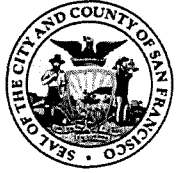


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Received in Committee
2/5/20
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Budget Outlook & Department Instructions

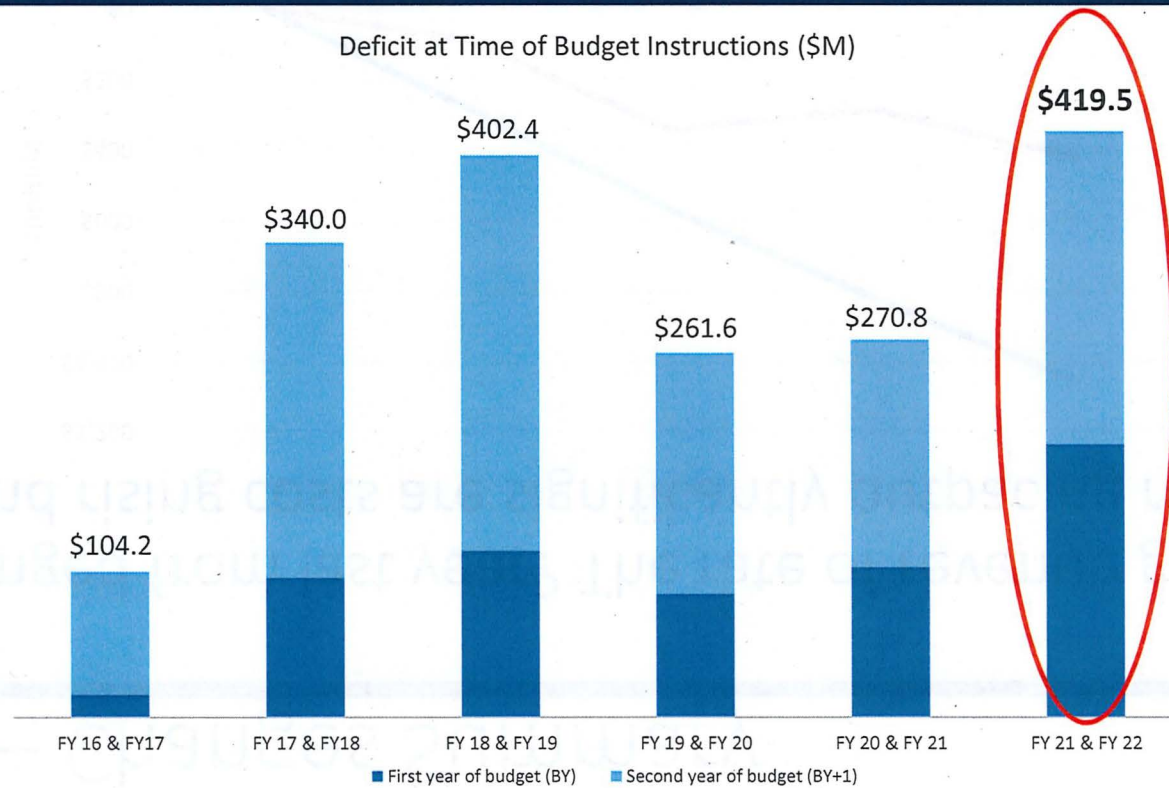


Agenda

- Deficit Projection – Joint Report Update
- Fiscal Outlook Details
- Mayoral Priorities & Budget Instructions for Departments



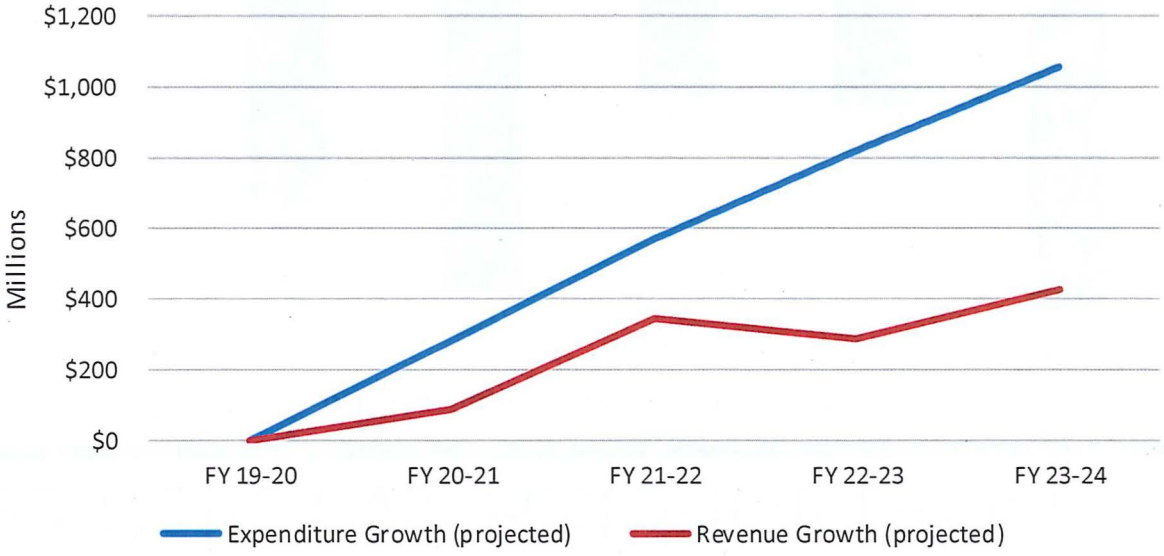
Projected Deficit vs. Historical Deficits





Deficit – Changes Summary

What changed from last year? The rate of revenue growth is slowing and rising costs are significantly outpacing revenue





Mayoral Priorities

The Mayor's top priority for the coming year is to address the challenges we face with those struggling on our streets

- Housing, shelter, and services for those in need
- Clean and safe streets for everyone
- Healthy and vibrant neighborhoods

We need to focus and reprioritize funding toward this most pressing need so we can:

- Provide assistance to those on our streets
- Be responsive to residents
- Support City workers out there trying to make a difference



Deficit Projection – Joint Report Update



Joint Report – Assumptions

- “Base case” projection
- Revenue
 - Continued tax revenue growth, but at a slowing rate
- Salary & Benefits
 - Agreed to wage increases
 - Inflation increase on future open contracts
 - Benefit cost increases – pension and health
- Citywide & Departmental Costs
 - Debt and capital expenditures
 - Continued support of IHSS cost increases from the State
 - Inflation on non-personnel (including grants for nonprofits)



Joint Report – Assumptions

- ERAF not assumed in the deficit
- Mayor and Board passed legislation outlining the following allocation policy:
 - At least 50% spent on one-time expenditures
 - 50% of ERAF allocated for housing expenditures
 - Appropriate on an annual basis due to uncertainty at the state level



Deficit Details

	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>
<i>SOURCES Increase / (Decrease)</i>	89.0	346.0	289.4	423.6
Uses				
Baselines & Reserves	(45.5)	(54.0)	(127.1)	(163.3)
Salaries & Benefits	(167.9)	(269.6)	(338.5)	(407.5)
Citywide Operating Budget Costs	(66.9)	(167.8)	(235.0)	(314.6)
Departmental Costs	(3.9)	(78.8)	(119.9)	(168.8)
<i>USES (Increase) / Decrease</i>	(284.3)	(570.1)	(820.5)	(1,054.2)
Projected Cumulative Surplus / (Shortfall)	(195.4)	(224.1)	(531.1)	(630.6)
Two Year Deficit	(419.5)			



Summary – Deficit Projections

Revenue growth is slowing and rising costs are significantly outpacing revenue

- Reliance on one-time “fund balance” to balance annual budgets
- Slowing rate of growth for business tax and interest earnings
- Growing employee costs – wages, pension, and health
- Large on-going cost commitments – IHSS, Free City College, and MCO

Long-term, fiscal outlook considerations

- Economic cycle
- Large number of baselines and set-asides
- Revenue trends and continued growing costs



Fiscal Outlook Details



Revenue Projections

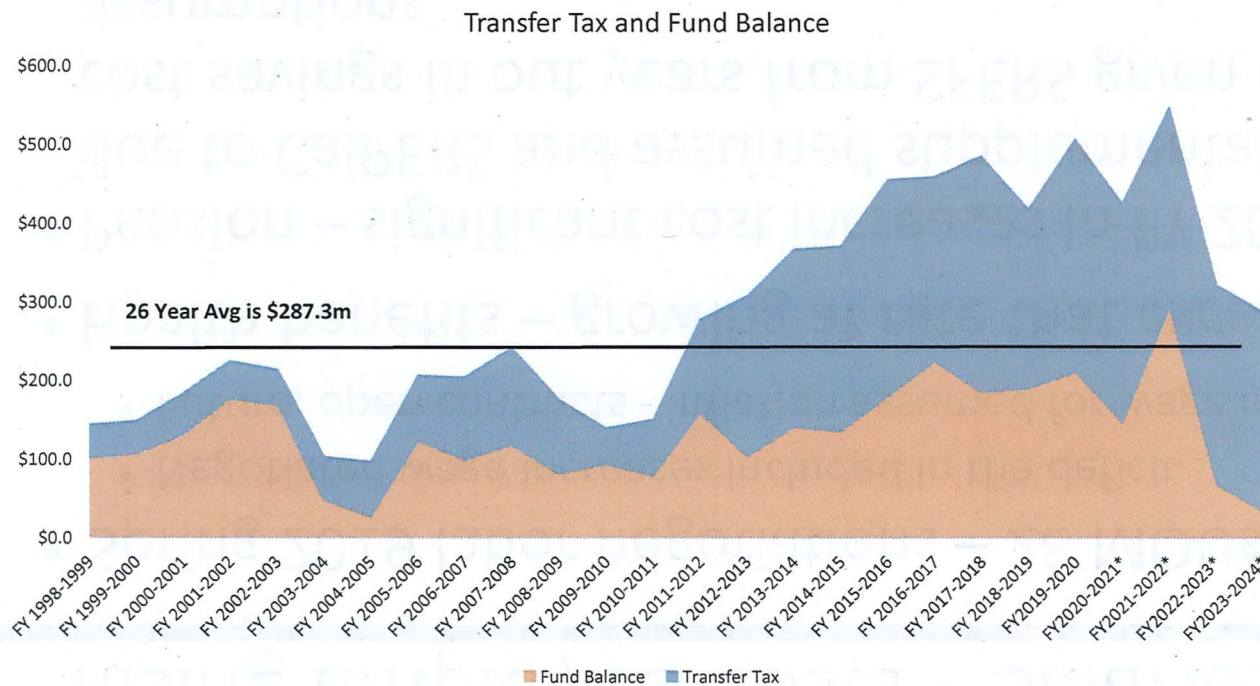
	Actuals			Projected		
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
General Fund Tax Revenues (\$M)	\$3,385	\$3,652	\$3,831	\$4,006	\$4,100	\$4,176
Growth Rate	9.0%	7.9%	4.9%	4.5%	2.4%	1.9%

Continued tax revenue growth, but at a slowing rate...

- Interest earnings declining given federal interest rates cuts
- Moderated business tax growth
- Strong current year transfer tax returns, but projected to decline to norms in future years



Use of Volatile Sources



- Recent budgets have increasingly been balanced with the help of volatile sources such as prior year fund balance and transfer tax
- When not paired with equally offsetting one-time uses, these sources present risks for future budgets



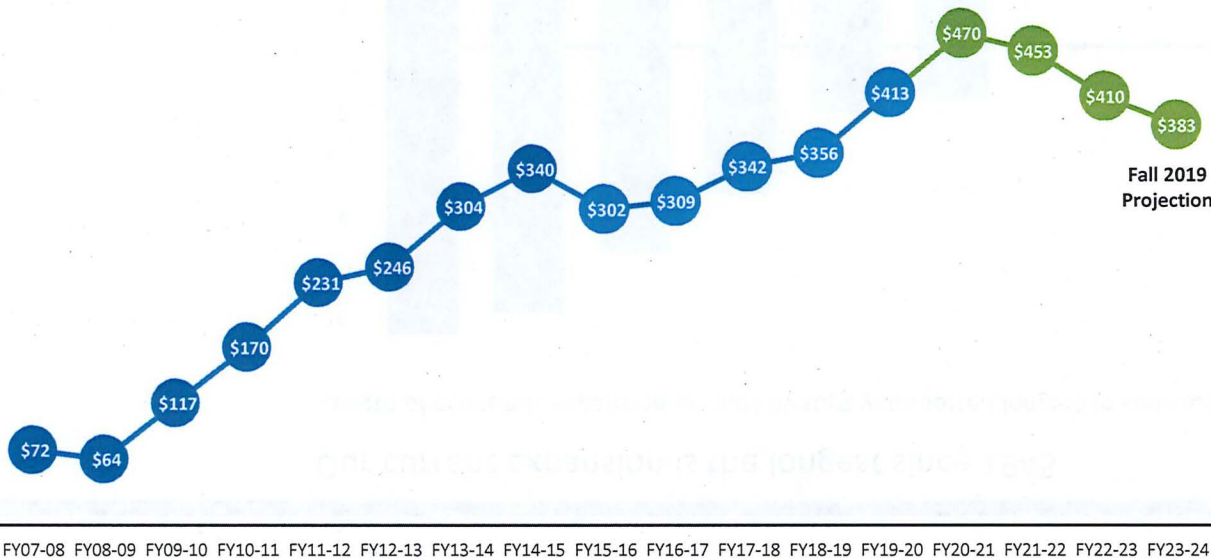
Rising Employee Costs – Salaries & Benefits

- Spring 2019 labor negotiations – 28 MOUs negotiated
 - Negotiated wage increases included in the deficit
 - Future, open contracts - inflation assumed for wage increases
- Health benefits – growing at rate that exceeds CPI (~6%/year)
- Pension – significant cost increases in FY 2020-21 (\$43.8M) due to CalPERS and assumed supplemental COLA, followed by cost savings in out years from SFERS given current return assumptions



Rising Employee Costs – Pensions

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



FY07-08 FY08-09 FY09-10 FY10-11 FY11-12 FY12-13 FY13-14 FY14-15 FY15-16 FY16-17 FY17-18 FY18-19 FY19-20 FY20-21 FY21-22 FY22-23 FY23-24

Note: FY07-08 to FY19-20 figures were budgeted pension costs

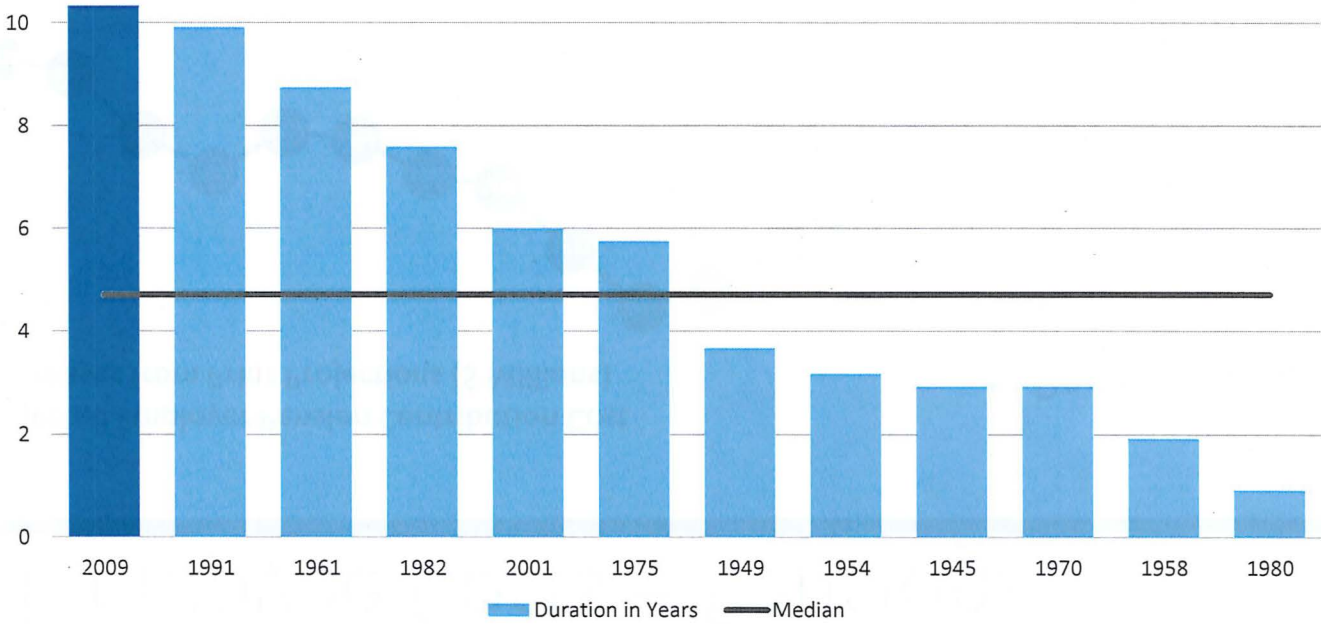
- Pension obligations have increased nearly 7-fold between FY 2007-08 and FY 2020-21
- Major cost drivers:
 - Fall 2018 discount rate change
 - Prior year lower returns
 - Supplemental COLAs (2014, 2017, 2018, 2019)



Looking Forward – Economic Climate

Our current expansion is the longest since 1945

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





Policy Priorities & Department Budget Instructions



Mayoral Priorities

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Accountability & Equitable Outcomes

Continued focus on accountability & equitable outcomes. Departments need to demonstrate how their budget submissions help achieve these goals.

- Accountability
 - Demonstrate the effective use of existing City funding
 - Track and monitor meaningful and measurable metrics
 - Achieve outcomes and goals as outlined (performance measures; project deliverables)
- Equitable Outcomes
 - City services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city (*Citywide Strategic Initiatives Framework*)
 - Prioritize funding initiatives that serve residents with the highest need



Accountability & Equitable Outcomes

Piloted Accountability & Equitable Outcome (AEO) Plans last year, and will build and grow this model of accountability

- Tracking implementation and outcomes of important initiatives
- Monitoring performance progress
- Help inform budget decisions



Budget Instructions – Balancing the Budget

“Target” Efficiency/Reduction Proposals

- Required proposals to reduce General Fund support
 - Equivalent to 3.5% of adjusted GFS (growing to 7% in the second year of the budget)
- When developing target proposals, please seek solutions that prioritize core functions, minimize service impacts, and avoid lay-offs
- Seek and prioritize solutions that spend General Fund more effectively and efficiently, such as:
 - Explore revenue options
 - Review and consolidate service contracts for potential savings
 - Streamline programs and operations using Lean principles
 - Pilot creative solutions that reduce costs



Budget Instructions - Balancing the Budget

To help constrain growing General Fund costs:

- Departments shall not load new General Fund supported FTE requests in the budget system
- Do not load budget enhancements during department phase

New General Fund supported positions and discretionary spending will be included in the Mayor's proposed budget that align with the Mayor's targeted priorities



Budget Process Legislation

Goal is to provide greater transparency and public input at all points along the budget process

- Requires public meetings to consider department budget development for all departments – December – February
- Budget system snapshot of department submissions provided to the BLA by March 1st
- Formalized budget priority setting processes for Mayor and Board
- Centralization of all budget documents on a single website – coordinated by the Controller's Office

(Ordinance File No. 191072 & Motion File No. 191088)



Summary - Budget Instructions

- Mandated “target” efficiency/reduction proposals of 3.5% reduction in adjusted general fund support, growing to 7% total in second year
- Intensified focus on accountability and equitable outcomes
- Demonstrate the effective use of resources, help identify programs and funding that can be reprioritized
- Do not load new General Fund supported FTE or budget enhancements



Calendar / Key Dates

Dec 16 th	Budget Outlook & Instructions issued
Mid Dec	Budget system opens to departments / CON budget system trainings
January 17 th	COIT and Capital budget requests due
Early February	Controller's 6-Month Report
February 21 st	Budget submissions due
May 1 st	Mayor proposes select department budgets to the Board of Supervisors
May	Controller's 9-Month Report Governor's May Revise
June 1 st	Mayor proposes balanced budget to Board of Supervisors
June	Budget and Finance Committee hearings
July	Budget considered at Board of Supervisors



Questions?