires the Controller to identify whether there will be significant increases in revenues or expenditures in FY 2015-16 for those departments with a fixed two-year budget: the Public Utilities Commission, the Port, the Airport, Child Support Services, the Employees' Retirement System, and the Public Library. None of these departments are projected to have significant changes to their approved FY 2015-16 budgets.

Changes from the Proposed Five Year Financial Plan Released in December 2014

Most of the key assumptions outlined in the Five Year Financial Plan released in December 2014 still apply to this memo, with the changes outlined below. The table that follows identifies changes from the prior plan, which are described in greater detail below. The City's projected deficit increased by $5.2 million in FY 2015-16, decreased by $27.0 million in FY 2016-17, increased by $36.0 million in FY 2017-18, decreased by $4.2 million in FY 2018-19 and another $25.9 million in FY 2019-20.

Table 2: Summary Changes to Updated Projected Budgetary Surplus / (Shortfall)

	2015-16	2016-17	2017-18	2018-19	2019-20
Cumulative Surplus / (Shortfall) - December 2014	**(15.9)**	**(88.3)**	**(274.8)**	**(366.1)**	**(417.9)**
INCREMENTAL CHANGES TO:					
Sources - Revenue and Fund Balance	51.7	3.7	(40.4)	12.6	15.0
Uses - Baselines and Reserves	(34.3)	28.0	5.1	(1.5)	(1.3)
Uses - Salaries and Benefits	(0.0)	(21.7)	4.5	(13.1)	4.4
Uses - Citywide Operating Budget Costs	(21.0)	17.0	(5.2)	6.0	8.0
Uses - Departmental Costs	(1.6)	(0.0)	(0.0)	0.1	(0.1)
Total Incremental Change	**(5.3)**	**27.0**	**(36.0)**	**4.2**	**25.9**
Updated Cumulative Surplus / (Shortfall) - March 2015	**(21.2)**	**(66.5)**	**(289.1)**	**(376.1)**	**(402.0)**

The changes from the December 2014 projections are described in more detail below:

SOURCES – Revenue and Fund Balance: Projected General Fund sources have increased by $51.7 million in FY 2015-16 and $3.7 million in FY 2016-17, then decreased by $40.4 million in FY 2017-18, and finally increased by $12.6 million in FY 2018-19 million and $15.0 million FY 2019-20. This is primarily driven by changes in projected fund balance and revenue.

- **Fund Balance.** On February 10, 2015, the Controller's Office issued its FY 2014-15 Six-Month Budget Status Report. The report projected the FY 2015-16 ending fund balance to be $39.5 million above the balance assumed in the Five Year Financial Plan. This update assumes use of this fund balance to be spent evenly across the two upcoming budget years.

- **Revenue.** The revenue changes are mainly due to continued increasing growth rates for the most economically sensitive revenues, such as business, hotel, and property transfer taxes based on feedback on the City's underlying economic condition provided during February's Municipal Finance Advisory Committee (MFAC) meeting. In particular, property transfer taxes are projected to exceed earlier projections by $35.0 million, $27.0 million, and $5.0 million in the first three years of the plan. The increased projections are partially offset by reductions to property tax reflecting later timing for new construction to appear on the secured roll and reductions to state realignment projections reflecting lower than expected increases from growth in prior years.

USES – Baselines and Reserves: As a result of increases in the City's projected General Fund sources over the next five years, corresponding baseline and reserve increases are required, which result in increases in General Fund support of $34.3 million in FY 2015-16, then a decrease in General Fund support of $28.0 million and $5.1 million in FY 2016-17 and FY 2017-18, respectively, and finally an increase of $1.5 million and $1.3 million in FY 2018-19 and FY 2019-20.

- **Baselines.** Due to overall increases in projected revenue, baseline funding to the Municipal Transportation Agency, Library, Children's and Public Education Enrichment Fund, and other baselines have increased.

- **Reserves.** Due to projected property transfer tax increases, the required deposit to the Budget Stabilization Reserve will increase by $15.0 million in FY 2015-16 to $19.3 million. The update also assumes an increase in required General Reserve deposit of $15.3 million in FY 2015-16, consistent with the Controller's FY 2014-15 Six-Month Budget Status Report.

USES – Salaries and Benefits: Salary and benefit costs are projected to result in increased General Fund support of $21.7 million in FY 2016-17, decreased General Fund support of $4.5 million in FY 2017-18, increased General Fund support of $13.1 million in FY 2018-19 and decreased General Fund support of $4.4 million in FY 2019-20, as follows:

- **Labor Agreements.** This update continues to assume the negotiated rates for most labor unions of a 3% increase in October 2014 and an additional 3.25% in October 2015. In the subsequent year, most adopted bargaining agreements contain formulae tying wage increases to the Consumer Price Index (CPI). Given increases to projected CPI for FY 2016-17, this update assumes a 2.49% wage increase beginning in July 2016, instead of the 2.28% increase assumed in the Five Year Financial Plan.

- **Retirement Benefits – Employer Contribution Rates.** On February 11, 2015 the Retirement Board approved the results of the July 1, 2014 actuarial funding valuation which included lower assumed annual investment returns of 7.50% instead of the previously assumed 7.58%. The updated results and assumption are reflected in this memo.

USES – Citywide Operating Costs: Citywide operating costs are projected to increase by $21.0 million in FY 2015-16, then decrease by $17.0 million in FY 2016-17, then increase by $5.2 million in FY 2017-18, and decrease by $6.0 million and $8.0 million in FY 2018-19 and FY 2019-20. These changes are primarily due to:

- **Updates to the City's Ten-Year Capital Plan and Five Year Information, Communication and Technology Plan:** The primary changes to Citywide Operating costs are related to the City's long range planning efforts. On March 3, 2015 the City's Ten-Year Capital Plan and Five Year Information and Communications Technology (ICT) Plan were introduced at the Board of Supervisors. These plans were both adopted by their respective committees and the assumptions in those documents are reflected in this Five Year Plan Update, with the most significant changes coming from the Ten-Year Capital Plan.

The policy recommendations in the Capital Plan that are now assumed in the Five Year Financial Plan update include:

- *Resetting Capital Pay-As-You-Go Program Growth*, by reducing the assumed growth rate from 10% to 7%, beginning in FY 2016-17. This rate allows for growth above construction inflation rates to address the City's renewal backlog while bringing expenditure levels in-line with financial assumptions made in the original Proposed Five Year Financial Plan.
- *Creation of a Revolving Capital Project Development Fund.* The Capital Planning Committee recommended a policy change to create a revolving capital project development fund. This fund will be seeded with expected one-time bond reimbursement funds and will be replenished as the General Obligation program moves forward. Funds will be disbursed as part of the yearly capital budget process.
- *Proposed Projects Related to the Certificates of Participation Program.* Additionally, the Five Year Financial Plan included assumptions related to the City's General Fund Certificates of Participation debt program. The update now includes the costs of specific projects proposed in the Ten-Year Capital Plan.

The policy recommendations in the ICT Plan that are now assumed in the Five Year Financial Plan update include:

- *Additional Funding for Major IT Projects.* The Five Year ICT Plan includes an increase to the Major IT Project allocation in FY 2015-16 that was not assumed in the original Proposed Five Year Financial Plan. This update now assumes the Major IT Project Allocation for FY 2015-16 has been increased from $7.5 million, the level of funding in the FY 2014-15 and FY 2015-16 Adopted Budget, to $12.5 million to fully fund the recommendations of the Committee on Information Technology (COIT).

☐ **Inflation on Non-Personnel Costs:** This update assumes that the cost of materials and supplies, professional services, contracts with community-based organizations and other non-personnel operating costs will increase by 3.0% in FY 2016-17 and 2.75% per year in FY 2017-18 through FY 2019-20.

☐ **State Budget Impacts:** On January 9, 2015, the Governor submitted a proposed budget to the California legislature. Because the final FY 2015-16 California State Budget has not been adopted, the full impact of the State budget on the local budget is still uncertain. However, this update assumes a one-time SB90 mandate repayment of $17.0 million, which is partially offset by an on-going $8.6 million allocation reduction to the Highway Users Tax Account and a $3.3 million assessment fee on the City's Worker's Compensation program.

☐ **Power Rates:** This update reflects small changes to the City's power rates. On February 10, 2015, the Public Utilities Commission approved a revised rate schedule in their Ten-Year Financial Plan for General Fund departments in FY 2016-17. While the original Proposed Five Year Financial Plan anticipated a one cent per kilowatt hour (kWh) rate increase in FY 2016-17, the new rate schedule assumes a half-cent per kWh in that year. The reduced rate represents savings to the General Fund.

USES – Departmental Costs: Departmental costs are projected to increase by $1.6 million in FY 2015-16 and stay flat in FY 2016-17 through FY 2019-20. This small change is primarily due to the passage of the ordinance amending the Administrative Code to comprehensively revise the Local Business Enterprise (LBE) and Non-Discrimination in Contracting Ordinance (Chapter 14B) on December 17, 2014, which requires expanded staffing.

Key Factors that Could Affect the Forecast

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. In addition to the factors identified in the Five Year Financial Plan released in December 2014, additional factors have been identified as potential risks:

- **Actual Retirement Plan Investment Returns Worse Than Assumed:** Although baseline investment returns are expected to be 7.5%, actual returns may be higher or lower due to volatility in the Retirement Plan's investment portfolio. FY 2014-15 year-to-date returns through January 31 are 3.1%. Should final FY 2014-15 returns end up lower than the assumed 7.5% rate, investment losses would be smoothed into employer retirement contribution rates over 5 years, starting in FY 2016-17, resulting in additional costs to the City. Given the inherent volatility of investment returns, no changes to employer contribution rates resulting from those returns have been assumed here.

- **Continued Economic Recovery:** The projections assume that 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. Economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity and tourism. During the first two years of the forecast, economic growth is expected to increase, albeit at a slower pace than FY 2012-13 and FY 2013-14. In the final three years of the forecast, economic growth is assumed to slow to long-term average rates. This report does not assume any economic downturns or large changes in macroeconomic conditions; however, the City has historically not experienced more than six consecutive years of expansion.

Fiscal Strategies

The Five Year Financial Plan is required to offer fiscal strategies that the City could use to balance the gap between projected revenues and expenditures. The Financial Strategies presented in the December 2014 Five Year Financial Plan are updated here to reflect changes in the City's financial outlook. The table below solves for the new gap between revenues and expenditures by using a similar combination of strategies, relying less on moderating growth within the City's Capital, Debt and IT spending and relying more on other revenue and expenditure savings.

Table 3: Updated Fiscal Strategies

Updated Base Case Outlook ($ millions)	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Cumulative Projected Surplus (Shortfall)	(21)	(67)	(289)	(376)	(402)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	8	17	29	30	31
Manage Employee Wage and Benefit Costs	-	4	30	60	90
Taxes, Fees & Other Revenues	5	10	88	94	99
Limit Non-Personnel Inflation	-	8	17	25	35
On-Going Departmental Revenues & Savings Initiative	-	16	31	46	61
All Other Revenues and Savings	9	12	95	122	86
Adjusted Outlook	0	0	0	0	0

The projections in this Plan illustrate the significant value of developing and implementing multi-year strategies to correct projected imbalances between expenses and revenues. The fiscal strategies outlined in the Proposed Five Year Financial Plan and updated in this memo will help the City plan for increased financial stability over the next five years and beyond.

Conclusion

Over the past three months the City has seen modest changes to its fiscal outlook, including increases in projected revenues both in the current year and projected into the future; increased costs due to inflation on both personnel and non-personnel costs; changes in projected expenditures (increases and decreases) related to the release of the City's two long range planning documents for capital and information technology; and potential impacts from the state budget both on the revenue and expenditure side of the City's budget.

Although revenue growth is quite strong, the City is still projecting expenditure growth to outpace revenue growth in each year over the next five. While the projected shortfalls shown in the Proposed Five Year Financial Plan and this updated memo reflect the difference in projected revenues and expenditures if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and additional revenues, as described in the fiscal strategies above. These projections assume no ongoing solutions are implemented. To the extent that budgets are balanced with ongoing solutions, future shortfalls will decrease.

Appendix A: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2016-20

This appendix provides an updated version of Table 4 from the December Five Year Financial Plan.

	2015-16	2016-17	2017-18	2018-19	2019-20
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	240.5	105.8	140.8	128.5	133.9
Change in One-Time Sources	(41.0)	6.7	(146.4)	-	-
Department of Public Health Revenues	5.7	6.6	6.9	7.4	6.8
OCII Tax Increment	(7.8)	(6.8)	(3.9)	8.5	5.6
Other General Fund Support	(5.8)	4.3	3.3	4.9	4.7
TOTAL CHANGES TO SOURCES	**191.6**	**116.7**	**0.8**	**149.4**	**151.1**
USES Decrease / (Increase)					
Baselines and Reserves					
Municipal Transportation Agency (MTA) Baselines*	(44.7)	(12.7)	(15.7)	(14.7)	(15.1)
Children's Fund and Public Education Enrichment Fund*	(16.0)	(10.3)	(10.5)	(10.4)	(6.6)
All Other Baselines	(7.0)	(6.2)	(6.1)	(6.0)	(6.0)
Deposits to General Reserve	(11.3)	18.7	(1.6)	(0.4)	(0.9)
Other Contributions to Reserves	(1.4)	23.9	(0.4)	(0.4)	(0.4)
Subtotal Baselines and Reserves	**(80.4)**	**13.3**	**(34.3)**	**(31.8)**	**(29.0)**
Salaries & Benefits					
Annualization of Partial Year Positions	(12.2)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(63.0)	(62.4)	(11.6)	-	-
Projected Costs of Open Labor Agreements	-	(16.3)	(57.0)	(74.8)	(76.6)
Health & Dental Benefits – Current Employees	(2.2)	(11.6)	(12.3)	(12.9)	(13.5)
Health & Dental Benefits – Retired Employees	(5.7)	(13.0)	(13.3)	(13.9)	(14.6)
Retirement Benefits – Employer Contribution Rates	56.7	16.6	15.8	16.4	24.0
Other Salaries and Benefits Savings / (Costs)	(7.5)	6.5	6.8	-	(14.9)
Subtotal Salaries & Benefits	**(33.9)**	**(80.2)**	**(71.6)**	**(85.2)**	**(95.6)**
Citywide Operating Budget Costs					
Minimum Wage*	(11.3)	(11.0)	(15.5)	(17.2)	(9.5)
Capital, Equipment, & Technology	(31.1)	(13.9)	(27.4)	(33.3)	5.8
Inflation on non-personnel costs and grants to non-profits	(2.7)	(38.5)	(33.1)	(33.9)	(34.8)
Debt Service & Lease Financings	(16.3)	(1.5)	(19.6)	(12.4)	(0.0)
Sewer, Water, and Power Rates	(2.7)	(2.2)	(2.2)	(2.3)	(2.5)
State Budget Impacts	7.3	(18.1)	(1.1)	-	-
Other Citywide Costs	0.3	(6.1)	(3.9)	(4.1)	(2.6)
Subtotal Citywide Operating Budget Costs	**(56.4)**	**(91.2)**	**(102.9)**	**(103.1)**	**(43.6)**
Departmental Costs					
City Administrator's Office – Convention Facilities Subsidy	-	(4.5)	(3.6)	(1.2)	-
Elections – Number of Scheduled Elections	(5.0)	5.1	-	-	(5.1)
Ethics Commission – Public Financing of Elections	0.4	(0.5)	(0.0)	0.5	(1.9)
Fire and Police – Opening of the Public Safety Building	(2.5)	-	-	-	-
Public Safety Hiring Plans	(16.0)	(10.4)	(11.4)	1.3	3.9
Mayor's Office of Housing – HOPE SF and Local Operating Subsidy	(1.6)	(0.5)	(2.1)	(5.6)	(0.7)
Municipal Transportation Agency – Central Subway Opening	-	-	-	(6.8)	(2.3)
Human Services Agency – Aid	(3.0)	(2.1)	(3.3)	(3.3)	(3.2)
Public Health – SFGH One-Time and Operating Costs for New Hospital	(17.9)	13.0	(0.9)	(0.9)	(0.9)
Treasurer-Tax Collector – Gross Receipts Tax Implementation	1.9	(1.8)	2.0	-	-
All Other Departmental Savings / (Costs)	1.5	(2.3)	4.6	(0.5)	1.5
Subtotal Departmental Costs	**(42.1)**	**(3.9)**	**(14.6)**	**(16.4)**	**(8.7)**
TOTAL CHANGES TO USES	**(212.8)**	**(162.0)**	**(223.3)**	**(236.4)**	**(176.9)**
Projected Surplus (Shortfall) vs. Prior Year	**(21.2)**	**(45.3)**	**(222.5)**	**(87.1)**	**(25.9)**
Cumulative Projected Surplus (Shortfall)	**(21.2)**	**(66.5)**	**(289.1)**	**(376.1)**	**(402.0)**

Reflects passage of Propositions B, C, and J from November 2014 ballot.

Appendix B: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2016-20

This appendix provides an updated version of Table 5 from the December Five Year Financial Plan.

	FY 2013-14 Year-End Actuals	FY 2014-15 Original Budget	FY 2015-16 Projection	FY 2016-17 Projection	FY 2017-18 Projection	FY 2018-19 Projection	FY 2019-20 Projection
Property Taxes	$ 1,177.4	$ 1,232.9	$ 1,269.0	$ 1,292.0	$ 1,344.0	$ 1,401.0	$ 1,456.0
Business Taxes	562.9	572.4	631.2	671.0	727.1	763.4	799.7
Sales Tax	133.7	136.1	170.4	203.1	212.2	220.7	229.5
Hotel Room Tax	310.1	318.4	364.8	387.1	406.8	420.1	436.4
Utility Users Tax	86.8	91.7	90.3	90.3	90.3	90.3	90.3
Parking Tax	83.5	84.9	87.3	89.8	92.2	94.1	95.7
Real Property Transfer Tax	261.9	235.0	267.0	232.0	205.0	200.0	200.0
Stadium Admission Tax	2.4	1.3	1.4	1.4	1.4	1.4	1.4
Access Line Tax	43.8	43.0	45.6	46.5	47.0	47.4	47.9
Subtotal - Local Tax Revenues	**2,662.5**	**2,715.7**	**2,927.0**	**3,013.2**	**3,125.9**	**3,238.4**	**3,357.0**
Licenses, Permits & Franchises	27.0	27.1	26.9	27.1	27.2	27.4	27.6
Fines, Forfeitures & Penalties	5.3	4.2	4.3	4.3	4.3	4.3	4.3
Interest & Investment Income	10.1	6.9	10.7	11.7	12.1	12.4	12.7
Rents & Concessions	26.9	22.7	18.7	18.7	18.7	18.7	18.7
Subtotal - Licenses, Fines, Interest, Rent	**69.3**	**60.9**	**60.6**	**61.8**	**62.3**	**62.8**	**63.3**
Social Service Subventions	218.5	229.5	233.6	233.6	233.6	233.6	233.6
Other Grants & Subventions	(1.3)	5.4	4.9	4.9	4.9	4.9	4.9
Subtotal - Federal Subventions	**217.2**	**234.9**	**238.5**	**238.5**	**238.5**	**238.5**	**238.5**
Social Service Subventions	164.3	197.1	200.9	203.8	206.4	209.1	211.8
Health & Welfare Realignment - Sales Tax	133.4	133.0	137.7	141.3	142.7	143.9	146.8
Health & Welfare Realignment - VLF	32.2	29.9	31.7	32.9	33.9	34.8	35.6
Health & Welfare Realignment - CalWORKs MOE	20.1	26.7	28.2	28.2	28.2	28.2	28.2
Health/Mental Health Subventions	83.9	97.2	97.2	97.2	97.2	97.2	97.2
Public Safety Sales Tax	87.5	91.4	95.3	100.0	104.6	108.6	112.3
Motor Vehicle In-Lieu (County & City)	0.7	-	-	-	-	-	-
Public Safety Realignment (AB109)	33.5	31.8	36.4	38.7	40.1	42.1	43.3
Other Grants & Subventions	27.4	17.2	31.8	14.8	17.3	14.8	14.8
Subtotal - State Subventions	**583.0**	**624.4**	**659.2**	**657.0**	**670.4**	**678.8**	**690.1**
General Government Service Charges	46.8	52.7	50.7	50.7	50.7	50.7	50.7
Public Safety Service Charges	32.7	33.6	33.2	33.2	33.2	33.2	33.2
Recreation Charges - Rec/Park	17.2	19.3	17.0	17.0	17.0	17.0	17.0
MediCal, MediCare & Health Svc. Chgs.	60.5	79.5	72.4	71.3	71.7	72.6	73.9
Other Service Charges	14.6	15.7	15.7	15.7	15.7	15.7	15.7
Subtotal - Charges for Services	**171.8**	**200.8**	**188.9**	**187.8**	**188.3**	**189.1**	**190.5**
Recovery of General Government Costs	9.4	9.1	9.1	9.1	9.1	9.1	9.1
Other General Fund Revenues	7.8	24.2	12.7	11.2	18.7	18.7	18.7
TOTAL REVENUES	**3,721.0**	**3,870.0**	**4,095.9**	**4,178.5**	**4,313.1**	**4,435.3**	**4,567.0**
Transfers In to General Fund							
Airport	38.0	38.4	42.1	43.0	43.4	45.2	46.7
Other Transfers	175.7	140.9	140.9	140.9	140.9	140.9	140.9
Total Transfers-In	**213.6**	**179.3**	**183.0**	**183.8**	**184.3**	**186.1**	**187.6**
TOTAL GF Revenues and Transfers-In	**3,934.7**	**4,049.2**	**4,278.9**	**4,362.3**	**4,497.3**	**4,621.4**	**4,754.5**