

Five Year Financial Plan Update FY 2014-15 through FY 2017-18

Joint Report by the Controller's Office, Mayor's
Budget Office, & Board of Supervisors' Budget
Analyst

Board of Supervisors
Budget & Finance Committee
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Overview

Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)

Savings/ (Cost) Change from Prior Year, \$ Million

	FY 2014-15	FY 2015-16	FY 2016-17	FY2017-18
Sources				
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(34.3)	(16.3)	(105.4)	-
Regular Revenues, Transfers, & Other	160.9	147.1	89.7	92.2
Subtotal - Sources	126.6	130.8	(15.7)	92.2
Uses				
Salaries & Benefits	(98.9)	(52.2)	(48.8)	(71.2)
Other Expenditures, Reserves & Transfers	(94.4)	(145.3)	(84.8)	(77.8)
Subtotal - Uses	(193.3)	(197.5)	(133.5)	(149.0)
Total Net GF Impact (from Prior Year)	(66.7)	(66.7)	(149.3)	(56.8)
Total Net GF Impact (Cumulative)	(66.7)	(133.4)	(282.6)	(339.4)



Projection Update

	FY 2014-15	FY 2015-16
Budget Instructions Deficit	(100.7)	(17.6)
Additional General Fund Revenues	32.1	(2.4)
Gain of additional starting fund balance - 6 month report	31.3	-
Contributions to Baselines and Reserves	(18.4)	9.2
CPI-W assumed on Salary and Benefits FY 2015-16	-	(37.9)
Major IT Investments	-	(15.4)
Annualization of the homeless supplemental	(5.6)	-
Other changes	(5.5)	(2.6)
Joint Report - Updated Surplus/(Shortfall)	(66.7)	(66.7)
Cumulative Surplus/(Shortfall)	(66.7)	(133.4)



Key Assumptions

- Continued economic recovery is reflected in tax revenue increases. The pace of revenue growth will depend heavily on the strength of the national economy and local technology industry.
- No recession occurs within the projection period.
- No major changes to service levels and numbers of employees.
- No change in closed labor agreements.
- No wage increases on open agreements in FY 2014-15 beyond those already negotiated; inflationary increase (CPI-W) of 2.21% in FY 2015-16 and 2.45% in FY 2016-17 and FY 2017-18.



Key Assumptions, continued

- Health and dental rates for active employees are projected to increase by 5% per year. Retiree health costs are projected to increase 9% per year.
- Employer contribution retirement rates and implementation of Proposition C are assumed to be consistent with the projection scenario provided by Cheiron Consulting Group in November 2013.
- Non-salary operating costs are projected to increase by CPI-U each year starting in FY 2015-16.

Fund Balance and Revenues

- **\$16.0 million net loss of Fund Balance** in FY 2014-15 due to \$119.9 million loss of prior year (FY 2013-14) fund balance offset by a \$103.9 million gain in starting fund balance as noted in the 6-Month Report. Use is split evenly between FY 2014-15 and FY 2015-16.
- **\$188.7 million increase in revenues and transfers in largely from:**
 - Property tax:** \$79.0 million increase assuming enrollment of commercial values, declining temporary reductions for residential properties, declining need to fund potential appeals, and stable levels of tax increment to the Redevelopment Successor Agency.
 - Hotel tax:** \$41.1 million increase due to continued high occupancy and room rates and strong convention bookings.
 - Business tax:** \$31.0 million increase, as private employment growth and wages are projected to peak in 2015.

Revenues, continued

Real Property Transfer Tax: \$9.8 million increase projected as these revenues have exceeded expectations in the current year and are expected to remain high in FY 2014-15, driven by foreign investment.

General Fund Tax Revenues (\$ millions)

	FY 2012-13 Year End	FY 2017-18 Projected	\$ Change	% Change
Property Tax	1,114.1	1,393.0	278.9	25%
Business Taxes	479.6	660.1	180.5	38%
Sales Tax	122.3	150.2	27.9	23%
Hotel Tax	182.4	353.9	171.5	94%
Utility Users Tax	91.9	94.0	2.2	2%
Parking Tax	81.6	89.7	8.1	10%
Real Property Transfer Tax	232.7	175.0	(57.7)	-25%
Stadium Admissions Tax	2.8	1.4	(1.4)	-51%
Access Line Tax	42.6	46.1	3.5	8%
Total	2,350.1	2,963.4	613.4	26%



Baselines

Revenue increases lead to increased baseline contributions:

Public Education Enrichment Fund Annual Contribution: \$4.8 million increase in FY 2014-15.

Housing Trust Fund increases of \$2.8 million per year.

Other baseline contributions to MTA, Library, etc.: \$19.3 million increase in FY 2014-15 due to anticipated increases in Citywide aggregate discretionary revenue compared to FY 2013-14 budgeted levels.



Changes to Reserves

\$12.5 million net change to Reserves in FY 2014-15, primarily due to:

- \$6.8 million increased deposit to Budget Stabilization Reserve in FY 2014-15 due to higher Transfer Tax revenue projection
- \$6.9 million decreased deposit to General Reserve due to anticipated carry-forward of unspent reserve from current year
- \$6.4 million increase in salaries and benefits and litigation reserves
- \$4.6 million decreased use of Recreation and Park Reserve in FY 2014-15

Salaries & Benefits: \$98.9 million increase for FY 2014-15 at current staffing

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Annualization of Partial Year Positions	(13.9)	(1.0)	-	-
Projected Costs of Closed Labor Agreements	(25.1)	(5.1)	(9.4)	(9.5)
Projected Costs of Open Labor Agreements	-	(37.9)	(43.7)	(44.6)
<i>Subtotal Salaries</i>	(39.0)	(44.0)	(53.1)	(54.1)
Health & Dental Benefits - Current Employees	(8.7)	(9.5)	(12.1)	(12.7)
Health & Dental Benefits - Retired Employees	(8.2)	(9.1)	(9.9)	(10.8)
Retirement Benefits - Employer Contribution Rates	(42.0)	19.8	22.6	5.8
Other Salary & Benefits Savings / (Costs)	(0.9)	(9.4)	3.7	0.6
<i>Subtotal Benefits</i>	(59.9)	(8.1)	4.3	(17.1)
Change from Prior Year	(98.9)	(52.2)	(48.8)	(71.2)
Cumulative Change- Salaries & Benefits	(98.9)	(151.1)	(199.8)	(271.0)

Note: Assumptions detailed in Joint Report pages 19-22.



Citywide & Departmental Operating Costs

Table A-1 (p. 9) provides details. Major items include:

- Capital, Equipment, and Technology: \$25.4 million increase in FY 2014-15 and \$64.2 million in FY 2015-16.
- Inflation on non-salary items (contracts, grants etc.): ~\$22 million annual increases FY 2015-16 through FY 2017-18.
- Fire and Police multi-year hiring plans: net cost increase of \$7.8 million in FY 2014-15.
- SF General Hospital rebuild one-time (fixtures and equipment) and ongoing (staff) costs: \$27.0 million in FY 2014-15, \$20.9 million in FY 2015-16, \$19.5 million savings FY 2016-17.
- Annualization of FY 2013-14 supplemental appropriation: \$5.6 million in FY 2014-15.

Uncertainties Remain

- Outcome of collective bargaining
- Affordable Care Act implementation
- PUC Hetch Hetchy Power enterprise deficit
- Fire Department Exclusive Operating Agreement
- Outcome of ballot measures, such as minimum wage increase, and local Vehicle License Fee
- Current year overspending or supplemental appropriations
- Pace and duration of recovery



Economic Expansions

