File No. 190313 Committee Item No. 4
Board Item No. 9

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee **Date** April 10, 2019

Board of Supervisors Meeting **Date** April 16, 2019

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

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

☒	☒	Proposed Five-Year Financial Plan
☐	☒	March update to the Five-Year Financial Plan
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Completed by: Linda Wong **Date** April 5, 2019
Completed by: Linda Wong **Date** April 12, 2019

FILE NO. 190313 RESOLUTION NO.

[Five-Year Financial Plan - FYs 2019-2024]

Resolution adopting the City's Five-Year Financial Plan for FYs 2019-2020 through 2023-2024 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, Section 9.119 provides that the City shall adopt the fourth City-wide five-year plan by May 1, 2019; and

WHEREAS, The Mayor has submitted her 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. 190313; 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, and (5) identifying ongoing departmental 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 has deemed appropriate and reflected in File No. 190313, as the City's Five-Year Financial Plan for FYs 2019-2020 through 2023-2024, as provided in Charter, Section 9.119.

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Proposed Five-Year Financial Plan

Fiscal Years 2019-20 through 2023-24

JANUARY 4, 2019

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Acknowledgements

Department	Staff
Mayor's Budget Office	Kelly Kirkpatrick, Marisa Pereira Tully, Raven Anderson, Laura Busch, Theodore Conrad, Christina Da Silva, Anna Duning, Ashley Groffenberger, Nereida Heller, Jillian Johnson, Lillian Patil, Marie Valdez
Controller's Office	Ben Rosenfield, Ted Egan, Todd Rydstrom
Controller's Office: Budget and Analysis	Michelle Allersma, Edward de Asis, Yuri Hardin, Carol Lu, David Ly, Mendy Ma, Michael Mitton, Risa Sandler, Jamie Whitaker
Board of Supervisors' Budget and Legislative Analyst	Severin Campbell, Dan Goncher, Christina Malamut
Office of Resilience and Capital Planning	Brian Strong, Heather Green, Hemiar Alburati, Nishad Joshi, Joshua Low
Committee on Information Technology	Matthias Jaime, Jacalyn Mah, Lily Liang

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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 Plan.

FIVE-YEAR OUTLOOK

Over the next five years, the plan expects that the City will experience continued strong growth in tax revenues. However, 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 $107.4 million to approximately $643.9 million from Fiscal Year (FY) 2019-20 to FY 2023-24.

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

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

Total expenditures are projected to grow by $1,402.7 million over the next five years, which represents an increase of 25% from FY 2018-19. During the five years of the plan, baselines and reserves grow by $238.9 million (17.0% of total expenditure growth), employee salary, pension, and fringe benefit costs grow by $598.4 million (42.7% of total expenditure growth), citywide operating costs grow by $400.6 million (28.6% of total expenditure growth), and departmental costs grow by $164.8 million (11.7% of total expenditure growth).

In contrast to expenditure growth, available General Fund sources are projected to increase by $758.7 million over the same period, an overall growth of 14% from FY 2018-19. As required by the Charter, the City will need to implement strategies to close the gap between sources and uses over the five-year time period.

FISCAL STRATEGIES

The City projects budget deficits over the next five years if proactive steps are not taken to address the imbalance between revenues and expenditures. Since the last economic recession, significant efforts and policy changes have been made to improve the City's financial standing and better guard against the next financial downturn. Despite these efforts, and even with assumed continued strength of the City's economy, the City is facing a persistent structural deficit. The reasons for the projected deficit are largely related to rising employee costs (pension being the biggest factor), increasing voter mandated commitments through baselines and set-asides, and growing required contributions to support existing entitlement services.

In recent years strong revenue growth enabled the City to balance the budget while restoring and increasing important services to the public. Investments have been made to address some of the City's most pressing issues, including expanded funding for homeless services. Since the consolidated Department of Homelessness and Supportive Housing was created in the summer of 2016, the City has added nearly 600 units of permanent supportive housing and opened 6 new Navigation Centers to support individuals in exiting street homelessness and getting connected to supportive services.

Looking forward, the City cannot rely on continued revenue growth at the levels experienced in recent years. This report assumes the City continues to experience strong economic times, but revenues are projected to grow more slowly over the coming years.

Additionally, in recent years revenues received exceeded budgeted values, creating available fund balance to be used as a one-time source in the following budget. The use of one-time sources to balance two-year budgets contributes to larger deficits outside of the budget period as ongoing costs grow without a commensurate continuation of revenue to support them. In an effort to lessen the reliance of the budget on this one-time source, this report assumes the fund balance is utilized over a four-year period.

To ensure the City is able to maintain its current level of services and respond resiliently to future economic weakness, the City must slow its projected expenditure growth by making trade-offs and responsible budget decisions. The following fiscal strategies will allow the City to provide sustainable services to the public by containing budget growth to 16% over the coming five years, as opposed to 25% growth that is projected to occur absent action.

Table 2: Proposed Fiscal Strategies ($ Millions)

Base Case Outlook ($ millions)	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Cumulative Projected Surplus / (Shortfall)	(107)	(163)	(363)	(520)	(644)
Proposed Fiscal Strategies - Sources Growth faster and Expenditure Growth slower than Base Case					
Sources - Taxes, Fees & Other Revenues	34	35	75	126	172
Salaries and Benefits - Manage Employee Costs	19	32	80	131	194
Citywide - Limit Non-Personnel Inflation, Capital, Debt Service and Real Estate	15	17	109	145	155
Departmental - On-Going Revenues & Savings Initiatives	39	79	99	118	123
Adjusted Outlook	**0**	**0**	**0**	**0**	**0**

This Five-Year Financial Plan also includes an assessment of the potential impact of an economic downturn on the City's five-year outlook. The Base Case does not assume an economic downturn or loss of funding from state or federal government due to the uncertainty of either event. However, the United States has historically not experienced more than ten consecutive years of expansion and the current economic expansion began over nine years ago, rendering the likelihood of a slowdown or a decline in revenue growth increasingly likely during the period that this plan addresses. Additionally, there is continued uncertainty related to state and federal legislative and budget changes which could add costs or reduce revenue to the City. If an economic slowdown or large loss of state or federal revenue were to occur, the fiscal strategies shown above would be insufficient to close large gaps between revenues and expenditures.

Detailed projections regarding the Base Case, fiscal strategies, and recession scenario are included starting on page 19 of this report.

CITYWIDE STRATEGIC INITIATIVES SECTION

The plan also includes an update to the Citywide Strategic Initiatives section, added in the last Five-Year plan, honing in on two of the shared city values: equity and accountability. This section describes the long-term strategy for city investments, under Mayor Breed's leadership, to achieve a diverse, equitable, and inclusive city and to generate greater accountability and equitable outcomes in the provision of city services and use of city funds. It also details steps the Mayor's Office and Controller's Office are taking to begin incorporating equity and accountability into the financial planning process, and highlights existing equity-focused initiatives in the City.

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ECONOMIC OVERVIEW

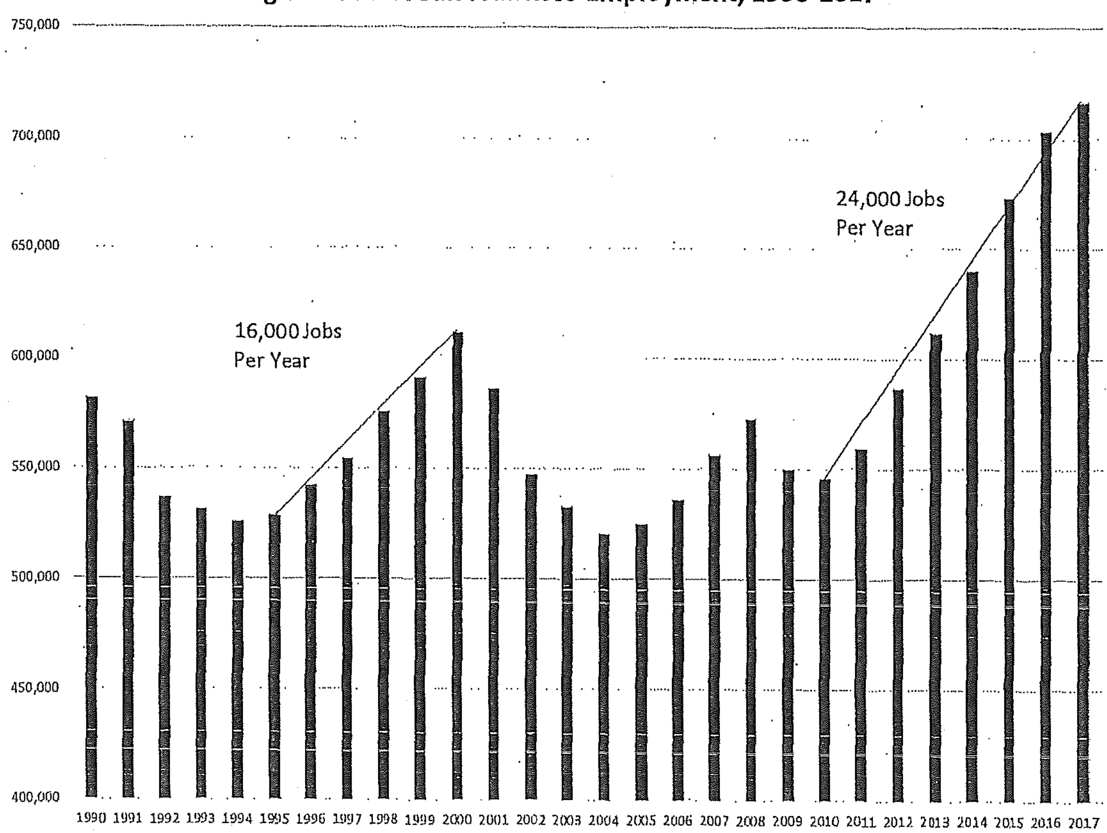
Significant changes in the national and local economies have occurred since the Great Recession. Through 2017, the decade of the 2010s has brought unprecedented economic growth to San Francisco. The City has re-emerged as the center of the Bay Area's regional economy and since 2010 has been among the fastest-growing large counties in the United States. This overview summarizes the City's economic history, current recovery, and potential slowdown, which informs both the Base Case and recession scenario presented in this plan.

LOOKING BACK

San Francisco's Economic Performance: 2010-2017

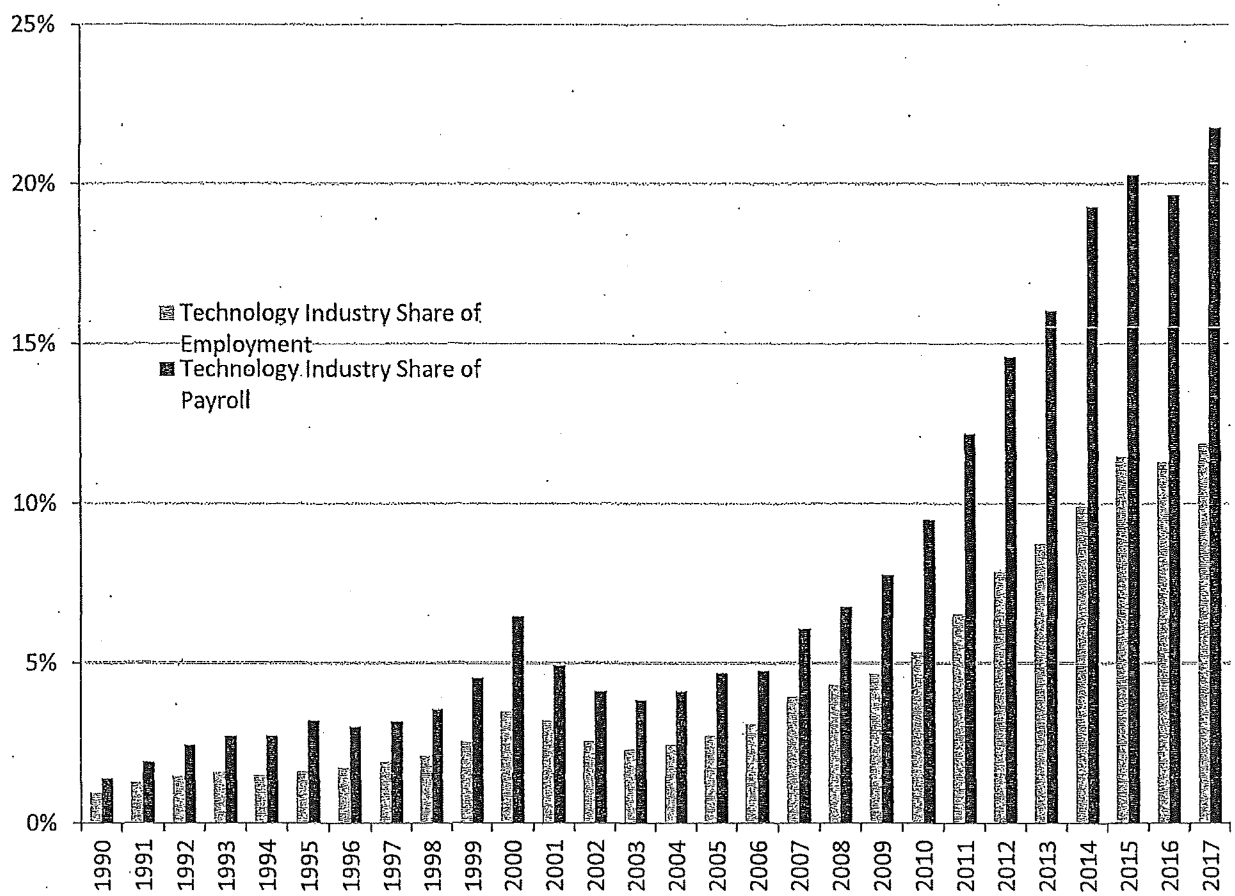
Employment. San Francisco added an average of 24,000 new jobs per year from 2010 to 2017. To put this into context, during the dot-com boom of the late 1990s, employment increased by only 17,000 jobs per year. By the end of 2017, there were 716,900 jobs in San Francisco, 105,000 more than at the City's previous economic peak in 2000.

Figure 1: Total San Francisco Employment, 1990-2017



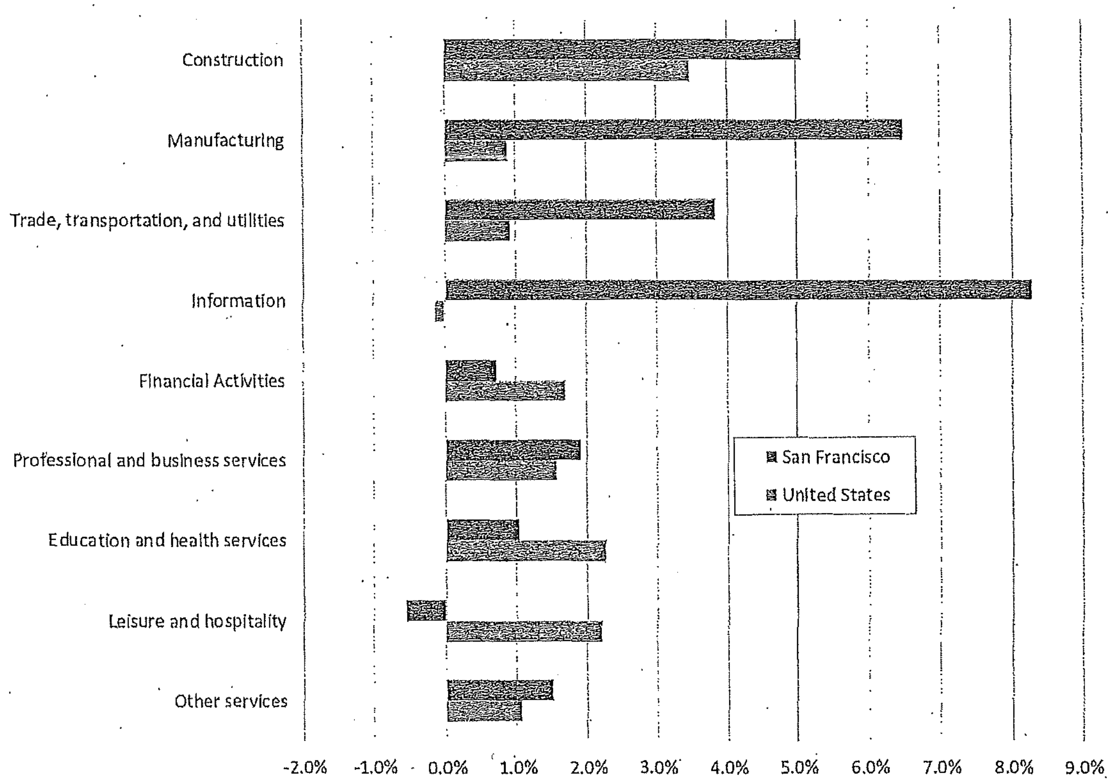
As discussed in more detail below, the City's economic growth has been fueled by the Technology industry, whose share of San Francisco's total private sector employment has risen from 5% to 12% since 2010. As a share of total private sector payroll in the City, the Technology industry's share has grown from 9% to 22% from 2010 to 2017.

Figure 2: Technology Industry Share of Private Sector Payroll and Employment in San Francisco, 1990-2017



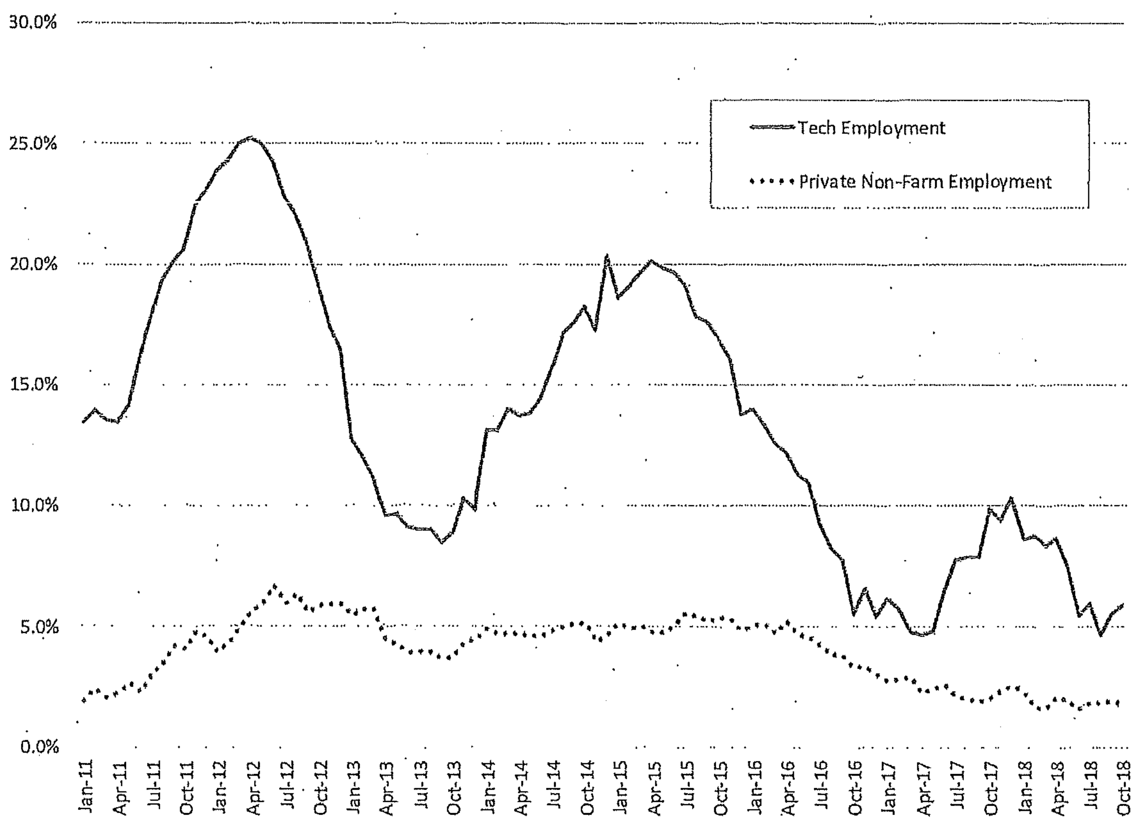
As an export sector that brings new investment and income into the City, the Technology sector is an important economic driver for San Francisco. While it has been the fastest-growing part of the City's economy this decade, the most recent employment data for the City indicate that most sectors are continuing to add jobs, apart from the Leisure and Hospitality sector. Most of San Francisco's industry sectors continue to add jobs more rapidly than the same sectors in the U.S. as a whole; only Leisure and Hospitality, Financial Activities, and Education and Health Services, show the opposite trend. In the chart below, technology employment is split between the Information and the Business and Professional Service sectors and is largely responsible for the very rapid rate of job growth in those sectors.

Figure 3: Employment Growth by Sector San Francisco and United States, 2016-2017



While the City's economic performance through 2015 was both strong and broad based, growth began to slow in 2016. Monthly employment data for San Francisco and San Mateo counties indicate that employment growth in the technology industry slowed from over 10% between 2010 and 2016 to a rate of 5-7% by the second half of 2018. While the federal tax cut may have stimulated technology growth in 2017, that appears to have subsided, and technology growth is now slower than it has been since 2010. Growth for all private, non-farm employment in the two-county area has slowed consistently, from 5% in early 2016 to an annual growth rate of less than 2% throughout 2018.

Figure 4: Annual Growth Rate in Tech and Private Non-Farm Employment San Francisco/San Mateo Counties, January 2011-October 2018

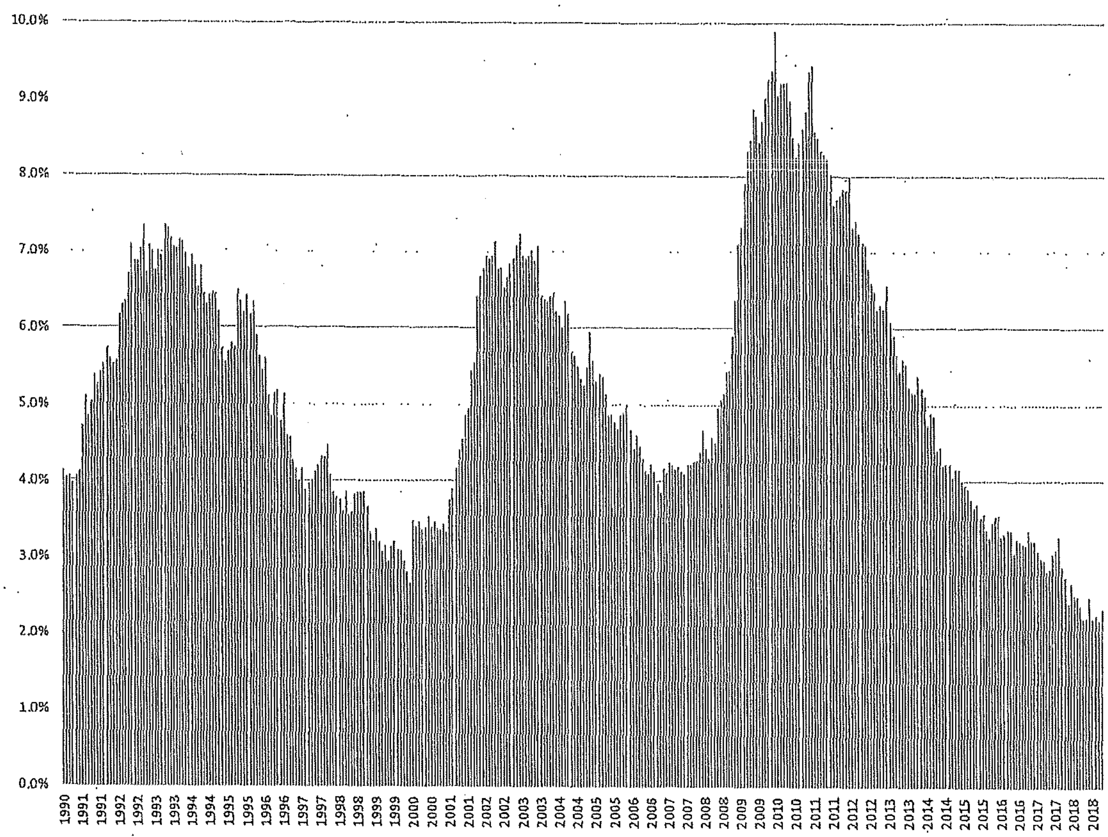


While the extent of the current slowdown should not be over-stated, there are reasons to believe that a second acceleration in growth is unlikely to occur during this economic cycle and before the next recession. These reasons relate, first, to the lack of capacity in the City's infrastructure to support continued growth. Additionally, more than nine years after the end of the Great Recession, warning signs of a broader economic slowdown are developing, irrespective of the City's infrastructure capacity.

With respect to the infrastructure issues, the first constraint is the City's housing supply, which raises housing prices, limits the ability of low- and-moderate income workers to move to the City, and therefore limits the ability for the resident labor force to grow.

Housing and Unemployment. The City's seasonally-adjusted unemployment rate has been at or below 2.5% for all of 2018, well below what most economists would consider to be "full employment." The current rate of 2.3% is the lowest level of local unemployment reported since this statistic became available, and indicates a historically low number of San Francisco residents looking for work. Given the City's constrained housing market, discussed below, it is unlikely that the resident labor force can readily expand much further in the short term. The tightness of the local labor market has likely contributed to the slowdown in job growth in the City since 2016.

Figure 5: San Francisco Unemployment Rate, Seasonally-Adjusted July 1990-August 2018

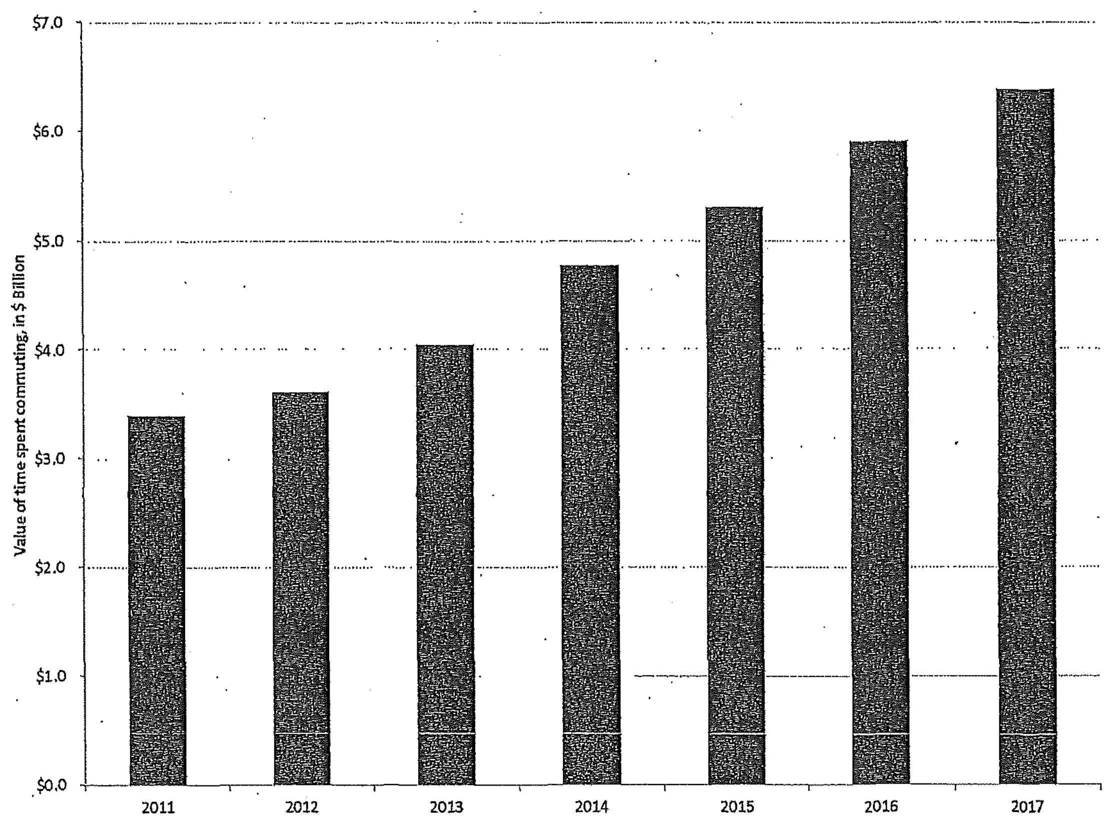


Housing and Transportation. Secondly, rapid economic growth this decade has placed strains on the region's transportation system, which will likely further limit the City's ability to grow at rates experienced earlier in this decade.

The chart below estimates the value of time lost by San Francisco workers to commuting between 2011 and 2017. When transportation congestion leads to longer commutes, commuters lose work and leisure opportunities, which are valued, in this illustration, at 50% of an employee's hourly wage. In economic terms, an increasingly costly commute makes the City less competitive as an employment center, leading to higher labor costs for local businesses and a greater tendency for job sprawl within the region.

The aggregate value of time lost by San Francisco employees has grown by 88% from 2011 to 2018, driven by a combination of longer and slower commutes, growth in the total number of employees in the City, and higher average hourly wages.

Figure 6: Aggregate Value of Time Spent Commuting by Workers in San Francisco 2011-2017



LOOKING FORWARD

The rapid employment growth the City experienced in the early years of the decade has slowed considerably since 2016. In large measure, this is due to infrastructure limitations that constrain the City's ability to grow its resident labor force and accommodate more in-commuters, and has important implications for the City's finances. A substantial reduction in the employment growth rate should have a proportionate effect on tax revenue from businesses, employees, and residents. The Base Case projection detailed in the next chapter assumes 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, however, the rapid growth rates seen in the early stages of recovery have slowed, and in some cases, have begun to decline. Growth rates for the most economically sensitive revenues, such as business, sales, hotel, parking, and property transfer taxes are projected to slow in the final three years of the plan.

The Base Case does not assume an economic downturn. However, given that the current economic expansion has lasted over 89 months, if there is indeed no recession through FY 2023-24, as the projection assumes, it will mark the longest economic expansion since 1945. Additionally, by late 2018, a widening array of indicators are suggesting that the broader economic climate is cooling, and the U.S. economy could enter a slowdown or a recession in 2019 or 2020. Some of these factors include:

- **Rising interest rates:** The Federal Reserve reduced short-term interest rates to near zero as a monetary stimulus measure during the Great Recession, and kept very low rates in place until late 2015. Since then, the Fed has raised its target interest rate to a range of 2.25% to 2.5%, committed to two further interest rate hikes in 2019, and downgraded its economic outlook for the year ahead. While a higher interest rate can curb inflation, it raises the cost of money for businesses and consumers, and may reduce or defer their spending, which would slow the economy.
- **A flattening yield curve, or investor uncertainty about future economic growth:** Related to the risk of rising interest rates, the spread between short-term and long-term interest rates, commonly known as the "yield curve," which normally slopes upward, has begun to flatten. While the Fed has considerable influence over short-term rates, long-term rates have not changed substantially in the last two years. When this spread or yield curve flattens, long-term investment is discouraged, potentially leading to a slowdown in spending. A downward-sloping or inverted yield curve is a highly reliable indicator for predicting recessions.
- **Stock market losses:** The decline in the stock market through the second half of 2018 may be a leading indicator of an economic downturn. This is especially true in the Bay Area, where stock-based compensation, venture capital, and other equity investments like initial public offerings are sensitive to the stock market. A prolonged correction could reduce that spending in the Technology sector, which has directly or indirectly generated most of the City's economic growth this decade.
- **Trade war with China:** As the UCLA Anderson Center states in its California economic forecast, the State is highly sensitive to trade with China[1]. Rising tariffs and increasing uncertainty regarding the direction of the U.S.-China economic relationship could affect key California industries like logistics, technology, and agriculture.
- **Federal tax policy:** Finally, as noted earlier, federal tax cuts in 2017 created a short-term stimulus to spending in 2018 that will not continue at the same rate into 2019 and 2020. In addition, some of the tax increases in the 2017 tax legislation will likely have a negative impact on the local economy, such as the new cap on deductibility of state and local taxes (i.e. SALT deduction) from federal income tax. This new cap will adversely affect states like California with high income tax rates, and cities with high property prices such as San Francisco.

[1] http://www.anderson.ucla.edu/centers/ucla-anderson-forecast

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Five-Year Base Case Projection

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 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 has continued to utilize two-year rolling budgets and most recently adopted the FY 2018-19 and FY 2019-20 budget; there were five departments with fixed two-year budgets for the FY 2018-19 and FY 2019-20 adopted budget.
- **Citywide Capital and Technology Plans:** These plans, which are released by March 1st 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 financial policies to create a Budget Stabilization Reserve, to build its General Reserve and to make deposits more flexible in a downturn, and to restrict the use of one-time revenues. Consistent with the financial policies adopted by the Board of Supervisors in December 2014 and codified in Administrative Code Section 10.60(b), the General Reserve value will increase from 2.5% to 3.0% of General Fund revenues by FY 2020-21. This report anticipates the General Reserve rising from 2.75% of regular General Fund revenues in FY 2019-20 to 3% in FY 2020-21. Taken together, these policies will help ensure San Francisco is more resilient during the next economic downturn.

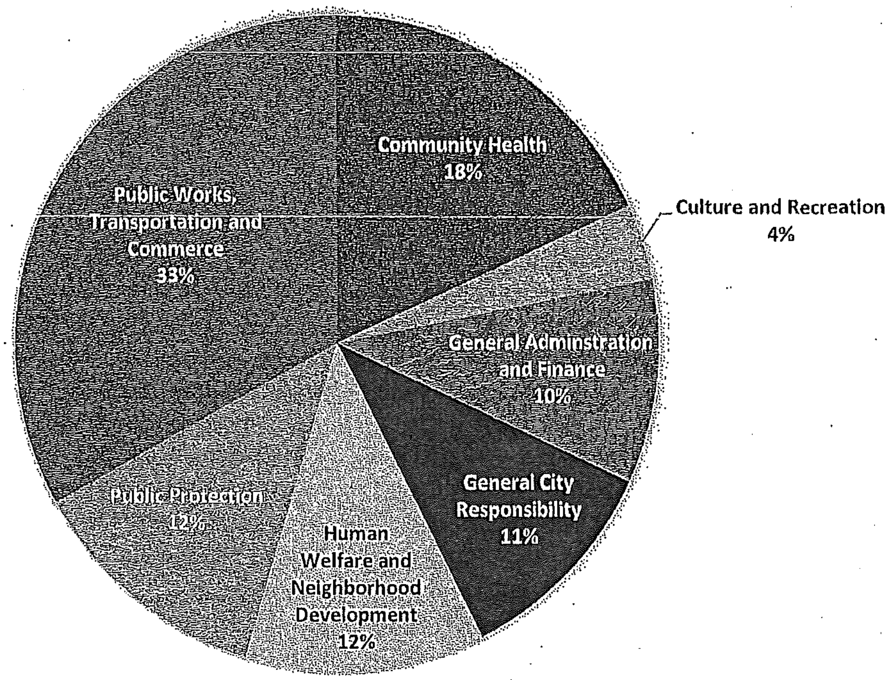
Multi-year budgeting and forecasting are best practices for all governments. The Five-Year Financial Plan is designed to enhance the City's ability to identify the key drivers of its revenues, expenditures, and needed public services. In a period of very strong economic expansion coupled with budget and legislative uncertainty from the federal and state government, this planning process will enable San Francisco to more thoughtfully plan for revenue changes and adapt programs accordingly. Overall, the City will minimize volatility by looking beyond the immediate two-year budget horizon, resulting in 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 2018-19 is $11.1 billion. Roughly half of the budget, $5.5 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 $5.5 billion, is comprised of General Fund monies, which support public services such as public health, police and fire services, and public works. 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.

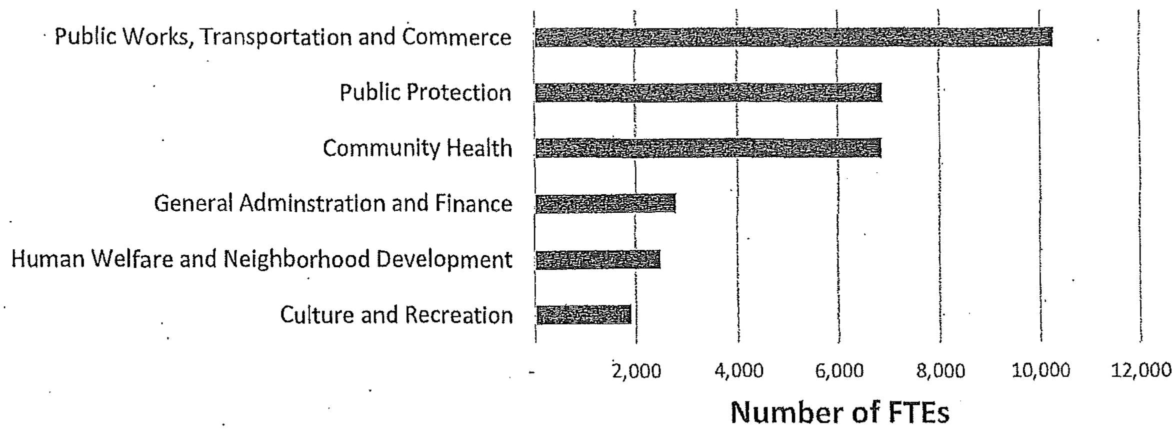
Figure 7 shows the total $11.1 billion citywide budget by major service area. The Public Works, Transportation & Commerce major service area has the largest overall budget, due primarily to the budgets of large enterprise departments.

Figure 7: Total Budget by Major Service Area FY 2018-19



There are 31,220 full-time equivalent positions (FTEs) budgeted and funded between all six major service areas in FY 2018-19. As shown in Figure 8, the Public Works, Transportation, and Commerce service area also has the largest share of FTEs, which is largely driven by the Municipal Transportation Agency.

Figure 8: Full Time Equivalent Positions (FTEs) by Major Service Area FY 2018-19



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 and Legislative 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 fiscal year (FY) 2019-20, FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24.

Summary of 'Base Case' Projections and Findings

This Five-Year Financial Plan describes the 'Base Case' – a forecast of revenues and expenditures that projects revenue trends and the costs to support current service levels, adjusting for adopted or proposed policy changes 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.

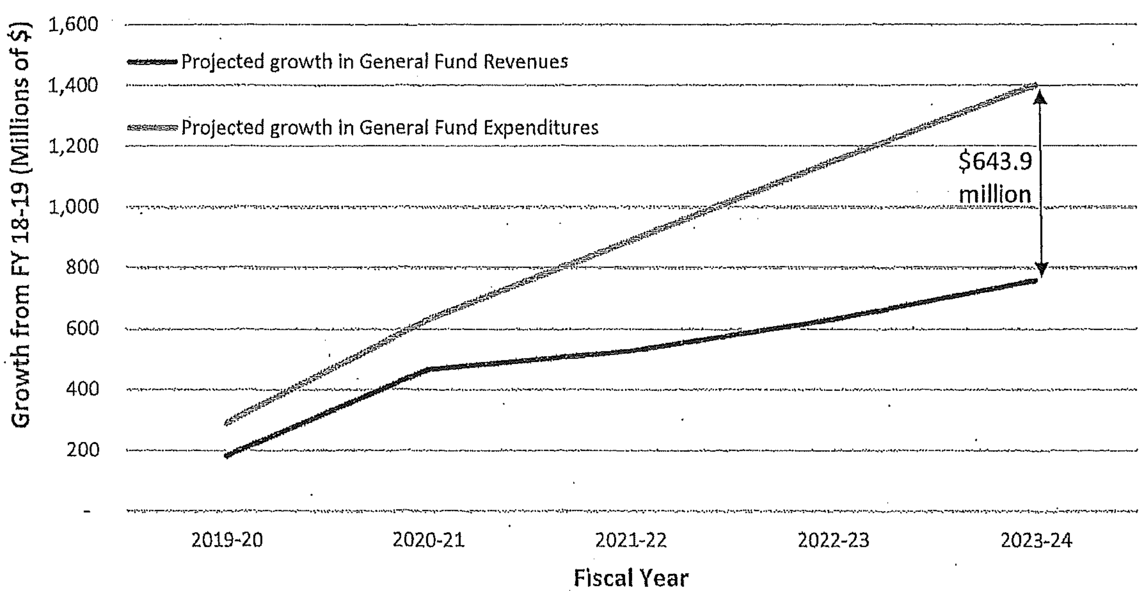
Table 3 summarizes the projected changes in General Fund-supported revenues and expenditures over the next five years. As shown in Table 3, this report projects cumulative shortfalls of $107.4 million in FY 2019-20, $163.4 million in FY 2020-21, $362.9 million in FY 2021-22, $519.9 million in FY 2022-23, and $643.9 million in FY 2023-24.

Table 3: Base Case – Summary of FY 2020-24 General Fund-Supported Projected Budgetary Cumulative Surplus/ (Shortfall) ($ millions)

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

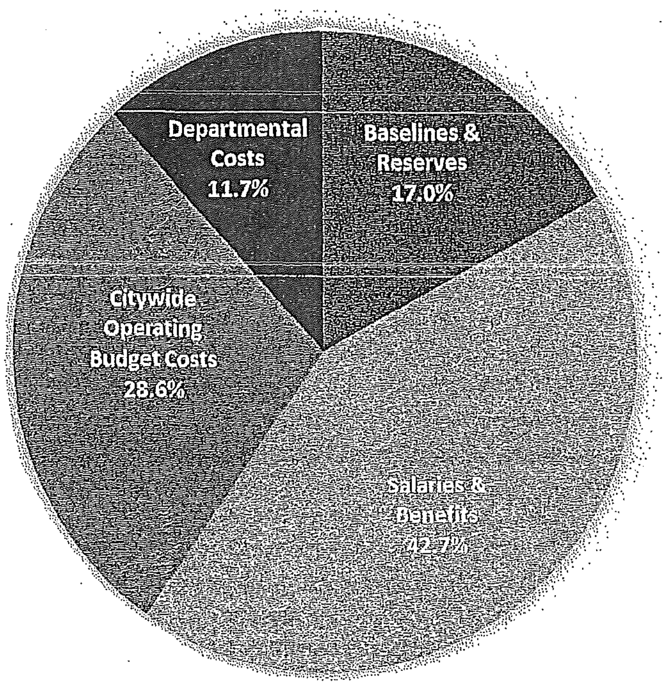
This projection demonstrates that although revenues are growing each year, they are not growing fast enough to keep pace with the increase in projected expenditures. As a result, a gap remains even with a growing economy and tax base. The City currently projects revenue growth of $758.7 million, or 14% over FY 2018-19 over the five-year period of this plan, and expenditure growth of $1,402.7 million, or 25% over FY 2018-19 over the same five-year period, as shown in Figure 9 below.

Figure 9: Projected Growth in General Fund Expenditures and Revenues



Total expenditure growth is shown below in Figure 10, which illustrates that salary and benefit costs represent the largest driver of the City's deficit projection with 42.7% of the growth over the next five years, or an increase of $598.4 million over the period. Citywide operating costs represent the second largest area of expenditure growth at 28.6%, or $400.6 million. The next largest drivers of expenditure growth are: Charter-mandated baseline and reserve changes of $238.9 million (17.0%) and other department-specific cost increases of $164.8 million (11.7%).

Figure 10: General Fund-Supported Expenditure Increases by Expenditure Type FY 2020-24



While the projected shortfalls shown in Table 3 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 budget will require some combination of expenditure reductions and additional revenues. This projection assumes no ongoing solutions are implemented. To the extent that budgets are balanced with ongoing solutions, future shortfalls will decrease.

A key driver of projected shortfalls are increases in mandated costs. Many of the projected expenditure increases are unavoidable, with limited ability to reduce spending to balance the budget. The City is required by law to fund certain voter-mandated baselines and set-asides at specific levels. Additionally, assuming a constant city workforce, non-discretionary employee pension and health benefits will continue to rise. This limits the funding available for other uses such as employee wage increases, cost-of-doing-business increases for non-profit service providers, capital and technology investments, and other improvements to services to the public.

KEY ASSUMPTIONS AFFECTING THE FY 2019-20 THROUGH FY 2023-24 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 2018-19 and FY 2019-20 budgeted levels unless specified below.

- **Continued economic recovery:** This projection assumes the economic recovery and expansion that began in FY 2009-10 will continue through the forecast period and will be reflected in tax revenue increases. The rapid rates of growth in the most economically sensitive revenues experienced in the early part of the recovery have slowed, and lower rates of growth are expected to persist in the forecast period. Economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism. Physical and financial constraints are expected to limit this growth. This report does not assume any economic downturns or large changes in macroeconomic conditions; however, the U.S. has historically not experienced more than ten consecutive years of expansion and is currently in its ninth year of this expansion. The City will continue to monitor the array of indicators and conditions that currently suggest the broader economic climate is cooling, including rising interest rates, flattening yield curves, stock market losses, and federal tax and trade policy.

- **Outcome of the June and November 2018 Elections:** This report recognizes the outcome of several local measures from 2018 elections, including the passage of the new gross receipts tax on cannabis (Proposition D) and the dedication of a portion of hotel tax revenue to arts and cultural organizations (Proposition E) from the local November 2018 ballot, which measures have a material impact on the City's General Fund. This report, however, does not assume any changes related to a dedicated gross receipts tax measure on the lease of commercial space to support child care and education (June Proposition C) or an additional gross receipts tax measure dedicated to housing and homeless services (November Proposition C). Revenue from these two measures is dedicated to specific purposes and both measures were placed on the ballot by voter initiative and received over 50% voter approval, but not the two-thirds required for dedicated taxes placed on the ballot by the City's elected officials. The City has been sued over June Proposition C by several organizations claiming that the tax required approval of two-thirds of the City's voters, rather than the simple majority that the City believes is the correct threshold under recent California Supreme Court case law and that the measure met. At the time of this publication, while litigation has been threatened, the City has not been sued over November Proposition C, and the City has introduced legislation permitting it to file its own validation action in court. While these legal proceedings take place, including potential appeals, the revenues from these measures will be collected but will not be authorized for appropriation by the Controller's Office. It should also be noted that the revenue from both Proposition Cs is directed towards special revenue funds, with the exception of a portion of proceeds from June Proposition C, from which 15% is allocated to the General Fund. Given the legal uncertainty, that potential General Fund contribution is not assumed in this report. More detail on the impact of these measures is included in the Base Case Revenue section beginning on page 27.

  - **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. The City will continue to monitor changes to state and federal policy and budget processes, and incorporate any changes in funding updates to this plan, as appropriate.

  - **Assumes inflationary increases for most employees in line with CPI:** For police officers and firefighters, the plan assumes negotiated wage rates through FY 2020-21 with inflationary increases thereafter. Most labor unions have open contracts and will enter negotiations for Memoranda of

Understanding (MOUs) with the City in the spring of 2019. Therefore, beginning in FY 2019-20 this projection assumes salary increases equal to the change in the Consumer Price Index (CPI) using the average projection of the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI. This corresponds to 2.85% in FY 2019-20, 3.08% in FY 2020-21, 2.99% in FY 2021-22, 3.03% in FY 2022-23, and 3.01% in FY 2023-24. For Police Officers' and Firefighters' unions this report assumes the cost of all negotiated terms, including wage rate increases of 3% for FY 2019-20 and FY 2020-21, and increases of CPI, as above, thereafter. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels, but rather are used for projection purposes. Final negotiated increases will increase or decrease projected shortfalls.

- **Retirement plan employer contribution rates continue to increase:** This report assumes the impact of action taken by the San Francisco Retirement Board in November 2018 to lower the discount rate assumption from 7.5% to 7.4%. The report does not assume any changes to existing funding policy, and amortizes the 2018 Supplemental COLA over five years, as is current policy. This results in higher employer contribution rates in FY 2019-20 and FY 2020-21, with modest declines in the last years of the projection. It is important to note that volatile current year returns could have a significant impact on these assumptions in the future.

- **Health and dental insurance cost increases:** This projection assumes that the employer share of health and dental insurance costs for active employees will increase by approximately 6% per year. The Health Service System anticipates negotiating rates for calendar year 2020 in spring 2019, to be adopted by July 2019. 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 6% 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 rate of 2.85% in FY 2019-20, 3.08% in FY 2020-21, 2.99% in FY 2021-22, 3.03% in FY 2022-23, and 3.01% in FY 2023-24, as projected by the California Department of Finance and Moody's. The projection reflects the adopted FY 2019-20 budget, which includes a 2.5% increase for community-based organization contracts in FY 2019-20. However, these assumptions are for planning purposes and are subject to appropriation in the FY 2019-20 and FY 2020-21 budget.

- **Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment:** This projection assumes the adopted FY 2019-20 funding levels for capital, equipment, and information technology. For capital in the subsequent four fiscal years, the report assumes funding will increase based on the levels assumed in the City's FY 2019-20 to FY 2028-29 Ten-Year Capital Plan, which will be published in March 2019.

  The information technology (IT) investment projection assumes partial funding of annual projects in the City's Information and Communications Technology (ICT) Plan in FY 2019-20 in accordance with the most recent budget, full funding in accordance with the most recent ICT Plan in FY 2020-21 and FY 2021-22, and growth of 10% per year in FY 2022-23 and FY 2023-24. This report also contains assumptions around the separate funding for major city IT investments. This report assumes full funding for major IT projects in FY 2019-20 in accordance with the most recent budget, full funding in accordance with the most recent ICT Plan in FY 2020-21 and FY 2021-22, and growth of 10% per year in FY 2022-23 and FY 2023-24. Similar to the Ten-Year Capital Plan, the City's updated ICT Plan will be published in March 2019.

For equipment, the plan assumes the budgeted level of funding in FY 2019-20. In the subsequent four fiscal years, the report assumes that the equipment budget will increase by CPI in each year off of the FY 2018-19 funding level included in the Mayor's proposed budget.

- **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. Consistent with the financial policies adopted by the Board of Supervisors in December 2014 and codified in Administrative Code Section 10.60(b), the General Reserve value will increase from 2.5% to 3.0% of General Fund revenues by FY 2020-21. Lastly, various reserves allocated for particular one-time uses are assumed drawn down for those uses, as detailed later in the Base Case.

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 nine years ago. It would be a 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 monitor indicators that currently suggest the broader economic climate is cooling.

- **Outcome of state and federal budget-balancing efforts:** At the time of report issuance, state budget deliberations have not yet begun and federal budget deliberations are ongoing, thus, uncertainty remains around the local effects of these efforts. The City is closely monitoring potential changes in particular related to the Affordable Care Act, immigration, and social safety net policies.

- **Collective bargaining agreement negotiations:** Other than approved wage increases in collective bargaining agreements and inflation on open contracts in FY 2019-20 through FY 2023-24, this report does not assume any contract changes due to labor negotiations. Wage or benefit changes above or below these assumptions would increase or decrease the City's projected deficit.

- **Pending or proposed legislation – potential fee or departmental revenue increases:** Fee increases or departmental revenue increases dependent on changes in legislation may be proposed as part of the FY 2019-20 and FY 2020-21 budget. No increases above those budgeted in the adopted FY 2018-19 and FY 2019-20 budget are assumed in this projection.

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

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

- **San Francisco Housing Authority** – An audit by the federal Department of Housing and Urban Development (HUD) uncovered an approximately $30.0 million shortfall in the San Francisco Housing Authority's (SFHA) committed funding for rental subsidy vouchers for calendar year 2018. The shortfall was due to increased utilization of Housing Choice Vouchers in 2018 and the Housing Authority's miscalculation of its payment obligations and available reserve funds. The City is committed to ensuring that San Francisco residents utilizing HUD vouchers remain housed, and to that end, the Mayor's Office of Housing and Community Development (MOHCD) provided a loan of up to $20.0 million to address the 2018 shortfall (which, when combined with HUD and SFHA funding, is sufficient to address this year's deficit). However, given potential future year shortfalls, the full costs to maintain this commitment are not known at this time and may increase the deficits projected in this report.

- **Property Tax Shifts:** On November 29, 2018, the Controller's Office issued a memo notifying policymakers of a material update to current year revenue projections due to the reallocation of property tax revenue in the County's Educational Revenue Augmentation Fund (ERAF). The Controller estimates the City will recognize approximately $415.0 million in excess ERAF property tax revenue in the current year, of which $208.0 million is attributable to FY 2017-18 and $207.0 million to FY 2018-19. Under Charter provisions adopted by the voters, approximately $78.0 million must be allocated to various baselines and approximately $156.0 million to Rainy Day Reserves, leaving approximately $181.0 million available for any purpose. The Board of Supervisors will consider proposed supplemental appropriations to spend these funds in January 2019.

  Under current law, the City would receive additional excess ERAF allocations in future years, but it is subject to significant risk given formula volatility, cash flow changes, and possible modifications to property tax allocation law by the State, which has occurred frequently in the past. Other counties with excess ERAF have responded to these risks by adopting financial policies that limit some or all spending of these proceeds to one-time purposes. For these reasons, while the reserves section of this report shows estimated deposits of FY 2018-19 excess ERAF to the Rainy Day reserves as described above, the Base Case projection in this report does not assume it during the forecast period.

Tables 4 and 5 below, in addition to the subsequent narrative section, explain revenue and expenditure changes in the citywide deficit in detail. First, revenue changes will be discussed, followed by 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 – INCREMENTAL CHANGE Sources & Uses FY 2019-24 ($ Millions)

Table A-1 Base Case Projection - Year-Over-Year Change

SOURCES Increase / (Decrease)	2019-20	2020-21	2021-22	2022-23	2023-24
General Fund Taxes, Revenues and Transfers net of items below	253.5	151.6	131.6	132.4	145.6
Change in One-Time Sources	(89.7)	101.2	(101.2)	(56.2)	(45.0)
Children's Fund Property Tax Setaside Revenue	1.9	5.2	4.9	4.8	5.8
Department of Public Health Revenues	3.5	16.3	16.6	17.0	17.4
Cannabis Tax	3.0	4.3	4.3	-	-
Other General Fund Support	9.7	5.4	5.0	4.9	5.0
TOTAL CHANGES TO SOURCES	**182.0**	**284.0**	**61.1**	**102.8**	**128.8**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(27.2)	(17.5)	(15.8)	(15.9)	(17.3)
MTA New Central Subway	(3.5)	(6.9)	(3.5)	(0.4)	(0.5)
Children's Fund, Baseline, and Public Education Enrichment Fund	(10.5)	(15.4)	(15.2)	(14.8)	(16.9)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Dignity Fund	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Recreation and Parks Baseline	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
All Other Baselines	(6.8)	(4.2)	(3.6)	(3.5)	(3.8)
Deposits to General Reserve	(5.9)	9.5	(3.0)	13.9	0.1
Other Contributions to Reserves	7.4	(0.5)	(0.5)	(0.5)	(12.4)
Subtotal Baselines & Reserves	**(55.3)**	**(43.8)**	**(50.3)**	**(30.0)**	**(59.5)**
Salaries & Benefits					
Annualization of Partial Year Positions	(25.1)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(18.0)	(22.8)	(1.8)	-	-
Projected Costs of Open Labor Agreements	(65.9)	(77.5)	(96.9)	(99.3)	(96.4)
Health & Dental Benefits - Current & Retired Employees	(10.4)	(25.7)	(23.4)	(25.2)	(26.7)
Retirement Benefits - Employer Contribution Rates	(37.1)	(12.9)	25.1	25.6	46.7
Other Salaries and Benefits Savings / (Costs)	(24.2)	1.8	(7.0)	(8.4)	7.2
Subtotal Salaries & Benefits	**(180.7)**	**(137.1)**	**(104.0)**	**(107.3)**	**(69.2)**
Citywide Operating Budget Costs					
Minimum Wage and Minimum Compensation Ordinance	(18.4)	(3.8)	(1.7)	(8.4)	(2.1)
Capital, Equipment, & Technology	2.9	(53.8)	6.7	(19.5)	(26.4)
Inflation on non-personnel costs and grants to non-profits	(13.5)	(35.8)	(35.8)	(37.4)	(38.3)
Debt Service & Real Estate	(14.0)	(22.4)	(10.0)	(8.7)	(5.3)
Sewer, Water, and Power Rates	(1.6)	(2.8)	(2.9)	(3.1)	(3.3)
Cannabis Tax Expenditures	(2.4)	(3.4)	(3.4)	-	-
Other Citywide Costs	(8.1)	(5.4)	(6.4)	(5.8)	(6.2)
Subtotal Citywide Operating Budget Costs	**(55.1)**	**(127.4)**	**(53.5)**	**(82.9)**	**(81.7)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	11.2	(5.3)	(1.0)	(1.0)	(1.1)
Elections - Number of Scheduled Elections	(5.6)	3.8	(0.4)	(0.4)	(0.4)
Ethics Commission - Public Financing of Elections	(0.7)	2.9	(2.0)	1.1	(0.7)
Free City College	(3.1)	-	-	-	-
Mission Bay Transportation Improvement Fund	(6.7)	(0.2)	(0.2)	(0.3)	(0.3)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(10.1)	(4.8)	(10.1)	(3.5)	(1.7)
Human Services Agency - IHSS	(24.7)	(16.3)	(14.0)	(16.1)	(22.4)
Public Health - Operating and one-time costs for capital projects	34.0	(9.0)	(24.8)	(15.7)	(16.7)
All Other Departmental Savings / (Costs)	7.5	(2.9)	(0.3)	(3.7)	0.8
Subtotal Departmental Costs	**1.8**	**(31.7)**	**(52.8)**	**(39.6)**	**(42.4)**
TOTAL CHANGES TO USES	**(289.4)**	**(340.0)**	**(260.6)**	**(259.9)**	**(252.8)**
Projected Surplus (Shortfall) vs. Prior Year	**(107.4)**	**(56.0)**	**(199.5)**	**(157.0)**	**(124.0)**
Cumulative Projected Surplus (Shortfall)	**(107.4)**	**(163.4)**	**(362.9)**	**(519.9)**	**(643.9)**
2-Year Number		**(270.8)**			

Table 5: Base Case – Key Changes to General Fund-Supported Sources & Uses – CUMULATIVE CHANGE Sources & Uses FY 2019-24 ($ Millions)

Table A-1 Base Case Projection - Year-Over-Year Change

SOURCES Increase / (Decrease)	2019-20	2020-21	2021-22	2022-23	2023-24
General Fund Taxes, Revenues and Transfers net of items below	253.5	405.2	536.8	669.1	814.7
Change in One-Time Sources	(89.7)	11.6	(89.7)	(145.9)	(190.9)
Children's Fund Property Tax Setaside Revenue	1.9	7.1	12.0	16.8	22.6
Department of Public Health Revenues	3.5	19.8	36.4	53.4	70.8
Cannabis Tax	3.0	7.3	11.5	11.5	11.5
Other General Fund Support	9.7	15.1	20.1	25.1	30.1
TOTAL CHANGES TO SOURCES	**182.0**	**466.0**	**527.1**	**630.0**	**758.7**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(27.2)	(44.7)	(60.5)	(76.4)	(93.7)
MTA New Central Subway	(3.5)	(10.4)	(13.9)	(14.3)	(14.7)
Children's Fund, Baseline, and Public Education Enrichment Fund	(10.5)	(25.8)	(41.0)	(55.9)	(72.7)
Housing Trust Fund	(2.8)	(5.6)	(8.4)	(11.2)	(14.0)
Dignity Fund	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
Recreation and Parks Baseline	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
All Other Baselines	(6.6)	(11.0)	(14.6)	(18.1)	(21.9)
Deposits to General Reserve	(5.9)	3.6	0.6	14.6	14.7
Other Contributions to Reserves	7.4	6.9	6.4	6.0	(6.4)
Subtotal Baselines & Reserves	**(55.3)**	**(99.1)**	**(149.3)**	**(179.4)**	**(238.9)**
Salaries & Benefits					
Annualization of Partial Year Positions	(25.1)	(25.1)	(25.1)	(25.1)	(25.1)
Previously Negotiated Closed Labor Agreements	(18.0)	(40.9)	(42.7)	(42.7)	(42.7)
Projected Costs of Open Labor Agreements	(65.9)	(143.4)	(240.2)	(339.5)	(435.9)
Health & Dental Benefits - Current & Retired Employees	(10.4)	(36.1)	(59.5)	(84.7)	(111.4)
Retirement Benefits - Employer Contribution Rates	(37.1)	(50.0)	(25.0)	0.6	47.3
Other Salaries and Benefits Savings / (Costs)	(24.2)	(22.5)	(29.5)	(37.8)	(30.7)
Subtotal Salaries & Benefits	**(180.7)**	**(317.9)**	**(421.9)**	**(529.2)**	**(598.4)**
Citywide Operating Budget Costs					
Minimum Wage and Minimum Compensation Ordinance	(18.4)	(22.2)	(23.9)	(32.3)	(34.4)
Capital, Equipment, & Technology	2.9	(50.9)	(44.2)	(63.7)	(90.1)
Inflation on non-personnel costs and grants to non-profits	(13.5)	(49.3)	(85.2)	(122.6)	(160.8)
Debt Service & Real Estate	(14.0)	(36.4)	(46.4)	(55.1)	(60.4)
Sewer, Water, and Power Rates	(1.6)	(4.5)	(7.3)	(10.4)	(13.7)
Cannabis Tax Expenditures	(2.4)	(5.8)	(9.2)	(9.2)	(9.2)
Other Citywide Costs	(8.1)	(13.5)	(19.9)	(25.7)	(31.9)
Subtotal Citywide Operating Budget Costs	**(55.1)**	**(182.5)**	**(236.0)**	**(319.0)**	**(400.6)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	11.2	6.0	5.0	3.9	2.8
Elections - Number of Scheduled Elections	(5.6)	(1.7)	(2.2)	(2.6)	(3.0)
Ethics Commission - Public Financing of Elections	(0.7)	2.2	0.2	1.3	0.6
Free City College	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Mission Bay Transportation Improvement Fund	(6.7)	(6.9)	(7.1)	(7.4)	(7.7)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(10.1)	(14.9)	(24.9)	(28.5)	(30.1)
Human Services Agency - IHSS	(24.7)	(41.0)	(54.9)	(71.0)	(93.4)
Public Health - Operating and one-time costs for capital projects	34.0	24.9	0.1	(15.6)	(32.3)
All Other Departmental Savings / (Costs)	7.5	4.6	4.3	0.7	1.5
Subtotal Departmental Costs	**1.8**	**(29.9)**	**(82.7)**	**(122.4)**	**(164.8)**
TOTAL CHANGES TO USES	**(289.4)**	**(629.4)**	**(890.0)**	**(1,149.9)**	**(1,402.7)**
Cumulative Projected Surplus (Shortfall)	**(107.4)**	**(163.4)**	**(362.9)**	**(519.9)**	**(643.9)**
2-Year Number		**(270.8)**			

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 section. More detail on specific revenue assumptions included in this report, are detailed below.

General Fund Taxes, Revenues & Transfers

General Context Underlying Revenue Estimates

This projection assumes continued but slowing 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. As of FY 2017-18 year-end, growth rates in a number of tax revenues, including sales, parking, and real property transfer tax, have slowed. The pace of revenue growth during the projection period will depend heavily on the strength of the national economy and local technology industry. Overall, growth rates are projected to continue moderating through the report period.

Voters approved three revenue measures in November 2018, including a new gross receipts tax on cannabis (Proposition D) and the dedication of a portion of hotel tax revenue to arts and cultural organizations (Proposition E). While the shift in hotel tax allocations was included in the adopted FY 2018-19 and FY 2019-20 budget, cannabis tax revenues were not. Revenue from the Cannabis Tax measure, after accounting for baseline and reserve contributions, is estimated to be $2.4 million in FY 2019-20 growing to $9.1 million in FY 2023-24, and are assumed in this projection. The third measure, a gross receipts tax measure (Proposition C) dedicated to housing and homeless services is not assumed in this report due to legal uncertainty. This is discussed further later in this report.

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 $1,728.0 million in FY 2018-19 to an estimated $2,110.0 million in FY 2023-24. General Fund property tax revenue assumptions include:

- **Roll growth:** The locally assessed secured roll typically grows based upon an annual statewide inflation factor (California CPI) capped at 2% and new property value assessments triggered by changes in ownership or new construction. The California CPI is assumed to remain at 2% each fiscal year through FY 2023-24.

  For changes in ownership and new construction, it is assumed that the local secured assessment roll will grow about 3% in addition to the 2% inflation factor in FY 2019-20, FY 2020-21, and FY 2021-22 for a countywide total of about 5% annual growth. For FY 2022-23 and FY 2023-24, the additional growth is assumed to be about 2% on the local secured assessment roll for a countywide total growth of about 4% per year.

  San Francisco experienced significant growth in the local secured assessment roll in FY 2017-18 (11.2% after non-reimbursable exemptions) and FY 2018-19 (11.3% after non-reimbursable exemptions). Approximately 60% of this growth was due to enrollment of higher values following a change in ownership, the result of a historically high number of commercial property transactions, as well as a sustained effort by the Assessor's Office to reduce the average time such items spend in its enrollment queue. An additional 20% was from enrollment of completed and in-progress construction, and the remaining 20% from CPI. This plan anticipates lower roll growth from enrollment of changes in ownership and new construction to reflect the nature of previous growth.

The state-assessed board roll and the unsecured roll comprise about 7% of overall taxable property values in San Francisco and fluctuate based on different factors. In this plan, the board roll value is assumed to remain at the FY 2018-19 value of $3.7 billion, and the unsecured roll is assumed to grow at an annual rate of 1% from the FY 2018-19 value of $14.4 billion through FY 2023-24.

- **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 assessment revenue of about $71.4 million and escape assessment revenue of about $4.8 million each year from FY 2019-20 through FY 2023-24. Supplemental and escape assessments have been a significant source of variance in property tax revenues. As the Assessor made significant progress towards reducing the average age of items in their enrollment queue in the past two years, the volume of escape assessments is anticipated to decline significantly going forward.

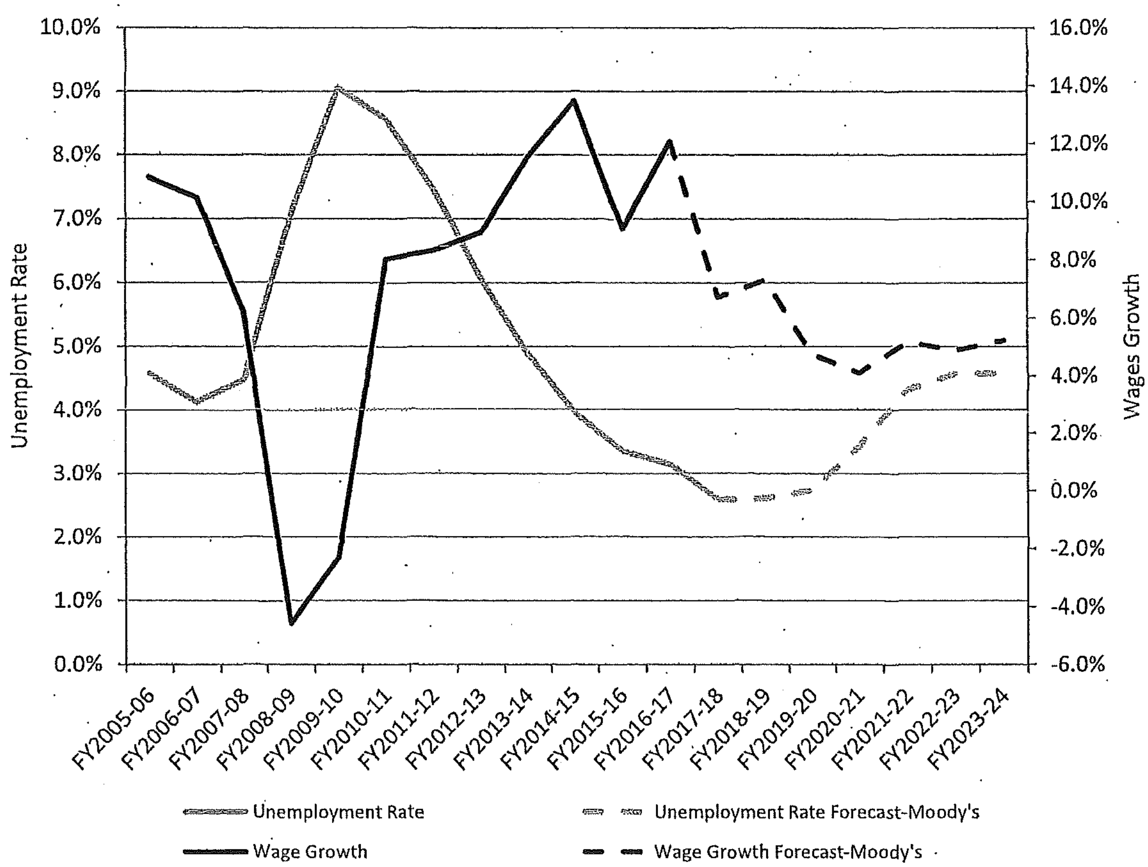
- **Assessment Appeals Board reserve requirements:** General Fund property tax revenues set-aside to fund Assessment Appeals Board (AAB) decisions is assumed at $20.0 million each year from FY 2019-20 through FY 2023-24. Properties that recently changed ownership or were recently built are the most likely to receive temporary reductions in assessed valuations, potentially resulting in property tax refunds when applied to prior tax years.

Business Taxes

Business tax is expected to grow from a budget of $879.4 million in FY 2018-19 to $1,146.2 million by FY 2023-24. Business taxes include payroll, business registration fees, and gross receipts taxes. Revenues from business taxes and registration fees follow economic conditions in the City and grew strongly from FY 2010-11 to FY 2017-18 reflecting underlying gains in employment and wages during the period. Business tax revenues are sensitive to changes in the economic condition of the local economy. Two factors that determine the level of revenue generated by the business tax are employment and wages. As shown in Figure 11, wages are projected to grow steadily but at a slow pace between FY 2018-19 and FY 2023-24, while unemployment is projected to rise from a historical low in FY 2018-19 of 2.3%.

In November 2012, Proposition E was passed to replace a 1.5% payroll tax on businesses with a tax on a business' gross receipts at rates that vary by size and type of business. During the subsequent five-year period, the gross receipts tax was phased in as the payroll tax was phased out. Tax year 2018 represents the final year of the phase-in. At the end of the year, the payroll tax is not expected to be fully phased-out. One component of variation in business taxes from year-to-year has been the impact of the rate changes for both the payroll tax and the gross receipts tax. These changes, coupled with the City's strong economic condition, have meant that business taxes have grown steadily over the last five years. In the current year, FY 2018-19, economic growth is expected to moderate from strong growth in FY 2017-18; however, the final rate changes from the phase-in will be in effect, driving projected growth in business taxes of 11.8%. During the following five-year period, there will be no more rate changes, and business tax collections are assumed to track economic conditions, which are expected to grow at a steady but much slower pace. Any changes to the economic condition could impact revenue collections as well as any other exogenous factors. For example, tax litigation may present downside risk to the projection, while potential new initial public offerings would present upside risk to the projection, since stock options exercised by employees would represent new payroll growth. There are no assumptions in this Base Case made about litigation risk or potential initial public offerings of San Francisco-based firms.

Figure 11: San Francisco Unemployment and Wage Growth
FY 2005-06 to FY 2023-24 Actuals and Projected



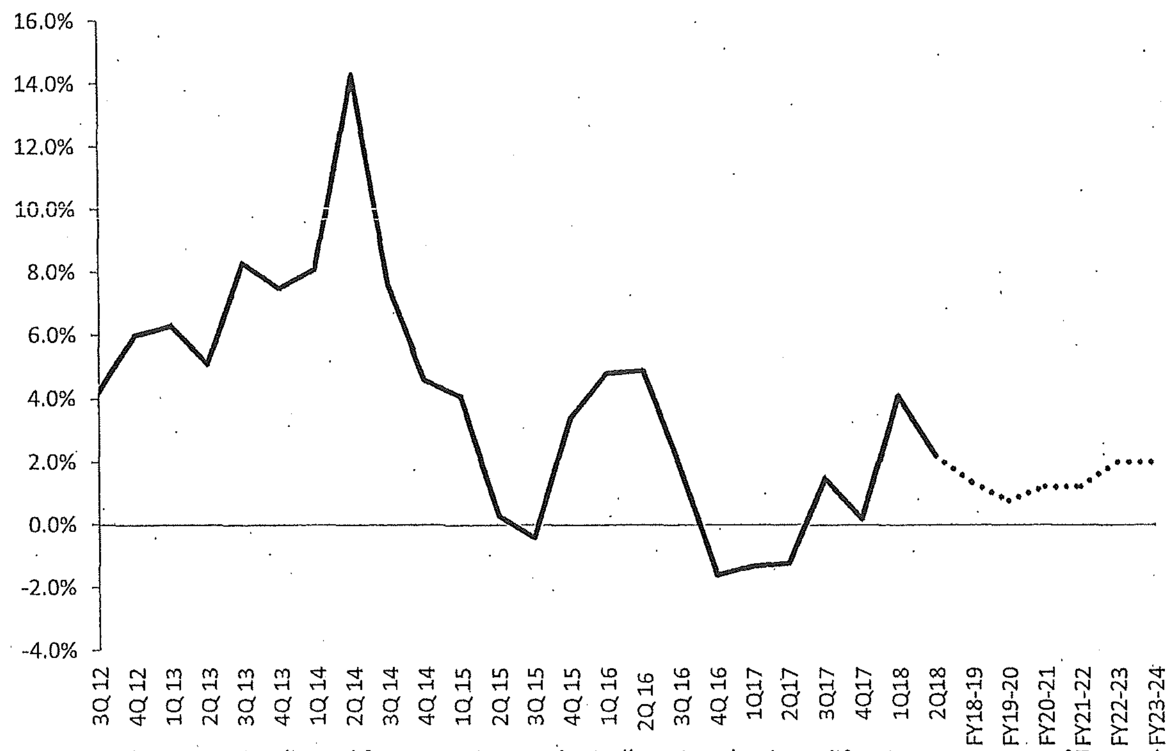
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Moody's Analytics Forecast

In June 2018, voters adopted a dedicated gross receipts tax measure on commercial rent (June 2018 Proposition C) to support child care and education. The City has been joined in a validation action at the Superior Court to resolve whether the measure required approval by a simple majority or two-thirds of voters. In November 2018, voters adopted an additional gross receipts tax measure (also Proposition C) dedicated to housing and homeless services. An ordinance to pursue a validation action for this measure was approved by the Board of Supervisors and the Mayor in December 2018. It should also be noted that the revenue from both Proposition Cs is directed towards special revenue funds, with the exception of a portion of proceeds from June Proposition C, from which 15% is allocated to the General Fund. Given the legal uncertainty, that potential General Fund contribution is not assumed in this report.

Sales Tax

Sales tax is projected to grow from a budget of $196.9 million in FY 2018-19 to $210.1 million by FY 2023-24. As shown in Figure 12 below, growth rates have ranged from highs above 8% per quarter in FY 2013-14 to negative quarters in FY 2016-17. The projections assumed in this report anticipate lower growth rates of 1-2% due to a combination of factors including: continued declines in sales of general consumer goods at brick and mortar stores, continued shift of consumer spending away from tangible goods and towards services not subject to sales tax, and the risk of tax base erosion should locally-based online businesses relocate. The projection does not take into consideration potential impacts from the recent Supreme Court *Wayfair* ruling because of uncertainty about the State's response.

Figure 12: Actual and Projected Changes in Local Sales Tax Revenues FY 2012-13 through FY 2023-24



Note: Data is adjusted for corrections and misallocations by the California Department of Tax and Fee Administration.

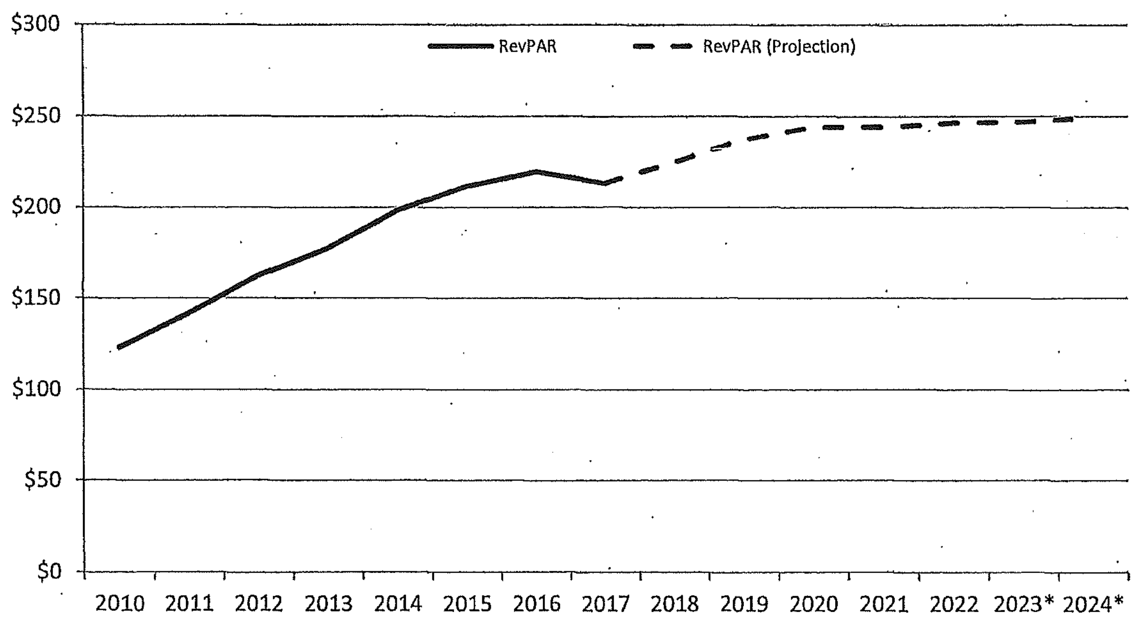
Hotel Tax

Hotel taxes deposited in the General Fund are projected to grow from a budget of $375.8 million in FY 2018-19 to $399.6 million in FY 2023-24. 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). Growth in FY 2018-19 RevPAR is projected to rebound to 6% compared to slow and negative growth in FY 2016-17 and FY 2017-18, when the Moscone Convention Center experienced a partial closure. In FY 2018-19, Moscone will be open for a full year. RevPAR between FY 2019-20 and FY 2023-24 is expected to grow, but at a slowing pace, and hotel revenue is expected to follow this trend. Figure 13 provides a recent history of RevPAR levels and projections for the five-year period on a calendar basis.

The projection reflects the passage of Proposition E on the November 2018 ballot, which partially reallocates General Fund hotel tax to arts programming outside the General Fund. The hotel tax projections shown in this report are net of the arts allocations. For the second half of FY 2018-19, a $16.0 million allocation is assumed and for the full year in FY 2019-20, a $33.1 million allocation is assumed.

In August 2018, the California Supreme Court delivered its final rulings regarding online travel companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. The Court ruled in favor of the online travel companies, and San Francisco refunded the disputed taxes plus interest in September 2018. Funds necessary to make the payments had been held in reserve given the legal risk, therefore there is minimal impact on current or future years' hotel tax revenue.

Figure 13: San Francisco Revenue per Available Room (RevPAR) Growth 2010-2024 Actual and Projected



Source: CBRE Hotel's Americas Research
*RevPAR for 2023 and 2024 projected by the Controller's Office

Real Property Transfer Tax
Real property transfer tax (RPTT) revenue is projected to remain at the FY 2018-19 budgeted level of $228.0 million annually through the projection period. RPTT is one of the most volatile of all revenue sources and is highly sensitive to economic cycles, interest rates, and other factors affecting global real estate investment decisions.

Transfer tax rates vary according to the amount of the transaction. In November 2016, voters approved the transfer tax on real estate properties over $5.0 million (Proposition W), which increased the rate on qualifying properties and contributed to record high transfer tax collections of $410.6 million in FY 2016-17. FY 2017-18 net revenue of $280.4 million began a return toward a more long-term average value. Under the current rate structure, the highest rate is 3% of transaction value for transactions of more than $25.0 million. While the number of transactions in this tax tier is very small (approximately 0.5% of transactions in FY 2017-18), the proportion of total transfer tax revenue they generate is quite large (48% in FY 2017-18). These high-value transactions are the primary reason for revenue volatility. The projection assumes that such transactions will taper off and that revenue will fall toward longer term average levels.

Table 6: Summary of General Fund-Supported Operating Revenues and Transfers in FY 2020-24 ($ millions)

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-24
	Year-End Pre-Audit	Original Budget	Projection	Projection	Projection	Projection	Projection
Property Taxes	$ 1,661.0	$ 1,728.0	$ 1,768.0	$ 1,854.0	$ 1,935.0	$ 2,015.0	$ 2,110.0
Business Taxes	897.1	879.4	1,015.9	1,051.4	1,080.8	1,113.0	1,146.2
Sales Tax	192.9	196.9	197.0	199.5	201.9	206.0	210.1
Hotel Room Tax	382.2	375.8	387.8	393.7	395.7	397.7	399.6
Utility Users Tax	94.5	99.1	97.7	99.2	100.8	102.5	104.3
Parking Tax	83.5	85.5	83.5	83.5	83.5	83.5	83.5
Real Property Transfer Tax	280.4	228.0	228.0	228.0	228.0	228.0	228.0
Sugar Sweetened Beverage Tax	7.9	15.0	15.0	15.0	15.0	15.0	15.0
Stadium Admission Tax	1.1	1.2	5.5	5.5	5.5	5.5	5.5
Access Line Tax	51.3	51.9	52.6	54.2	55.8	57.5	59.2
Cannabis Tax	-	-	3.0	7.3	11.5	11.5	11.5
Subtotal - Local Tax Revenues	**3,651.8**	**3,660.8**	**3,854.1**	**3,991.2**	**4,113.6**	**4,235.3**	**4,372.9**
Licenses, Permits & Franchises	28.8	30.8	30.6	30.7	30.9	31.1	31.3
Fines, Forfeitures & Penalties	8.2	3.1	3.2	3.2	3.2	3.2	3.2
Interest & Investment Income	51.7	27.3	78.8	90.4	96.2	99.1	99.1
Rents & Concessions	19.8	14.8	15.0	15.0	15.0	15.0	15.0
Subtotal - Licenses, Fines, Interest, Rent	**108.4**	**76.0**	**127.5**	**139.3**	**145.3**	**148.4**	**148.6**
Social Service Subventions	246.7	265.8	271.2	271.2	271.2	271.2	271.2
Other Grants & Subventions	(14.7)	12.7	13.2	13.2	13.2	13.2	13.2
Subtotal - Federal Subventions	**232.0**	**278.4**	**284.4**	**284.4**	**284.4**	**284.4**	**284.4**
Social Service Subventions	199.5	219.4	222.6	222.6	222.6	222.6	222.6
Health & Welfare Realignment - Sales Tax	156.0	168.0	165.6	169.3	173.2	177.3	181.4
Health & Welfare Realignment - VLF	41.9	41.1	42.0	42.4	42.8	43.2	43.6
Health & Welfare Realignment - CalWORKs	26.1	19.9	20.2	20.2	20.2	20.2	20.2
Health/Mental Health Subventions	141.2	153.1	154.6	154.6	154.6	154.6	154.6
Public Safety Sales Tax	104.8	104.7	104.3	106.3	108.6	110.8	113.2
Motor Vehicle In-Lieu (County & City)	0.8	-	-	-	-	-	-
Public Safety Realignment (AB109)	37.4	39.0	41.6	42.4	43.3	44.2	45.1
Other Grants & Subventions	24.3	15.9	16.4	16.4	16.4	16.4	16.4
Subtotal - State Subventions	**732.1**	**761.0**	**767.2**	**774.2**	**781.6**	**789.3**	**797.0**
General Government Service Charges	62.6	64.4	65.0	65.0	65.0	65.0	65.0
Public Safety Service Charges	42.1	43.6	44.3	44.3	44.3	44.3	44.3
Recreation Charges - Rec/Park	17.0	21.5	22.1	22.1	22.1	22.1	22.1
MediCal, MediCare & Health Svc. Chgs.	90.5	87.5	84.9	84.9	84.9	84.9	84.9
Other Service Charges	23.0	31.3	18.5	18.5	18.5	18.5	18.5
Subtotal - Charges for Services	**235.1**	**248.4**	**234.9**	**234.9**	**234.9**	**234.9**	**234.9**
Recovery of General Government Costs	9.9	12.9	12.9	12.9	12.9	12.9	12.9
Other General Fund Revenues	17.3	53.4	43.8	43.8	43.8	43.8	43.8
TOTAL REVENUES	**4,986.6**	**5,090.9**	**5,324.9**	**5,480.8**	**5,616.6**	**5,749.0**	**5,894.6**
Transfers In to General Fund							
Airport	46.5	46.6	51.5	51.5	51.5	51.7	51.7
Other Transfers	179.3	124.1	104.7	104.7	104.7	114.7	114.7
Total Transfers-In	**225.8**	**170.7**	**156.2**	**156.2**	**156.2**	**166.4**	**166.4**
TOTAL GF Revenues and Transfers-In	**5,212.5**	**5,261.6**	**5,481.1**	**5,637.0**	**5,772.8**	**5,915.4**	**6,061.0**

Table 7 shows the percent change in General Fund revenues projected over the next five years.

Table 7: Growth Factors for General Fund Revenue Projections FY 2020-24

	FY 2019-20 % Chg from FY 2018-19 Original Budget	FY 2020-21 % Chg from FY 2019-20 Projection	FY 2021-22 % Chg from FY 2020-21 Projection	FY 2022-23 % Chg from FY 2021-22 Projection	FY 2023-24 % Chg from FY 2022-23 Projection
Property Taxes	2.3%	4.9%	4.4%	4.1%	4.7%
Business Taxes	15.5%	3.5%	2.8%	3.0%	3.0%
Sales Tax	0.1%	1.2%	1.2%	2.0%	2.0%
Hotel Room Tax	3.2%	1.5%	0.5%	0.5%	0.5%
Utility Users Tax	-1.4%	1.5%	1.7%	1.7%	1.7%
Parking Tax	-2.4%	0.0%	0.0%	0.0%	0.0%
Real Property Transfer Tax	0.0%	0.0%	0.0%	0.0%	0.0%
Sugar Sweetened Beverage Tax	0.0%	0.0%	0.0%	0.0%	0.0%
Stadium Admission Tax	358.3%	0.0%	0.0%	0.0%	0.0%
Access Line Tax	1.4%	3.1%	3.0%	3.0%	3.0%
Cannabis Tax	n/a	141.7%	58.6%	0.0%	0.0%
Subtotal - Tax Revenues	**5.3%**	**3.6%**	**3.1%**	**3.0%**	**3.2%**
Licenses, Permits & Franchises	-0.8%	0.6%	0.6%	0.6%	0.6%
Fines, Forfeitures & Penalties	1.0%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	188.9%	14.8%	6.4%	3.0%	0.0%
Rents & Concessions	1.7%	0.0%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**67.8%**	**9.3%**	**4.3%**	**2.1%**	**0.1%**
Social Service Subventions	2.1%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	3.9%	0.0%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**2.2%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	1.5%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	-1.4%	2.2%	2.3%	2.3%	2.3%
Health & Welfare Realignment - VLF	2.2%	0.9%	0.9%	0.9%	0.9%
Health & Welfare Realignment - CalWORKs MOE	1.6%	0.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	1.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	-0.4%	2.0%	2.1%	2.1%	2.1%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Realignment (AB109)	6.6%	2.0%	2.1%	2.1%	2.1%
Other Grants & Subventions	3.1%	0.0%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**0.8%**	**0.9%**	**1.0%**	**1.0%**	**1.0%**
General Government Service Charges	0.9%	0.0%	0.0%	0.0%	0.0%
Public Safety Service Charges	1.6%	0.0%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	2.7%	0.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	-3.0%	0.0%	0.0%	0.0%	0.0%
Other Service Charges	-40.9%	0.0%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**-5.5%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**-17.9%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**4.6%**	**2.9%**	**2.5%**	**2.4%**	**2.5%**
Transfers in to General Fund					
Airport	10.6%	0.0%	0.0%	0.3%	0.0%
Other Transfers	-15.6%	0.0%	0.0%	9.6%	0.0%
Total Transfers In	**-8.5%**	**0.0%**	**0.0%**	**6.5%**	**0.0%**
TOTAL GF Revenues and Transfers-In	**4.2%**	**2.8%**	**2.4%**	**2.5%**	**2.5%**

Changes 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.

Changes in Starting Fund Balances

This plan assumes the use of available fund balance of $450.0 million. This includes $223.3 million previously appropriated in the FY 2019-20 adopted budget and anticipated higher than budgeted revenues from FY 2017-18 and FY 2018-19 of $20.0 million and $136.7 million, respectively. In addition, the balance includes $70.0 million of unappropriated fund balance from FY 2017-18 that was assigned as a contingency reserve for the purpose of managing personnel wage costs, as well as manage volatility of employee health and pension benefit costs.

The report assumes approximately two-thirds of this fund balance will be used in FY 2019-20 and FY 2020-21 with the remaining third used in FY 2021-22 and FY 2022-23, as a one-time source. This results in a year-over-year reduction in starting fund balances of $89.7 million in FY 2019-20, an increase of $101.2 million in FY 2020-21, a loss of $101.2 million in FY 2021-22, a loss of $56.2 million in FY 2022-23, and a loss of $45.0 million in FY 2023-24.

Changes in Use of Reserves

No uses of reserves are projected in the Base Case. Please see Table 9 below for detail on reserve balances. Please note that reserve balances in this section assume unaudited estimates of FY 2017-18 year end reserve deposits, as well as FY 2018-19 deposits projected to occur if the City recognizes FY 2017-18 and FY 2018-19 excess ERAF property taxes in FY 2018-19. A few reserves are highlighted in the text below:

- **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.

- **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 no withdrawals or deposits during the plan years.

- **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 (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 during the plan years.

- **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. No withdrawals or deposits are projected during the plan years.

Department of Public Health Revenues

The Department of Public Health (DPH) projects a slight revenue increase of $3.5 million in FY 2019-20, increasing by $16.3 million in FY 2020-21, $16.6 million in FY 2021-22, $17.0 million in FY 2022-23, and $17.4 million in FY 2023-24. This assumes a decrease in revenue attributed to changes under the Medi-Cal 1115 Waiver, and is expected to be reduced annually as outlined in the waiver. At the same time, this decrease is partially offset by projected growth in revenues from direct patient care in the San Francisco Health Network (SFHN), including capitated and fee-for-service reimbursement. Approximately 90,000 individuals are currently enrolled to receive health care services at SFHN through programs including Medi-Cal Managed Care, Healthy Workers, and Healthy San Francisco. The forecast assumes SFHN will maintain this level of enrollment. Going forward, the report assumes fee-for-service payments will increase by an average of 2.5% each year. This projection does not assume any changes to DPH revenues as a result of the expiration of current Medi-Cal Waiver in December 2020 nor any other potential changes to the Affordable Care Act. The revenue impact of the new waiver to San Francisco will depend on the programmatic changes that have not been negotiated, but will be closely monitored by DPH.

Cannabis Tax

In November 2018, a new gross receipts tax on cannabis (Proposition D), passed with over 66% of the vote. It levies a gross receipts tax of 1% to 5% on marijuana businesses. The projected revenue (before required baseline and reserve contributions), is $3.0 million in FY 2019-20, growing by $4.3 million in FY 2020-21, and an additional $4.3 million in FY 2021-22, leveling off in FY 2022-23 and FY 2023-24.

Other General Fund-Supported Revenues

Other General Fund-supported revenues are projected to increase by $9.7 million in FY 2019-20, $5.4 million in FY 2020-21, $5.0 million in FY 2021-22, $4.9 million by FY 2022-23, and $5.0 million in FY 2023-24. These revenues include Human Services Agency revenues and Airport revenues as well as other small changes.

- **Human Services Agency Revenues:** The Human Services Agency (HSA) is projected to draw incremental state and federal revenues to pay for a portion of salaries and fringe benefit cost growth included in this report. In each year, this results in incremental revenue increases of $4.0 million in FY 2019-20, an additional $2.7 million in FY 2020-21, an additional $2.7 million in FY 2021-22, an additional $2.8 million in FY 2022-23, and an additional $2.9 million in FY 2023-24.
- **Airport Revenues:** The General Fund receives a portion of Airport concessions revenue annually. For FY 2019-20 through FY 2023-24, the Airport projects these revenues to increase by $4.9 million in FY 2019-20, remain flat in FY 2020-21 and FY 2021-22, increase $0.2 million in FY 2022-23, and remain flat in FY 2023-24.

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 $55.3 million, $43.8 million, $50.3 million, $30.0 million, and $59.5 million in FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively. Changes to a selection of baseline contributions and spending requirements are summarized below and in Table 8. Please note that Table 8 is not a comprehensive list of all revenue allocation and spending requirements, and amounts in this table do not reflect anticipated baseline allocations due to the recognition of excess ERAF revenue in FY 2018-19.

Table 8: Projected Uses, Selected Baselines, and Mandated Costs, FY 2020-24 ($ in millions)

Total Contribution (1) (2)	FY 18-19 Budget	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
MTA Baselines (Including Prop B)	455.7	470.9	486.4	510.8	530.1	546.3	564.1
Public Education Enrichment Fund	117.1	123.0	125.7	130.4	134.5	138.5	143.0
Children's Fund (Property Tax Set Aside)	101.7	101.9	103.8	109.0	113.9	118.7	124.5
Children's Baseline (3)	181.4	185.5	189.6	196.8	203.0	209.0	215.6
Library Preservation Fund (Baseline)	83.6	87.8	89.7	93.1	96.1	98.9	102.1
Recreation and Parks Baseline	73.2	73.2	76.2	79.2	82.2	85.2	88.2
Dignity Fund	47.1	47.1	50.1	53.1	56.1	59.1	62.1
Housing Trust Fund	34.0	34.0	36.8	39.6	42.4	45.2	48.0
Controller- City Services Auditor	18.8	18.8	19.4	20.0	20.5	21.0	21.5
Municipal Symphony Baseline	3.2	3.2	3.4	3.6	3.7	3.9	4.0
	1,115.9	**1,145.5**	**1,181.0**	**1,235.6**	**1,282.5**	**1,325.9**	**1,373.1**

Change from Prior Year	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
MTA Baselines (Including Prop B)	15.2	30.7	24.4	19.3	16.3	17.8
Public Education Enrichment Fund	5.9	8.5	4.8	4.1	4.0	4.4
Children's Fund (Property Tax Set Aside)	0.2	1.9	5.2	4.9	4.8	5.8
Children's Baseline (3)	4.1	8.2	7.2	6.2	6.0	6.7
Library Preservation Fund (Baseline)	4.2	6.1	3.4	2.9	2.9	3.2
Recreation and Parks Baseline	-	3.0	3.0	3.0	3.0	3.0
Dignity Fund	-	3.0	3.0	3.0	3.0	3.0
Housing Trust Fund	-	2.8	2.8	2.8	2.8	2.8
Controller- City Services Auditor	-	0.6	0.7	0.5	0.5	0.5
Municipal Symphony Baseline	0.0	0.2	0.2	0.2	0.2	0.2
	29.6	**64.9**	**54.6**	**46.9**	**43.4**	**47.2**

(1) Does not include Transitional Aged Youth baseline, Street Tree Maintenance baseline or property tax allocations to Open Space or Library Preservation F
(2) Amounts in this table are based on Aggregate Discretionary Revenue that does not include excess ERAF proceeds.
(3) Amounts in this table represent total funding requirement. The base case deficit projection reflects only the increment needed to meet the requirement, which was funded above the required amount in the FY 2018-19 and FY 2019-20 adopted budget.

- **MTA Baselines (including Proposition 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. Funding for these two baselines is adjusted annually by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). In addition, this baseline is required to be adjusted for significant service increases. Beginning in FY 2018-19, the MTA baseline will be increased due to the opening of the Central Subway. Also included in the MTA baseline total is an amount equal to 80% of annual parking tax revenue as mandated by Charter Section 16.110.

  Proposition B, passed by the voters in November 2014, additionally adjusts these baselines by the growth in population; first, in FY 2015-16 by the cumulative growth in population during the most recent ten year period, and subsequently by the annual growth in population.

  The funds provided through Proposition B must be appropriated as follows:

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

Combining all required Muni baselines and parking tax transfers, the MTA is expected to receive additional incremental baseline revenue each year over the next five years of $30.7 million, $24.4 million, $19.3 million, $16.3 million, and $17.8 million.

- **Children's Fund and Public Education Enrichment Fund:** This item includes the additional costs of the Children's Fund, Children's Baseline and Public Education Enrichment Fund (PEEF) Contribution and Baseline. Taken together, these items increase by $10.5 million in FY 2019-20, $15.4 million in FY 2020-21, $15.2 million in FY 2021-22, $14.8 million in FY 2022-23, and $16.9 million in FY 2023-24.
    - **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 $100.0 million or more, and eliminated a credit for in-kind services allowed as an offset against the contribution.

      The PEEF contribution as well as baseline are projected to increase by $8.5 million, $4.8 million, $4.1 million, $4.1 million, and $4.4 in FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively. These increases reflect 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 $0.03 for each $100 of assessed property value in FY 2014-15 growing to $0.04 by FY 2018-19. In addition, Proposition C added a new priority population to benefit Transitional Aged Youth (TAY). The Children and Youth Fund will increase by $1.9 million in FY 2019-20, $5.2 million in FY 2020-21, $4.9 million in FY 2021-22, $4.8 million in FY 2022-23, and $5.8 million in FY 2023-24.
    - **Children's Baseline:** Charter Section 16.108 established a Children's Service Fund, where a base amount of required spending was established, adjusted annual by changes in ADR. Based on projected aggregate discretionary revenue, this report assumes a *shortfall* from required expenditure appropriation for the Children's Baseline of $8.2 million in FY 2019-20, $7.2 million in FY 2020-21, $6.2 million in FY 2021-22, $6.0 million in FY 2022-23, and $6.7 million in FY 2023-24.
- **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 the Charter.
- **Dignity Fund:** In November 2016, voters adopted Proposition I, a charter amendment creating the Dignity Fund and setting baseline appropriations to support seniors and adults with disabilities. The measure required the City to set a $38.0 million baseline for the Dignity Fund in FY 2016–17, increasing by $6.0 million in FY 2017–18, and $3.0 million annually beginning in FY 2018–19. The City may temporarily suspend the required increases in any year in which a General Fund deficit of $200.0 million or more is projected. This report does not assume suspension of required increases in any years.
- **Recreation and Parks Baseline:** In June 2016, voters adopted Proposition B, a charter amendment setting baseline appropriations to the Recreation and Parks Department. The FY 2015-16 budget appropriated approximately $64.0 million of General Fund support to the department. The measure requires the City to increase appropriations by $3.0 million annually through FY 2026-27, after which it is adjusted by the change in General Fund aggregate discretionary revenues. The City may temporarily

suspend the required increases in any year in which a General Fund deficit of $200.0 million or more is forecasted. This report does not assume suspension of required increases in any years.

- **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, 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.

The City has a number of reserves intended to reduce the effect of revenue volatility on the City's budget and service levels, particularly in the case of economic shocks. Other reserves fund citywide expenses for labor, litigation, and other costs. Table 9 outlines the projected balances of select reserves. Please note, projected ending balances for the Rainy Day Economic-Stabilization and One-Time Reserve reflect deposits described below due to the recognition of excess ERAF revenue realized in FY 2018-19.

Table 9: Projected Reserve Balances FY 2018-24 ($ in millions)

	FY 17-18 Ending Balance (1)	FY 18-19 Ending Balance (2)	FY 19-20 Ending Balance	FY 20-21 Ending Balance	FY 21-22 Ending Balance	FY 22-23 Ending Balance	FY 23-24 Ending Balance
General Reserve	106.9	131.4	146.4	164.4	168.5	172.5	176.8
Budget Savings Incentive Fund	78.1	78.1	78.1	78.1	78.1	78.1	78.1
Recreation & Parks Budget Savings Incentive Reserve	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Rainy Day Economic Stabilization Reserve	90.1	168.1	168.1	168.1	168.1	168.1	168.1
Rainy Day One-Time Reserve	55.2	107.2	107.2	107.2	107.2	107.2	107.2
Budget Stabilization Reserve	383.2	383.2	383.2	383.2	383.2	383.2	383.2
Salary and Benefits Reserve (3)	-	-	-	-	-	-	-
Litigation Reserve (3)	-	-	-	-	-	-	-
TOTAL	714.3	868.9	883.9	901.9	906.0	909.9	914.3

(1) Pre-audit estimates.
(2) Include estimated deposits due to recognition of excess ERAF.
(3) These reserves are assumed to either be spent or closed to fund balance at the end of each fiscal year.

- **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 2.5% in FY 2018-19 of regular General Fund revenues in FY 2018-19 to 2.75% in FY 2019-20, and 3% in FY 2021-21 and after. This report assumes no reserve uses in FY 2018-19 or subsequent years, and required deposits in all years. Unspent monies at the end of each fiscal year will be carried forward to the subsequent year.

- **Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of revenue growth over 5%, which can be used when revenues decline. This report assumes a deposit of $78.0 million in FY 2018-19 due to recognition of excess ERAF revenues. There are no deposits or withdrawals assumed during the projection years.

- **Rainy Day One-Time Reserve:** Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25% of revenue growth over 5%, which can be used towards one-time expenses. This report assumes a deposit of $52.0 million in FY 2018-19 due to recognition of excess ERAF revenues. There are no deposits or withdrawals assumed during the projection years.

- **Budget Stabilization Reserve:** Consistent with projections of transfer tax revenue, as well as the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates no deposits to or withdrawals from this reserve during the plan period.

- **Salary and Benefits Reserve:** In each of the five years, this plan projects increasing the Salary and Benefits Reserve by CPI from the $14.5 million level appropriated in FY 2018-19 to support costs related to labor agreements not budgeted in individual departments, and assumes the entire reserve will be fully spent each year. The projected reserve need decreases by $9.9 million in FY 2019-20 from the prior year as the FY 2018-19 level covers the costs to staff 24/7 operations for two weekend days and then increases by $12.4 in FY 2023-24 largely for the same reason.

- **Litigation Reserve:** This reserve supports annual city liabilities related to claims, settlements, and judgments. This plan assumes $11.0 million is appropriated and fully spent in all plan years.

Uses – Salaries & Benefits

This report projects General Fund-supported salaries and fringe benefits to increase by $180.7 million in FY 2019-20, $137.1 million in FY 2020-21, $104.0 million in FY 2021-22, $107.3 million in FY 2022-23, and $69.2 million in FY 2023-24. 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 2019-20, the City is projected to incur $25.1 million in additional costs to annualize positions funded for only a partial year in the FY 2018-19 budget.

Previously Negotiated Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be $18.0 million for FY 2019-20, $22.8 million for FY 2020-21, and $1.8 million for FY 2021-22. Police and Firefighters' unions are the only bargaining units that have closed Memorandum of Understandings (MOU). For Firefighters' unions, this report assumes the full cost of negotiated terms, including wage increase of 3% for FY 2019-20 and FY 2020-21. For Police Officers' unions, this report assumes the full cost of negotiated terms, including the negotiated wage increase of 3% for FY 2019-20 and 3% for FY 2020-21 (2% starting in July 2020 and an additional 1% starting in January 2021). All other employees' unions have open contracts and will enter negotiations for MOUs with the City in the spring of 2019.

Projected Costs of Open Labor Agreements: With the exception of Police and Firefighters, most labor unions have open contracts and will enter negotiations for MOUs with the City in the spring of 2019. Therefore, beginning in FY 2019-20, this projection assumes that these unions will have salary increases equal to the change in the Consumer Price Index (CPI), which is using the average projection of the California Department of Finance SF Area CPI and Moody's SF Metropolitan Statistical Area CPI. This is 2.85% for FY 2019-20, 3.08% for FY 2020-21, 2.99% for FY 2021-22, 3.03% for FY 2022-23, and 3.01% for FY 2023-24. For Firefighters' and Police Officers' unions, this report assumes their negotiated rate increase of 3% for FY 2019-20 and FY 2020-21, as described above, and increases of CPI thereafter.

The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be $65.9 million in FY 2019-20, $77.5 million in FY 2020-21, $96.9 million in FY 2021-22, $99.3 million in FY 2022-23, and $96.4 million in FY 2023-24. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in FY 2018-19 for most employees and FY 2020-21 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.

Projections in this report assume average increases of approximately 6% in health and dental rates in each year for active employees. Given these assumptions, health and dental insurance premium costs paid by the employer related to current employees are projected to increase by $4.6 million in FY 2019-20, $16.7 million in FY 2020-21, $16.7 million in FY 2021-21, $18.1 million in FY 2022-23, and $19.1 million in FY 2023-24.

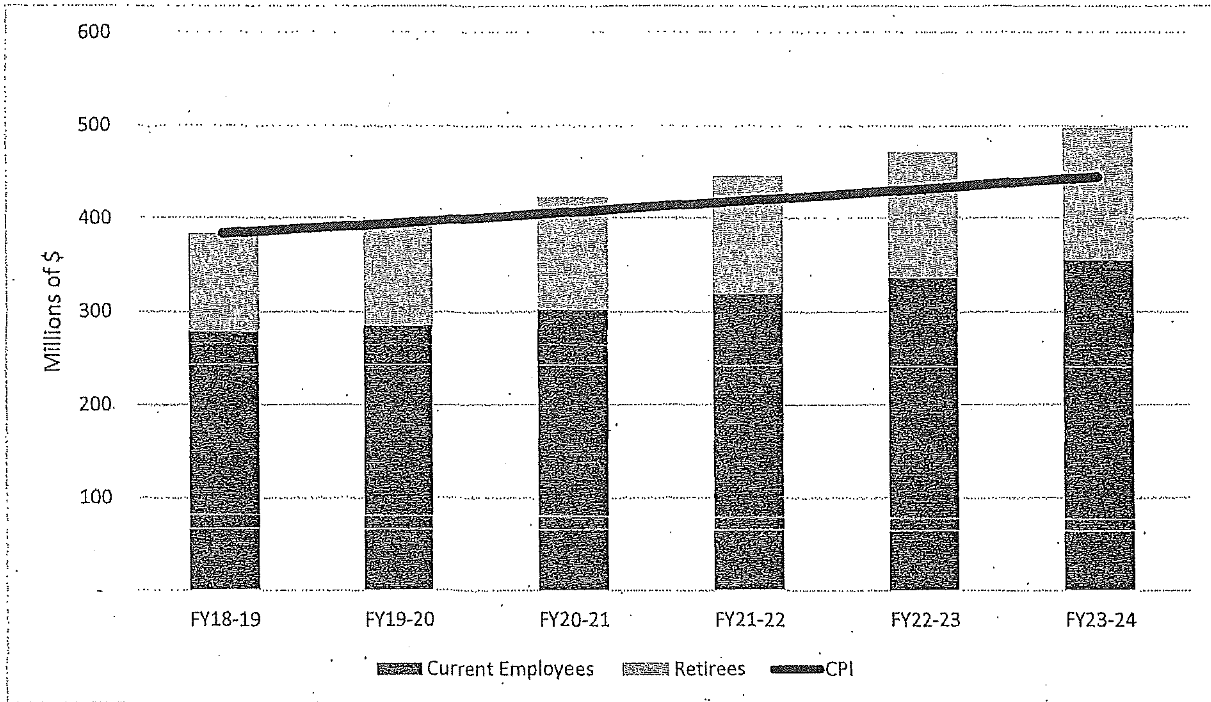
These rates are driven by utilization and the cost of health care. While the City's employee population is assumed to remain relatively stable, price increases on the provider side could result in an increase in rates above what is assumed in this report. Changes to the Affordable Care Act at the federal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

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 mandates health coverage for retired city employees. This five-year projection assumes that the cost of medical benefits for retirees will increase by approximately 6% per year over the next five years. Therefore, General Fund support for retiree health costs increases by $5.8 million in FY 2019-20, $9.0 million in FY 2020-21, $6.8 million in FY 2021-22, $7.1 million in FY 2022-23, and $7.5 million in FY 2023-24. Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring employees hired after January 10, 2009 and the City to contribute 2% and 1% of pre-tax compensation, respectively, into a Retiree Health Care Trust Fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's effects by requiring all remaining employees to begin contributing to this fund beginning in FY 2016-17 with corresponding employer contribution. Starting July 1, 2016, employees hired before January 10, 2009 began contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% in each subsequent year, up to a maximum of 1%, with the City matching the contribution commensurately.

The key uncertainties for retiree health are the impact of the increasing cost of pharmaceuticals as well as whether the federal government will continue to suspend the federal Health Insurance Tax.

Health costs are expected to increase significantly faster than CPI over the five-year projection period.

Figure 14: Projected Increase in Active and Retiree Health Costs



Retirement Plan Employer Contribution Rates Rise. 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 is 7.5% for most employees when the city contribution rate is up to 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.

The Five-Year Financial Plan update issued in March 2015, anticipated a decline in retirement costs after FY 2014-15, as asset losses during the 2008 financial crisis were fully recognized, subsequent asset gains were incorporated, and as propositions implemented between 1994 and 1998 became fully amortized. However, several factors have now led to a reversal of this trend, leading to projected increases in costs:

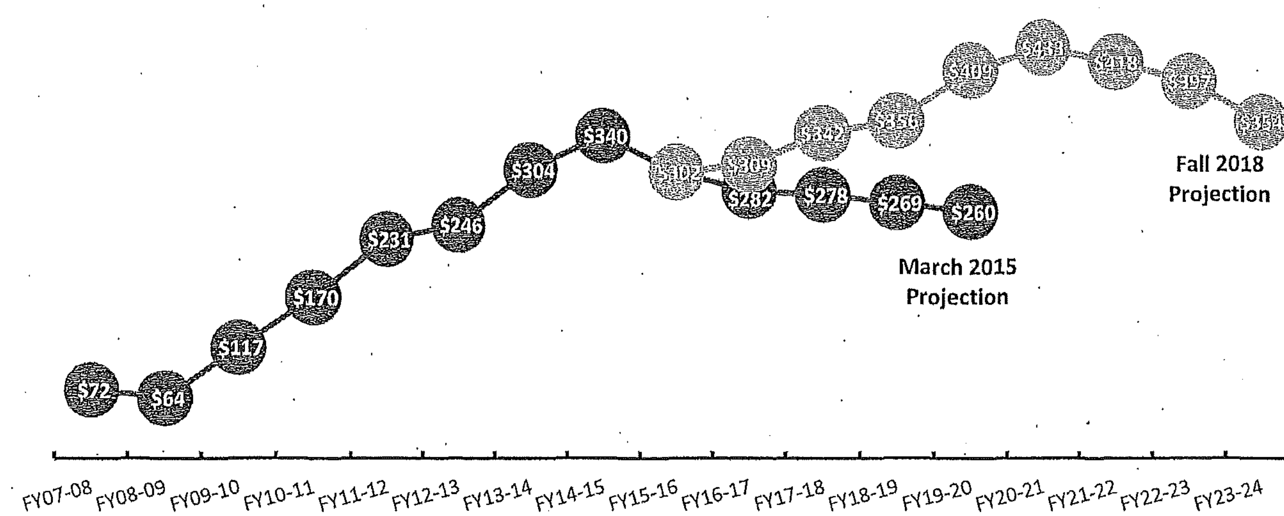
- In November of 2018, the Retirement Board adopted a change to the assumed rate of return (or, discount rate) for the pension fund's investment fund moving from the current 7.5% rate to 7.4%. The change in assumed rate of return reflects a trend in large public retirement plans in adopting rates under 7.5% as projected future returns are expected to be lower than the past 10 to 20 years. The financial impact to the City's employer contribution associated with this rate change will begin to be felt in FY 2019-20. There is no projected impact to employee contribution rates at this time.
- Asset losses due to actual FY 2014-15 investment earnings of just under 4.0% and actual FY 2015-16 investment earnings of 1.3% (compared to the actuarially assumed rate of return of 7.5% per year) were incorporated with an assumed five-year smoothing which culminates in FY 2021-22.
- An appellate court ruling against the City which determined that voter-adopted changes to the conditions under which retirees could receive a supplemental cost-of-living adjustment (COLA) violated

retirees' vested rights. Proposition C required that the Plan be 100% funded before it granted supplemental COLAs. Since 2011, the earnings of Retirement System investments would have triggered two supplemental COLAs. The incremental cost of these two retroactive COLAs has been included in estimated contribution rates since FY 2017-18. Two additional supplemental COLAs were triggered by returns for FY 2016-17 and FY 2017-18. The impact of these COLAs have been included in the projected rates and costs assumed in this plan. Of note, the assumed rates do not include the cost of any future supplemental COLAs. The plan does not assume supplemental COLAs will be paid to employees who retired prior to 1996.

The cumulative effect of these factors on employer contribution rates is significant because it reverses the downward trend previously anticipated. This report assumes that retirement costs continue to increase, peaking in FY 2020-21 due to the continued phasing in of 2015 assumption changes, particularly related to changes in mortality assumptions, and declining in the out years due to completed amortizations of 2000 Proposition C and the 2014 supplemental COLA.

Figure 15 below shows that the March 2015 update to Five-Year Financial Plan projected General Fund SFERS pension contribution costs declining from $302 million in FY 2015-16 to $260 million in FY 2019-20. Given the factors above, however, current projections are for costs to increase to $409 million in FY 2019-20 and to continue to increase through FY 2020-21 to $433 million.[2] This is a significant driver of the recent increase to the City's structural deficit in the first two years of this projection.

Figure 15: Projected Employer General Fund Pension Contribution Cost Increases from Prior Projections



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[2] Note that these figures are for SFERS employer contributions only. In addition, these figures do not include General Fund contributions for employees of the Recreation and Parks Department, which are included in the Recreation and Parks Baseline in Table 8.

SFERS contribution rates are based on projections prepared by the Retirement System's actuary in November 2018. They assume action taken by the SFERS Board in November 2018 adopting long term investment return September assumptions of 7.4% for FY 2019-20 onwards. Projections also reflect employee contributions to retirement required under Proposition C.

The maximum employer contribution rate for non-safety employees in salary band 2 is 19.11% in the current fiscal year. This rate is projected to increase to 21.12% in FY 2019-20, 21.70% in FY 2020-21, and decrease to 20.45% in FY 2021-22, 18.81% in FY 2022-23, and 16.30% in FY 2023-24. Rates for police and fire safety employees vary based on date of hire. This report assumes the weighted average employer contribution rate for FY 2018-19 for police officers and fire fighters was 18.55%; increasing to 20.55% in FY 2019-20, and 21.11% in FY 2020-21, and decreasing to 19.70% in FY 2021-22, 18.22% in FY 2022-23, and 15.77% in FY 2023-24.

For CalPERS members, the employer portion of the rate in the current year is 31.1% and is projected to increase to 34.90%, 39.39%, 42.01%, 45.69%, and 46.15% in FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively.

Last spring, the City changed its assumed amortization period for paying down its unfunded CalPERS liability from 30 to 20 years, which will result in year over year savings of $4.2 million in FY 2019-20, $2.1 million in FY 2020-21, and $2.1 million in FY 2021-22.

The net result of these changes to the employer share for SFERS and CalPERS contribution rates is an increase in total General Fund support of $37.1 million in FY 2019-20 and $12.9 million in FY 2020-21, followed by savings of $25.1 million in FY 2021-22, $25.6 million in FY 2022-23, and $46.7 million in FY 2023-24. Table 10 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion.

Table 10: Estimated Contribution Rates for the Retirement System

San Francisco Employees Retirement System (SFERS)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Estimated Total Contribution Rates	32.9%	33.5%	32.1%	29.5%	26.4%
Non-Safety Employees					
Employee Contribution (1)					
Band 1, < $29.21/hour	7.5%	7.5%	7.5%	7.5%	7.5%
Band 2, < $58.43/hour	11.0%	11.0%	11.0%	10.0%	9.5%
Band 3, > $58.43/hour	11.5%	11.5%	11.5%	10.5%	10.0%
Additional Rate Factors					
Band 1, < $29.21/hour	0.90%	0.92%	0.87%	0.78%	0.67%
Band 2, < $58.43/hour	0.78%	0.80%	0.75%	0.69%	0.60%
Band 3, > $58.43/hour	0.76%	0.78%	0.73%	0.67%	0.58%
Estimated Net Employer Contribution (1)					
Band 1, < $29.21/hour	24.5%	25.1%	23.7%	21.2%	18.2%
Band 2, < $58.43/hour	21.1%	21.7%	20.4%	18.8%	16.3%
Band 3, > $58.43/hour	20.6%	21.2%	19.9%	18.3%	15.8%
Police and Fire Safety Employees (2)					
Estimated Total Contribution Rates	33.4%	34.0%	32.6%	30.0%	26.9%
Employee Contribution & additional rate factors	12.9%	13.0%	12.9%	11.9%	11.3%
Estimated Net Employer Contribution	20.5%	21.0%	19.7%	18.2%	15.6%

California Public Employees Retirement System (CalPERS)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Total Estimated Contribution Rate	48.7%	52.2%	54.8%	58.3%	59.0%
Employee Contribution & additional rate factors	13.8%	12.8%	12.8%	12.8%	12.8%
Estimated Net Employer Contribution	34.9%	39.4%	42.0%	45.5%	46.2%

(1) Employees' contribution is based on wages. The wages shown are based on the estimated FY 2019-20 wage floors.

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

Other Salaries and Fringe Benefits Costs: Other salary and benefit cost changes are expected to be modest, with the biggest changes occurring due to the changing number of work days in a given fiscal year. Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. FY 2018-19 has 260 work days; however, FY 2019-20 has 262 work days for regularly scheduled shifts, resulting in a significant year-over-year cost of $20.0 million. The following fiscal year has 261 work days, resulting in a year-over-year savings of $9.6 million in FY 2020-21. Fiscal years 2021-22 and 2022-23 each contain 261 work days, resulting in modest year over year growth in cost, in accordance with CPI. Fiscal Year 2023-24 contains only 260 work days, therefore, the City incurs savings of $11.0 million in FY 2023-24 compared to the prior year.

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 $55.1 million, $127.4 million, $53.5 million, $82.9 million, and $81.7 million in FY 2019-20, FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

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

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

In the fall of 2018, the Board of Supervisors passed, and the Mayor signed, changes to the Minimum Compensation Ordinance raising the base wages above the San Francisco minimum wage for the following categories of workers: contracted employees at the San Francisco International Airport, for-profit contract workers, non-profit contract workers, and In-Home Supportive Services (IHSS) workers. This report reflects the projected increased costs for the direct wage increases to non-profit workers on city contracts supported by the General Fund and for wage increases to IHSS care providers, both of which are subject to annual appropriation through the budget.

- The IHSS program supports residents needing assistance with activities of daily living so they can remain in their homes and communities. IHSS is an alternative to out-of-home care, such as nursing or residential care facilities. The San Francisco IHSS program supports 22,000 low-income seniors and persons with disabilities. By FY 2022-23, the MCO base wage for IHSS care providers is slated to reach $18.75 per hour, subject to annual appropriation, and increase by CPI on July 1 of every subsequent year, beginning in July 2023.
- Non-profit workers on city contracts will receive an MCO base wage of $16.50 per hour beginning on July 1, 2019 and increase by CPI on July 1 of every subsequent year, beginning in July 2020. These wage increases are subject to annual appropriation to support them.

Overall, these changes to the City's minimum wage and assumed changes to minimum compensation result in an increase in General Fund support of $18.4 million in FY 2019-20, an additional $3.8 million in FY 2020-21, $1.7 million in FY 2021-22, $8.4 million in FY 2022-23, and $2.1 million in FY 2023-24. Cost fluctuations over the period are due to the schedule of hourly wage increases and projected state cost sharing for IHSS wages, which varies from year to year.

Citywide – Capital, Equipment & Technology

Changes in funding for capital, equipment, and technology will result in General Fund savings of $2.9 million in FY 2019-20, and increasing costs of $53.8 million in FY 2020-21, savings of $6.7 million in FY 2021-22, and increased costs of $19.5 million in FY 2022-23, and $26.4 million in FY 2023-24. This projection assumes the adopted FY 2019-20 budgeted funding levels for capital, equipment, and information technology (IT).

Table 11: Capital, Equipment, & Technology ($ Millions)

	Projected Levels - One-time Costs				
	2019-20	2020-21	2021-22	2022-23	2023-24
Capital Plan Budget	157.4	168.4	180.2	192.8	206.3
Capital FF&E, Move Costs	9.6	25.3	0.2	-	5.3
Equipment	10.5	17.1	17.6	18.2	18.7
Information & Communications Technology Budget	1.6	15.5	17.1	18.8	20.7
Major IT Investments	20.1	24.7	27.2	29.9	32.9
Total One-time Costs	**199.2**	**251.0**	**242.3**	**259.7**	**283.9**

	Incremental Change - One-time & On-going Costs				
	2019-20	2020-21	2021-22	2022-23	2023-24
Capital Plan Budget	(6.8)	(11.0)	(11.8)	(12.6)	(13.5)
Capital FF&E, Move Costs	0.9	(15.7)	25.1	0.2	(5.3)
Equipment	3.6	(6.6)	(0.5)	(0.5)	(0.5)
Information & Communications Technology Budget	6.4	(13.9)	(1.6)	(1.7)	(1.9)
Major IT Investments	0.1	(4.6)	(2.5)	(2.7)	(3.0)
Department of Technology Rates	(1.4)	(2.0)	(2.0)	(2.1)	(2.2)
Incremental Change	**2.9**	**(53.8)**	**6.7**	**(19.5)**	**(26.4)**

For capital in the remaining four years of the plan, the report assumes funding will increase based on the levels assumed in the City's Ten-Year Capital Plan; the latest draft will be released in March 2019. This results in an increased cost of $6.8 million in FY 2019-20, $11.0 million in FY 2020-21, $11.8 million in FY 2021-22, $12.6 million in FY 2022-23, and $13.5 million in FY 2023-24.

Additionally, the City will incur costs to furnish and equip new and upgraded city facilities. These costs will decrease by $0.9 million in FY 2019-20, increase by $15.7 million in FY 2020-21, decrease by $25.1 million in FY 2021-22 and $0.2 million in FY 2022-23, and subsequently increase by $5.3 million in FY 2023-24. These costs are related to projects such as the rebuilt Fire Station 35; the new Ambulance Deployment Facility; the new facility for the SFPD's Forensic Services Division and Traffic Company; the Animal Care and Control replacement facility; the new office building and one-stop permit shop at 49 South Van Ness; and other large Certificates of Participation and General Obligation bond funded capital projects.

Citywide equipment costs are projected to decrease by $3.6 million in FY 2019-20, as reflected in the previously adopted FY 2019-20 budget. To reach previous levels of investment as well as projected need, equipment costs are projected to increase by $6.6 million in FY 2020-21. Increased cost assumptions based on CPI result in annual $0.5 million increases in the three following fiscal years: FY 2021-22, FY 2022-23, and FY 2023-24. Equipment is defined as an item costing $5,000 or more with an expected life span of three years or more. This projection assumes that no equipment purchases will be funded through the use of lease revenue bonds in any of the next 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 costs for annual information technology projects are projected to decrease by $6.4 million in FY 2019-20, as reflected in the adopted FY 2018-19 and FY 2019-20 budget. Technology costs are projected to increase by $13.9 million in FY 2020-21, $1.6 million in FY 2021-22, $1.7 million in FY 2022-23, and $1.9 million in FY

2023-24, consistent with the City's Information and Communication Technology (ICT) Plan for FY 2017-18 through FY 2021-22, and grow by 10% every year thereafter.

This report also assumes a modest savings in Major Information Technology projects in the amount of $0.1 million in FY 2019-20, in accordance with the most recently adopted budget, and cost increases of $4.6 million in FY 2020-21, $2.5 million in FY 2021-22, $2.7 million in FY 2022-23, and $3.0 million in FY 2023-24, in accordance with the City's ICT plan through FY 2021-22, and growth of 10% in every year thereafter. Major Information Technology Investments include continued replacement of the public safety radio system and the City's property tax database.

Finally, the Department of Technology's rates are projected to increase by $1.4 million in FY 2019-20 as reflected in the adopted budget. Rates are projected to increase by $2.0 million in FY 2020-21, $2.0 million in FY 2021-22, $2.1 million in FY 2022-23, and $2.2 million in FY 2023-24 due to inflationary increases on technology services and contracts.

Citywide – Inflation on Non-Personnel Costs and Grants to Non-Profit Contractors
This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the CPI at a rate of 2.85% in FY 2019-20, 3.08% in FY 2020-21, 2.99% in FY 2021-22, 3.03% in FY 2022-23, and 3.01% in FY 2023-24. The projection reflects the adopted FY 2019-20 budget, which includes a CPI increase for community-based organization contracts in FY 2019-20. This generates a total increase in costs to the City of $13.5 million in FY 2019-20, an additional $35.8 million in FY 2020-21, $35.8 million in FY 2021-22, $37.4 million in FY 2022-23, and $38.3 million in FY 2023-24. However, these assumptions are provided for planning purposes only, actual costs are to be determined during the budget process and are subject to appropriation in the FY 2019-20 and FY 2020-21 budget.

Citywide – Debt Service & Real Estate
Over the next five years, total debt service and real estate costs are projected to increase by $14.0 million in FY 2019-20, $22.4 million in FY 2020-21, $10.0 million in FY 2021-22, $8.7 million in FY 2022-23, and $5.3 million in FY 2023-24. This projection is based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as cost increases related to the City's leased and owned real estate portfolio. This projection does not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection. The increases over the next several years are primarily due to the repayment of Certificates of Participation (COPs) for the replacement Animal Care and Control facility, the exit and relocation from the Department of Public Health office building, the relocation of administrative staff from the Hall of Justice, and debt service payments on other large capital facilities. This section will be updated as needed in the March 2019 projection after the release of the updated Ten Year Capital Plan.

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. Rate and usage increase assumptions were provided by the PUC. Power rates increase by half-cent per kilowatt hour (kWh) per year, and usage is assumed to increase by 0.5% annually. Additionally, the Power Enterprise bills and pays for the cost of natural gas provided by Pacific Gas & Electric and the Department of General Services (DGS) to city departments. These costs are based on projected commodity costs and transportation rates. Sewer and water rates are assumed to increase respectively by approximately 9% and 7% annually. Usage for sewer and water is assumed to increase by 5% annually. The total General Fund impact resulting from the proposed increased sewer, water, and power rates is a cost increasing by $1.6 million, $2.8 million, $2.9 million, $3.1 million, and $3.3 million each year over the next five years.

Citywide – Cannabis Tax Expenditures
In November 2018, new gross receipts tax on cannabis (Proposition D), passed with over 66% of the vote. It levies a gross receipts tax of 1% to 5% on marijuana businesses. The projected available revenue, net of required baseline and reserve contributions is an additional $2.4 million in FY 2019-20, growing by $3.4 million in FY 2020-21, and an additional $3.4 million in FY 2021-22, before leveling off for FY 2022-23 and FY 2023-24. It is assumed that these revenues will in part be directed toward new initiatives including programs that target people disproportionately impacted by drug policies of past decades.

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 costs of $8.1 million in FY 2019-20, $5.4 million in FY 2020-21, $6.4 million in FY 2021-22, $5.8 million in FY 2022-23, and $6.2 million in FY 2023-34.

Uses – Departmental Costs

This section provides a high-level overview of significant departmental costs over the next five years. Table 4 displays departmental savings of $1.8 million in FY 2019-20, and costs of $31.7 million in FY 2020-21, $52.8 million in FY 2021-22, $39.6 million in FY 2022-23, and $42.4 million in FY 2023-2024.

City Administrator's Office – Convention Facilities Subsidy
This plan assumes the Convention Facilities Fund General Fund subsidy will decrease by $11.2 million in FY 2019-20, then increase by $5.3 million in FY 2020-21, $1.0 million in FY 2021-22, $1.0 million in FY 2022-23, and $1.1 million in FY 2023-24. The cost decrease in FY 2019-20 is primarily driven by the conclusion of debt service on an earlier bond. The subsequent cost increases are due to the expiration of the use of fund balance as a source and expected debt service payments.

Elections – Number of Scheduled Elections
The number of elections and the associated costs for holding elections vary annually. Current projections assume two elections – a Municipal Election in November 2019 and a Presidential Primary in March 2020 – in FY 2019-20, one General Election in FY 2020-21, one Consolidated Direct Primary Election in FY 2021-22, one Consolidated General Election in FY 2022-23, and one Presidential Primary in FY 2023-24. This schedule results in an increased annual incremental cost of $5.6 million in FY 2019-20, a savings of approximately $3.8 million in FY 2020-21, and a cost of $0.4 million in FY 2021-22, $0.4 million in FY 2022-23, and $0.4 million in FY 2023-24. 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 12: Number of Scheduled Elections FY 2019-20 through FY 2023-24

Fiscal Year	Date	Type
2019-20	November 2019	Municipal Election
2019-20	March 2020	Presidential Primary
2020-21	November 2020	General Election
2021-22	March 2022	Consolidated Direct Primary Election
2022-23	November 2022	Consolidated General Election
2023-24	March 2024	Presidential Primary

Ethics Commission – Public Financing of Elections
The Ethics Commission administers the Election Campaign Fund. Per the charter, the City must appropriate $2.75 per resident each fiscal year. In the case of a Mayoral vacancy, the fund is required to contain $8.00 per resident for that election and for the next regularly scheduled Mayoral election. Funds not used in one election are carried over for use in the following election, and any funds in excess of $7.0 million shall be returned to the General Fund.

This projection assumes that the General Fund will appropriate an amount equal to $8.00 per resident in FY 2019-20, and that eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals. Under these assumptions, General Fund costs will increase by $0.7 million in FY 2019-20, decline by $2.9 million in FY 2020-21, increase by $2.0 million in FY 2021-22, decline by $1.1 million in FY 2022-32, and finally increase by $0.7 million in FY 2023-24. These costs are dependent on the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Free City College
In February 2017, San Francisco became the first city in the country to make community college free for its residents. The Free City College Program allows California residents who live in San Francisco to attend City College of San Francisco for free, and grants stipends to students who already receive enrollment fee waivers to make higher education accessible to as many San Franciscans as possible. This program will allow more students to access the training and education they need to earn jobs that will help them to live and work in San Francisco. This report assumes $6.6 million of annual programmatic expenditures for the academic year in FY 2019-20, including the $1.2 million added each fiscal year of the FY 2018-19 and FY 2019-20 budget for summer enrollment. The existing Memorandum of Understanding (MOU) for the academic year expires at the end of FY 2018-19, covering the spring 2019 semester. Ongoing funding for this program is dependent on MOU negotiations and subsequent budgetary appropriations.

Mission Bay Transportation Improvement Fund
The Golden State Warriors are constructing a multipurpose event center, retail, and office project at 16th Street and 3rd Street in Mission Bay. In November 2015, the Mayor and Board of Supervisors approved the creation of the Mission Bay Transportation Improvement Fund (MBTIF) to pay for public infrastructure improvements, equipment, and public services to address the community's transportation needs and other impacts in connection with events at the center. The event center is expected to open in FY 2019-20, leading to increased costs while also generating revenues to cover the incremental costs projected in this report. From FY 2019-20 through FY 2023-24, this report projects estimated annual incremental project costs of $6.7 million, $0.2 million, $0.2 million, $0.3 million, and $0.3 million, respectively. These costs will be funded entirely with revenues generated by the arena and event space through increased property, business, sales, hotel, utility user, and stadium admission taxes.

The MBTIF also provided funds to construct boarding platform improvements to serve the University of California, San Francisco and the Event Center. Because of widespread increases in construction costs, the City identified a $10.6 million dollar shortfall in the platform improvement project's budget after awarding a contract to the lowest responsive and responsible bidder in March 2018. At the time, the MBTIF did not have sufficient available funding to cover the shortfall. As such, the San Francisco Municipal Transportation Agency (SFMTA) advanced the $10.6 million from the Municipal Transportation Fund with the understanding that the City, via the MBTIF, would repay the $10.6 million to the Municipal Transportation Fund. This assumption is included in the projection.

Mayor's Office of Housing and Community Development - HOPE SF and the Local Operating Subsidy Program
The Local Operating Subsidy Program (LOSP) subsidizes housing for formerly homeless individuals and families. This city-funded subsidy enables formerly homeless individuals and families to stay securely housed and receive

services from the Department of Homelessness and Supportive Housing by providing long term financial support for operating and maintaining permanently affordable housing properties. LOSP program costs are projected to increase due to several large supportive housing projects opening in the next few years. HOPE SF is a program to revitalize four of San Francisco's severely distressed public housing sites and to ensure that families living in Public Housing have the same opportunities as all San Franciscans. HOPE SF focuses on rebuilding and improving physical housing assets while providing robust social services to residents. Costs related to HOPE SF and the LOSP programs are projected to require an increase in General Fund support of $10.1 million in FY 2019-20, $4.8 million in FY 2020-21, $10.1 million in FY 2021-22, $3.5 million in FY 2022-23, and $1.7 million in FY 2023-24.

Human Services Agency – In-Home Supportive Services

The In-Home Supportive Services (IHSS) is an entitlement program which provides homecare services to 22,000 low-income elderly, disabled, and/or blind San Franciscans to live safely in their own homes rather than in a nursing home or other group care facility. The program employs over 20,000 individuals as independent providers. IHSS workers assist clients with domestic and personal care services. The program works with hospitals and other medical facilities to ensure that home care services are in place at the time of discharge, which helps to mitigate hospital readmissions. In San Francisco, IHSS care is provided in two modes, the Independent Provider Mode and the Contract Mode; the latter serves the most complex clients, who are unable to manage their own care.

Since FY 2012-13, counties' share of IHSS costs is based on a "maintenance of effort" (MOE). From the state's 1991 Realignment until 2012, the county share of IHSS funding was 35%. The MOE cost structure in place through FY 2016-17 required counties to maintain their IHSS spending at FY 2011-12 levels, with two adjustments: an annual inflation factor of 3.5% and adjustments for any locally negotiated wage or benefit increases for IHSS workers. This framework resulted in modest and predictable growth in counties' share of IHSS costs over the past several years, while the State has taken on a relatively larger proportion of the program's rising costs.

In FY 2017-18, however, the state budget reset the MOE at a higher level and increased the annual inflationary increase to 5% for FY 2018-19 and 7% in subsequent fiscal years. The trailer bill language in the state FY 2017-18 budget also specified additional instances in which a county's MOE would be increased, including:

- *Minimum wage impacts*: Language in the trailer bill indicates that a county's IHSS MOE will be increased for wage increases resulting from local voter-approved initiatives. The City's minimum wage remains higher than the state minimum wage. However, where San Francisco had previously been held harmless for local minimum wage costs, the new law explicitly holds counties responsible for these costs, which has an especially large impact on San Francisco due to the fast rate at which the minimum wage has risen.

  Notably not included here are the costs in the IHSS program directly resulting from the change to the Minimum Compensation Ordinance. More details on those costs can be found in the "Citywide Operating Costs" section of this report on page 47.

- *Contract mode costs:* The trailer bill included language indicating that the MOE will also be adjusted to reflect increased costs in IHSS contract mode. Costs are rising for IHSS services provided through Homebridge, which serves clients with mental and physical conditions that prevent them from being able to coordinate their own care. The City's MOE will increase to account for these increases in IHSS contract mode.
- *Administrative costs cap*: The new MOE places a cap on the State's contribution to administration costs, above which the non-federal share of these costs must be covered with additional local funds.

Previously, the State covered any non-federal share of administrative costs beyond what the county paid through its MOE.

Table 13: Impact of State Cost Shift to IHSS FY 2019-20 through FY 2023-24

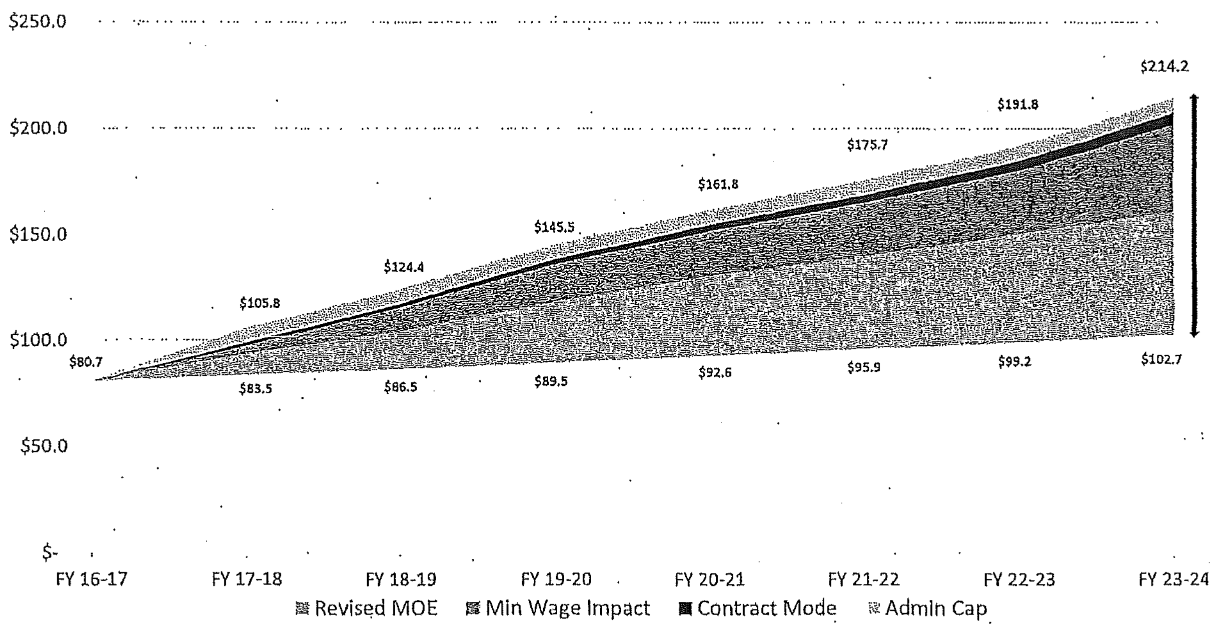
	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
	(5-Year Proj)	(5-Year Proj)	(5-Year Proj)	(5-Year Proj)	(5-Year Proj)
Old MOE - SF Contribution	**$ 89.5**	**$ 92.6**	**$ 95.9**	**$ 99.23**	**$ 102.70**
Annual 3.5% Inflator	*$ 3.0*	*$ 3.1*	*$ 3.2*	*$ 3.4*	*$ 3.5*
	(New Projection)	(New Projection)	(New Projection)	(New Projection)	(New Projection)
New MOE - SF Contribution	**$ 145.5**	**$ 161.8**	**$ 175.7**	**$ 191.8**	**$ 214.2**
	$ 89.5	**$ 92.6**	**$ 95.9**	**$ 99.2**	**$ 102.7**
Revised MOE	*$ 29.0*	*$ 37.9*	*$ 43.9*	*$ 51.2*	*$ 58.3*
Min Wage Impact	*$ 17.6*	*$ 21.1*	*$ 25.2*	*$ 29.8*	*$ 40.7*
Contract Mode	*$ 2.7*	*$ 3.4*	*$ 4.1*	*$ 4.9*	*$ 5.8*
Admin Cap	*$ 6.7*	*$ 6.7*	*$ 6.7*	*$ 6.7*	*$ 6.7*
Total Additional Costs	**$ 56.0**	**$ 69.1**	**$ 79.8**	**$ 92.6**	**$ 111.5**

Based on current estimates, costs to the General Fund are expected to increase by $24.7 million in FY 2019-20, an additional $16.3 million in FY 2020-21, an additional $14.0 million in FY 2021-22, an additional $16.1 million in FY 2022-23, and finally, an increase of $22.4 million in FY 2023-24.

Current estimates show increases of $56.0 million over the previously projected FY 2019-20 costs from the last Five-Year Plan published in 2016, an additional $69.1 million in FY 2020-21, an additional $79.8 million in FY 2021-22, an additional $92.6 million in FY 2022-23, and an additional $111.5 million in FY 2023-24. For the FY 2019-20 & FY 2020-2021 budget, the impact of the state cost shift is $125.1 million more than previously projected costs growth for this two year period.

The chart below shows the growth in IHSS program costs since the change in state law in FY 2016-17, as compared to previously projected costs.

Figure 16: Annual County IHSS Costs since State Law Change



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

The Department of Public Health (DPH) operating and one-time costs for capital projects are expected to decrease by $34.0 million in FY 2019-20, and increase by $9.0 million in FY 2020-21, $24.8 million in FY 2021-22, $15.7 million in FY 2022-23, and $16.7 million in FY 2023-24. Notable changes include investments in the Electronic Health Records project, and one-time expenses for furniture, fixtures, and equipment (FF&E) and moving.

- *Electronic Health Records*: In August 2019, DPH will go-live with the first phase of a new integrated electronic health record (EHR) system which will replace its existing suite of clinical, financial, and billing systems with subsequent waves coming on line in the following three years. The Department selected a vendor for implementation in January 2018, and has begun the build and development of this critical new system. The estimated ten year project cost is $383.0 million. Funding for the project comes from departmental revenues, reallocation of current expenditures, and philanthropic support. In FY 2018-19, the department made a one-time investment of $23.4 million to front load project expenditures, and this projection recognizes savings associated with that investment in the subsequent fiscal year.

- *One-Time Moving and FF&E Costs*: In June 2016 voters approved $311.0 million for a Public Health and Safety Bond. The bond supports DPH capital improvements to make essential earthquake safety improvements at the Zuckerberg San Francisco General Hospital (ZSFG) campus, as well as the renovation of the Southeast Health Center. Costs assumed in this report are inclusive of one-time expenditures for furniture, fixtures, and equipment (FF&E). The Department also plans to consolidate its offices and clinics currently located in the Civic Center to more efficient, seismically safer, and geographically appropriate locations over the next five years, and this report assumes the associated moving and FF&E costs. Additionally, the Department will complete one-time improvements to the Maxine Hall and Castro Mission Health Center in FY 2020-21 resulting in more efficient space and improved patient flow. Together, these one-time costs are projected to increase by $0.8 million in FY 2019-20 and decrease by $13.2 million and fully expire FY 2020-21, with no cost growth assumed in the remaining years.

All Other Departmental Savings/ (Costs)
This section includes other smaller departmental changes including the expiration of limited-term project costs and several other small changes. These items together result in General Fund savings of $7.5 million in FY 2019-20, and then increased costs of $2.9 million in FY 2020-21 million, $0.3 million in FY 2021-22, $3.7 million in FY 2022-23 and a savings of $0.8 million in FY 2023-24.

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Fiscal Strategies

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Fiscal Strategies

Sustainability, Efficiency, and Preparing for Future Risk

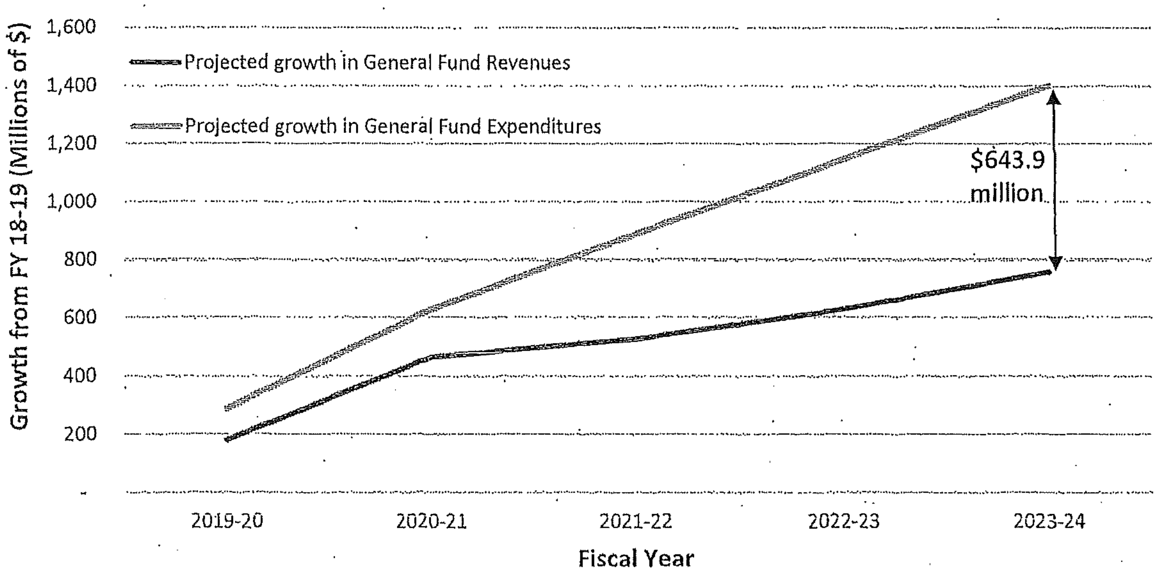
Mayor London N. Breed has taken office during one of the longest periods of financial expansion since 1945. In the past nine years, the City's financial outlook has transformed, overcoming the challenges of the recession supported by strong economic growth. The City has benefited from a strong economy and growth of local revenues to rebuild its fiscal reserves, make significant investments in critical infrastructure, and expand services for San Franciscans most in need. Under Mayor Breed, there will be continued focus on fiscal responsibility, preparing for an uncertain future, and investing in programs that work.

In the last Five-Year Financial Plan, published in December 2016, it was acknowledged that despite the significant efforts and policy changes made to address the City's long-term structural deficit, the five-year deficit projection in that report had returned to 2011 levels. In the two years since the last report, due primarily to strong continued revenue growth, the current five-year deficit is on a decline, but is still a significant structural imbalance. The persistent structural deficit is the result of expenditure growth outpacing expected revenue growth. As explained in the Base Case section of this report, notable drivers of expenditure increases include growing employee costs, particularly pension and health costs, as well as cost shifts of mandated entitlement programs and the effect of many voter mandated baselines and set-asides. The continued expenditure growth is exacerbated by projected revenue losses due to the expiration of one-time sources, and expected slowing growth of local revenues. In addition, there are continued risks of state and federal policy changes which could negatively impact city revenues and the likelihood of an economic recession during the five-year forecast period.

A disciplined approach to future growth and responsible choices will ensure continued fiscal sustainability, allowing the City to maintain current service levels for the public. Making responsible choices today will ensure that the City is best prepared to address the uncertainties ahead.

Financial stability is central to the City's ability to provide sustainable 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 17 demonstrates that expenditure growth is projected to outpace revenue growth nearly twofold - projected revenue growth is 14% and expenditure growth is 25% over the period. If the City does not take corrective action each year, the structural deficit will grow larger, making it more challenging to develop a balanced two-year budget that does not require significant operational changes.

Figure 17: 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 three key financial goals for the City during the coming five years: to sustain and enhance the City's fiscal stability, maintain current service levels to the public, and increase the City's financial resilience in anticipation of future economic downturns and uncertain federal policy outlook. A significant amount of work and planning by city departments and policy makers remains in order to develop more detailed plans to implement these strategies. The goal of the proposed strategies that follow is to set balanced, achievable targets so the City can begin developing more refined revenue, savings, and operational proposals that may require multi-year planning.

This plan also includes a 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 or large reductions in revenue due to policy changes at the federal level. However, the current expansion is the second longest since 1945. The current economic expansion has lasted over nine years. If there is indeed no recession through FY 2023-24, as the projection assumes, it will mark the longest economic expansion since 1900 by three years. This means that a slowdown or a decline in revenue growth is likely during the period that this plan addresses. Additionally, it does seem very likely that there will could be impacts to the City's budget due to ongoing health care and other policy discussions at the federal level. If an economic slowdown or large federal funding reductions 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 the budget back into balance. Understanding the potential impacts of a downturn in the economic cycle or large loss of revenue due to reductions from the federal government allows policy makers to plan for the unexpected, and to understand the impact of choices made today on the future financial fortitude of the City.

Fiscal Strategies - Overview

The City must continue to take a balanced approach to solving the 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, outlined below, are balanced and assume equal solutions from new revenue, and reductions to expenditures for salaries and benefits, citywide, and departmental costs. The proposed solutions are shown in Table 14 below.

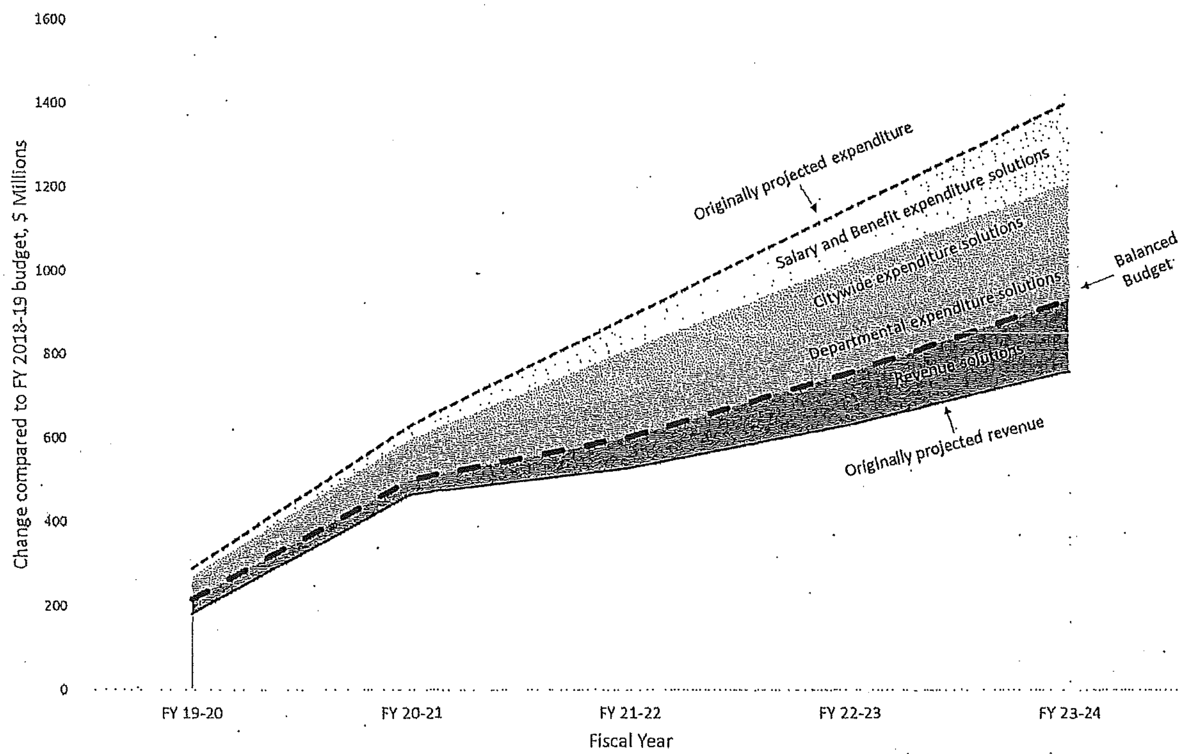
Table 14: Fiscal Strategies ($ in millions)

Base Case Outlook ($ millions)	**FY 19-20**	**FY 20-21**	**FY 21-22**	**FY 22-23**	**FY 23-24**
Cumulative Projected Surplus / (Shortfall)	(107)	(163)	(363)	(520)	(644)
Proposed Fiscal Strategies - Sources Growth faster and Expenditure Growth slower than Base Case					
Sources - Taxes, Fees & Other Revenues	34	35	75	126	172
Salaries and Benefits - Manage Employee Costs	19	32	80	131	194
Citywide - Limit Non-Personnel Inflation, Capital, Debt Service and Real Estate	15	17	109	145	155
Departmental - On-Going Revenues & Savings Initiatives	39	79	99	118	123
Adjusted Outlook	**0**	**0**	**0**	**0**	**0**

If the strategies outlined in Table 14 are implemented, the City will be able to maintain current service levels and expenditure growth will increase by $930.7 million as opposed to the $1,402.7 million assumed in the Base Case. The proposed solutions to the City's structural imbalance assume limiting growth in capital spending, salary and benefit expenses, and non-salary expenses while also assuming additional revenue and some departmental solutions. Taken together, these solutions would allow the costs of supporting city government to grow by 16% over the next five years as opposed to the currently projected growth of 25%.

Figure 18 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: growth from where the City's budget is today, but moderated to a sustainable level.

Figure 18: General Fund Expenditures Can Grow by 16% Over Next Five 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: Taxes, Fees & Other Revenues

In the Base Case projection, this Five-Year Financial Plan assumes revenue growth of $758.7 million over the coming five years as the economy continues to expand. In recent years, the San Francisco economy has seen very strong growth, however, due to various factors fully explained in this plan, revenues are expected to continue growing but at a more moderate pace. This moderation in revenue growth is an important reason why disciplined fiscal strategies need to be pursued.

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. In June 2018, two increases to commercial gross receipts tax were proposed to voters, one dedicated to housing and homeless services (Proposition D) and the other to childcare (Proposition C). Proposition D failed while Proposition C passed but faces legal uncertainty and is therefore not assumed as a revenue sources in this plan. An additional revenue measure for housing and homeless services (also Proposition C) on the November 2018 ballot passed but faces the same legal uncertainties as the June Proposition C and is similarly not included in this plan. Also on the November 2018 ballot was a new gross receipts tax on cannabis (Proposition D). This measure was successful and the revenue is assumed in this plan. More information on these measures can be found in the "General Fund Taxes, Revenues, & Transfers" section of this report on page 28. Additional revenue measures are not currently assumed at this time. However, the City will pursue strategies to increase revenues to help balance the budget over the five-year time period, or will need to make further reductions to expenditures.

The revenues assumed in the Base Case projection represent the best estimates based on information available to now, but they could grow faster than anticipated. It is important to continue to pursue sound economic policies to ensure the local economy continues to grow and that revenue can remain a part of the balancing plan in future budgets.

Fiscal Strategies: Manage Employee Salary 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 43% of all projected expenditure growth, by far the largest driver of the growth in the City's deficits and expenditure increases. 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 and the management of pension and health benefit costs.

- **Labor Costs:** The Base Case assumes the implementation of previously negotiated labor agreements for police and firefighters through FY 2020-21, with assumed cost-of-living adjustments in line with CPI through FY 2023-24. The remaining, non-safety city employees are covered by labor contracts that expire at the end of FY 2018-19. For these employees, the Base Case outlook assumes cost-of-living adjustments in line with projected CPI commencing in FY 2019-20.

  However, given the gap between revenue and expenditure growth, it is unlikely the City can afford these increases without expenditure reductions beyond the departmental and citywide cuts assumed in these fiscal strategies. 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 $22 million in General Fund savings in FY 2019-20.

- **Pension Costs:** The City has made progress in the past five years in managing employee benefit costs through responsible fiscal practices as well as reforms passed by the voters. The Five-Year Financial Plan last issued in December 2016, detailed the reversal of anticipated a decline in retirement costs after FY 2014-15, due to lower-than-anticipated returns, an update to the mortality assumption, and the outcome of a lawsuit related to supplemental COLA policies. In this report, the trend continues in the first two years due to the decrease in the assumed discount rate from 7.5% to 7.4% and the impact of a new supplemental COLA to select retirees triggered by better than anticipated returns in FY 2017-18. In the last three years of this plan, rates are projected to gradually decrease as amortizations of 2000 Proposition C and the 2014 supplemental COLA are fully completed. No additional savings due to pension costs are assumed in this scenario, but the City will continue to seek opportunities to implement responsible policies to reduce future liability and constrain cost growth.

- **Health Benefits:** Employer contributions for active and retiree health benefits are expected to grow much faster than inflation 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 make health care affordable and sustainable for current and future members through value driven decisions, programs, designs, and services. In the coming years, HSS will employ strategies such as investing integrated care delivery and supporting the usage of high value providers.

General Fund savings resulting from these strategies are estimated to generate approximately $19 million in FY 2019-20, growing to $194 million by FY 2023-24. 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: Citywide Expenditure Savings

- **Capital, Equipment, and Information Technology Spending:**
  The City's Capital Plan calls for an annual 7% increase in the level of General Fund cash investment in city-owned infrastructure. This 7% rate of growth is included in the plan's Base Case projected costs. The FY 2018-19 and 2019-20 budget included full funding for the City's Capital Plan recommended funding level, the second two-year budget in a row that the Mayor's budget fully funded the General Fund capital budget.

  The City's Information and Communication Technology (ICT) Plan recommends an annual increase of 10% for both the Major IT and Annual Project allocations. The FY 2018-19 and 2019-20 budget included full funding for both allocations in the first year of the approved budget.

  Ways in which savings could be realized related to the Capital, Equipment, and ICT Plans include:

  - Further reduce spending in portfolios below their recommended growth each year;
  - Assume the Capital Plan and ICT Plan General Fund support level grows at CPI rather than the recommended 7% and 10%, respectively, in each year;
  - Fully fund the Capital Plan in the first year, but underfund capital in the second year of the budget; and,
  - Leverage alternative revenue sources to support capital, IT, and equipment needs.

  The City should continue to make significant investments in capital spending through the plan's horizon, to the extent possible.

- **Managing the City's Debt and Real Estate Portfolios:** In recent years, the City has successfully pursued refinancing and restructuring of existing debt obligations, resulting in lower annual debt service costs on General Fund capital projects and real estate ventures. This element of the fiscal strategy expects that the City will continue to proactively manage and restructure planned debt to achieve additional savings. In addition, the City has adopted a policy to limit the General Fund Certificates of Participation (COP) debt program to 3.25% of aggregate discretionary revenue. However, this does not mean that the City must fund projects using debt.

- **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 that cost escalation related to CPI is absorbed within existing budgets for most non-personnel costs. This will likely require continual reevaluation by city departments of priority purchasing needs, finding opportunities for efficiencies, and a focus on effective purchasing practices to ensure the lowest possible price.

For planning purpose, this strategy assumes a 2.5% COLA provided for community-based organizations funded through the General Fund in FY 2019-20, consistent with the approved FY 2018-19 and 2019-20 budget. In the subsequent years, this fiscal strategy assumes that General Fund non-profit contracts will grow roughly in line with labor costs, as described above.

Fiscal Strategies: On-Going Departmental Revenues and Savings Initiatives

Given the key goal of fiscal discipline in order to ensure sustainability of services to the public, departments must strive to ensure services are provided in the most efficient way possible and resources are used for their highest and best purpose. The Mayor's Budget Instructions issued on December 12, 2018 instructed departments to reduce ongoing General Fund support by 2% in FY 2019-20, growing to 4% in FY 2020-21. Departments were also instructed to propose 1% contingency reductions in FY 2019-20, growing to 2% in FY 2020-21 that may be utilized in the event of additional cost pressures or reduced revenues. Additionally, departments were instructed not to add new positions in departmental budget submissions. These savings are assumed in this section. In addition, further departmental reductions, at lower rates, are assumed beyond FY 2020-21. This strategy will generate savings of approximately $39 million starting in FY 2019-20 and increasing to $123 million by FY 2023-24.

This is significantly more modest than requested departmental reductions in the five years following the 2008 downturn, which ranged from 5% to 25% each year. The goals set forth in this 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.

Other Factors that Could Affect the Forecast

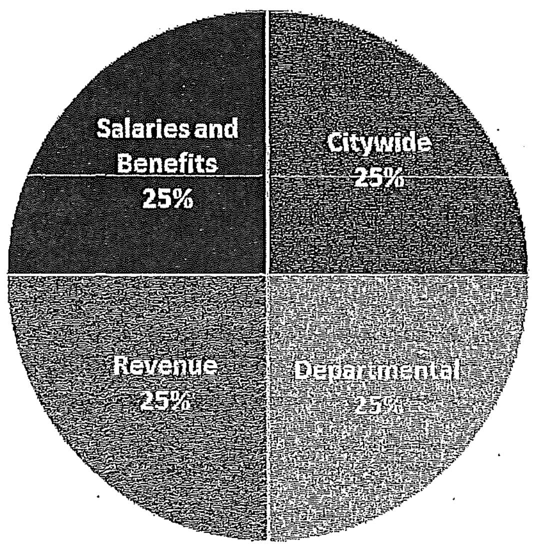
As noted earlier in the Base Case projection, uncertainties exist regarding key factors that could affect the City's financial condition, for example, changes to the economic cycle or impacts from state and federal policy changes.

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 continue to provide excellent services for the public into the future.

Figure 19: Fiscal Strategies – Each Strategy as a Percent of Total Solution



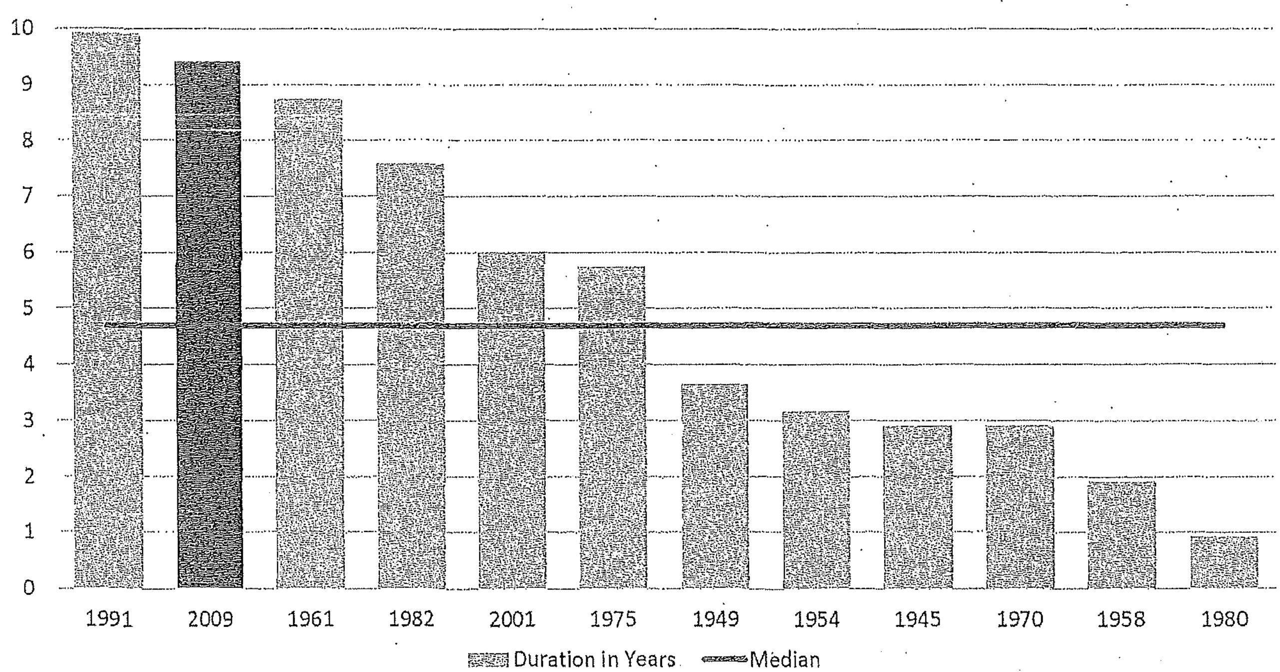
The revenue forecasts in this plan project that the City can grow by approximately 14% over the next five years; however, this is slower than the expenditure growth rate of 25% currently projected in the Base Case. The fiscal strategies are equally split between revenue solutions (25%), reductions in employee costs (salaries and benefits at 25%), reductions citywide operating costs (25%), and savings in departments (25%). These strategies represent a disciplined approach to growth given moderating revenue projections, and include limiting growth in capital spending, salary and benefit expenses, and absorbing non-salary cost inflation. These fiscal strategies provide a framework for the City to continue to provide excellent services to the public 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 an economic contraction 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 20 shows, the current expansion is the second longest since 1945. The current economic expansion has lasted over nine years. In May 2019, it will become the longest expansion since 1945. At no time during the forecast period are revenues projected to decline. If there is indeed no recession through FY 2023-24, as the projection assumes, it will mark the longest economic expansion since 1900 by 3 years.

Figure 20: Length of economic expansions (in years by start year) in the United States



Based on the historical length of economic expansions as discussed above, there is a strong possibility that a significant economic slowdown or recession will occur prior to FY 2023-24.

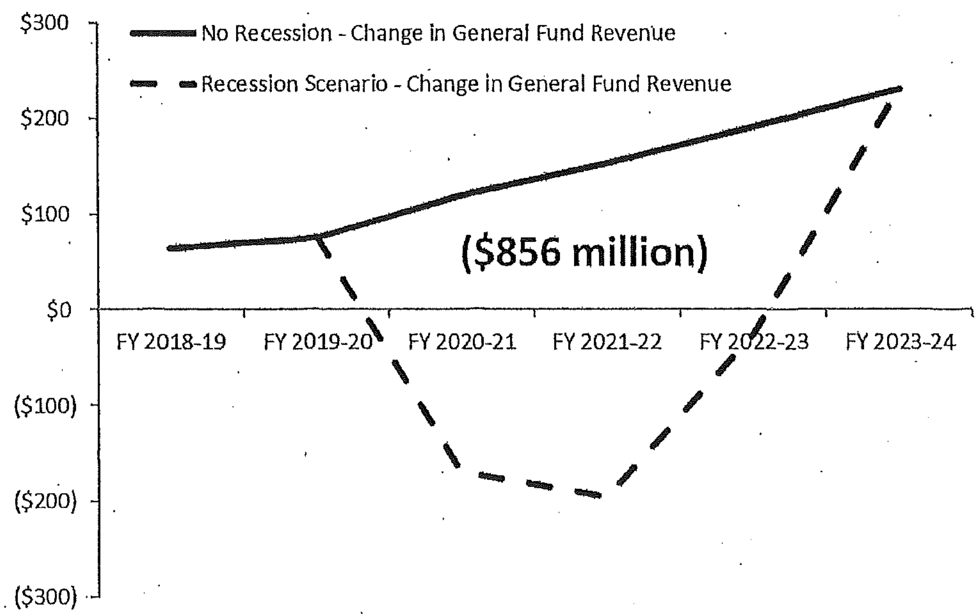
The biggest impact on the City's budget deficits in a time of recession come from reduced revenue and increased employer contribution rates for employee retirement benefits. The City's revenues are affected by the overall business cycle; the international, national, and regional economies; consumer confidence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

To illustrate the effect of a hypothetical recession on San Francisco's fiscal condition, this section describes a recession scenario that assumes weakness in the California and San Francisco economies beginning in FY 2020-21.

Economic Assumptions Included in the Recession Scenario

Recession Scenario – Impacts on Revenue Projections: This scenario assumes rates of revenue loss in major local tax sources consistent with the average declines experienced during the last two economic downturns - from FY 2001-02 through FY 2003-04 (the dot-com/September 11th recession) and FY 2008-09 through FY 2010-11 (the 2008 global financial crisis). Reductions in the City's projected aggregate discretionary revenue would result in reduced contributions to baselines and set-asides affecting the Municipal Transportation Agency (MTA), Department for Children, Youth and Families (DCYF), the Library, Recreation and Parks, and the School District, which are also assumed. Using these parameters, the net revenue loss from a recession beginning in FY 2020-21 would be approximately $856 million during the forecast period compared to the Base Case described in this plan. Figure 21 shows the difference between Base Case and recession scenario revenue projections.

Figure 21: Comparison of Revenue in Base Case and Recession Scenarios
Cumulative Change in Selected Local Taxes



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 2020-21 equivalent to the loss experienced during the 2008 global financial crisis and aftermath, which would affect contribution rates in FY 2022-23 as the valuation at July 1, 2021 determines the contribution rates for the fiscal year beginning July 1, 2022. The FY 2020-21 asset loss is then smoothed into the July 1, 2020 actuarial value of assets and employer contribution rates would increase over a five-year period beginning in FY 2022-23. In this scenario, employer contribution rates would rise by approximately 44% in FY 2022-23 and by 88% in FY 2023-24. 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 2020-21, it would increase the City's projected deficits by $43.8 million, $123.1 million, and $123.4 million, in FY 2021-22, FY 2022-23, and FY 2023-24 respectively, assuming policymakers draw down economic reserves to the extent permitted.

Table 15: Projected General Fund Shortfall in Recession Scenario ($ Millions)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Base Case Deficit Projection	(107.4)	(163.4)	(362.9)	(519.9)	(643.9)
Updated Projection - Savings/(Cost)					
Reduction in base case revenue available	-	(289.2)	(349.2)	(217.2)	65.5
Reduction in mandatory baseline spending	-	43.9	53.1	33.7	(10.2)
Reduction in General Reserve deposits	-	15.5	1.9	2.0	(12.4)
Permissible withdrawal from reserves	-	229.7	250.5	135.0	-
Increase employer retirement contribution	-	-	-	(76.6)	(166.4)
Updated Deficit Projection	**(107.4)**	**(163.4)**	**(406.7)**	**(643.0)**	**(767.3)**
Amount of New Fiscal Strategies Needed	-	-	(43.8)	(123.1)	(123.4)

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 additional revenues as compared to the fiscal strategies discussed earlier in this plan.

Existing Fiscal Strategies Not Sufficient in Recession Scenario

Under the recession scenario, the City's cumulative deficit in the final two years of the plan would increase from $519.9 million and $643.9 million to $643.0 million and $767.3 million. In this scenario, the fiscal strategies offered earlier in this report would not be sufficient to close the projected gaps between revenues and expenditures.

At a high level, the recession scenario would necessitate larger reductions in expenditures than the Base Case. As it is not possible to predict an economic slowdown or future legislative changes at the local, state, or federal level, the recession scenario detailed in this plan is hypothetical. However, it is wise to consider the implications as it would be an historical anomaly not to experience a slowdown in the economy within the next five years.

The recession scenario detailed here is modeled after the City's experience during the last two recessions and does not include formula-driven reductions in state or federal funding. Local revenue declines or legislated reductions in state or federal funding could be less or more severe. In either case, continuing to improve reserve balances and investment in critical one-time capital, equipment, and IT needs during periods of economic growth will improve the City's ability to weather the next downturn.

Conclusion

Financial stability is central to the City's ability to provide excellent services to the public on an ongoing basis. The City is currently experiencing a stable economic climate, and this plan assumes continued, but slowing, growth. It is important that the City continue to be a responsible steward 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 residents of San Francisco.

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Citywide Strategic Initiatives

Equity

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CITYWIDE LONG-TERM STRATEGIC PLANNING

San Francisco is committed to long-term planning to ensure sustainable stewardship of public dollars. In addition to the Five-Year Financial Plan, the City publishes the Citywide Ten-Year Capital Plan and Five-Year Information and Communication Technology (ICT) Plans in order to identify and assess near- and long-term capital and IT needs. These plans also help policymakers prioritize limited city funds through a disciplined planning process while allowing sufficient flexibility to address critical needs as they arise. Together, these documents and planning processes represent the City's commitment toward long-term, strategic planning.

The City further built upon these planning efforts by focusing on the departmental level and developing Five-Year Departmental Strategic Plans across the City in December of 2015. This planning work has allowed the City to identify a unified long-term vision for San Francisco as well as a set of core values needed to realize that vision and helping to prioritize future investments.

In alignment with these planning efforts, upcoming budget investments will be driven by the guiding principles of equitable outcomes and accountability:

Equitable Outcomes: Focusing on services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city.

Accountability: Demonstrate effective use of existing city funding by setting meaningful and measurable metrics to achieve desired outcomes and goals as outlined.

ACHIEVING EQUITABLE OUTCOMES

A city that seeks to provide meaningful access to opportunities for advancement for all its residents must pay close attention to serving those residents with the greatest need. Unhoused, unemployed, underemployed, and justice system-involved populations are all examples of high-need populations. Moreover, the City must acknowledge and address the impact of race, gender, sexual orientation, national origin, and place-based discrimination on access to opportunities in San Francisco. It is only through thoughtful consideration of these factors that the City will develop and invest in solutions to eliminate disparities in outcomes for all residents, and help everyone thrive.

To make sure that city services are achieving measurable improvements in outcomes for all San Franciscans, especially those of greatest need, it is especially important that the City's budget sets metrics, achieves stated outcomes, and invests in programs that work.

Survey of Existing Equity Programs

Detailing existing equity initiatives is an important first step toward building a common language around equity initiatives and a unified approach to equitable service delivery. To that end, the Controller's Office surveyed the landscape of equity-related efforts across city departments.

At the conclusion of its survey in August 2018, the Controller's Office found:

The City has numerous internal and external facing equity efforts: Across surveyed departments, there is great variety in the scope and size of equity initiatives. Some initiatives are focused on improvements to internal city policies, while others are focused on service delivery to the public. Some departments have engaged in national partnerships, like the Government Alliance on Race and Equity (GARE), as detailed in the featured initiatives section below, and others are supported by federal, state, or local policies.

There are many opportunities to coordinate and collaborate across departments: The survey identified nine main shared subject areas to help categorize and group initiatives, specifically: Community Wellbeing; Economy; Public Safety & Justice; Child & Youth Development; Human & Health Services; Housing; Transportation & Mobility; Environment & Climate; and Information Technology. Some programs span multiple service areas, and multiple departments focus on similar subject areas. As such, there is great potential to align department strategies within these service areas, and improve citywide outcomes.

Departmental efforts would benefit from a citywide equity strategy: A cohesive citywide equity strategy can help further guide and support departmental goals and policies. A next-steps strategy should establish clear goals, policies, and metrics to measure the City's joint progress on entrenched disparities in outcomes.

These findings support the City's efforts to prioritize equitable outcomes by giving greater insight into existing departmental efforts, and identifying opportunities to better coordinate for collective impact.

FEATURED INITIATIVES THAT PRIORITIZE EQUITABLE OUTCOMES

This section features a sample, which is by no means exhaustive, of initiatives that support the City's vision of a more equitable city. This section is meant to highlight work city departments are engaged in to achieve improved, equitable outcomes through internal policies and public service delivery, specifically through:

- Making government more accountable to equity and results
- Creating and preserving affordable and inclusive communities
- Advancing economic mobility for residents
- Engaging community for collective impact
- Transforming community safety and criminal justice
- Providing sanctuary and equity to immigrant communities

Making Government More Accountable to Equity and Results

Implicit Bias Training

Each city employee is responsible and accountable for helping to make San Francisco an inclusive and equitable place to live and work. As such, in 2017, the Department of Human Resources developed a training for employees on implicit bias. The training is intended to raise and increase awareness about the value of creating inclusion and equity, as well identify potential unconscious biases that people may have. Through group discussion and an online video training, employees explore the experiences, neuroscience, and historic factors that may lead to unconscious bias and biased behavior. They also learn strategies to minimize the effect of biased attitudes on decision-making. Since its inception, approximately 3,400 people have taken the in-person training.

Equity Action Plans

San Francisco is a proud participant in the Government Alliance on Race and Equity (GARE), a national network of municipal, regional, and state governments working to achieve racial equity and advance opportunities for all. Drawing from the GARE curriculum, the San Francisco Human Rights Commission (HRC) has directly trained over

50 city employees in housing, transit, law enforcement, youth services, health, environment, and other service areas on building a racial equity framework to guide department operations. These employees are part of a peer-based collaborative, working to institutionalize racial equity within their departments. The HRC develops a tailored training curriculum for each department, supports employees in the delivery of those trainings, and advises departments on how to account for and address potential racial inequities perpetuated by department decisions, resource allocations, and policies.

Financial Justice Project

San Francisco is the first city in the nation to launch a Financial Justice Project to assess and reform how fees and fines impact the City's most vulnerable residents. Nationwide, a number of government programs levy fines and fees on residents to discourage behaviors or recoup costs. These fines and fees can push people into poverty and keep them from achieving economic well-being. Poor people and people of color are usually hit the hardest by these practices.

The Financial Justice Project, located in the Office of the Treasurer, seeks to address this through two main goals: first, to listen to community members to identify fine and fee pain points; second, to identify and implement doable solutions for government and the courts. To achieve this, the Financial Justice Project works collaboratively with policymakers, city departments, and community members to implement equitable outcomes. For example, it partnered with the Mayor's Office and departmental partners to conduct a review of city fines and fees as part of the FY 2018-19 and 2019-20 budget process.

The Financial Justice Project has also partnered with SFMTA to launch new low-income discounts for people who have had their cars booted and towed, or cannot afford to pay parking citations. Work has been done with the San Francisco Superior Court to advance new ability-to-pay processes to make it easier for low-income people to pay traffic tickets. In concert with Mayor London Breed, the Project worked to make San Francisco the first county in the nation to eliminate high-pain, low-gain administrative fees charged to people exiting the criminal justice system. These criminal justice fees trap low-income people in cycles of poverty, increase the odds of recidivism, and are an ineffective source of revenue for the City since they are largely uncollectable. In FY 2018-19, the courts waived more than $32 million in debt stemming from these fees, owed by more than 21,000 people.

Office of Transgender Initiatives

The City and County of San Francisco launched the Office of Transgender Initiatives (OTI) in 2017, as the first and only trans-led city government office working to advance policies, programs, and equity for transgender, gender nonconforming (TGNC), and LGBQ communities in San Francisco. OTI addresses a broad range of community priorities within city government, including housing, safety, access to city services, economic development, and preservation of LGBTQ arts and culture. The office's accomplishments include appointing San Francisco's first Transgender Advisory Committee, launching a citywide LGBTQ Employee Resource Network, and developing and implementing citywide policies such as all-gender restrooms, chosen name, and anti-discrimination policies. OTI has also trained over hundreds of city employees and members of community-serving organizations on trans-inclusion and cultural competencies.

Equity Assessments

Employing the use of disaggregated race, income, and or/location data across departments improves the City's ability to track and compare program outcomes and service accessibility for diverse populations across the City. Such data can help inform policy and procedural changes to reduce disparities across City services and programs. Three examples of city departments that utilize this strategy include the Recreation & Parks Department (RPD), Department of Children Youth and Their Families (DCYF), and Public Library (SFPL).

RPD's equity metrics, as required by voter-approved Proposition B in June 2016, helped the department establish a baseline of existing services and resources in low-income neighborhoods and disadvantaged communities, deemed "equity zones", as compared to services and resources available in the City as a whole. The department has incorporated these metrics into their strategic, capital expenditure, and operational plans, and these efforts have correlated with narrowing disparities in park maintenance standards across the City over the past year. Over 61 percent of Rec and Parks' capital dollars are invested in equity zones, which comprise 20 percent of the City's park acreage.

Per the City Charter, DCYF is responsible for "ensuring the children and youth with the highest needs receive maximum benefit from the Fund and that equity is a guiding principle of the funding process." Aligning with this principle, DCYF reformed their RFP & RFQ process for the 2018-23 funding cycle to focus their efforts on populations with the highest need. The department performed an equity analysis and community needs assessment in 2016, which identified low-income neighborhoods where children and youth are likely to have the greatest level of need for services, as well as specific populations that benefit from targeted programming. DCYF then developed a Services Allocation Plan to establish funding priorities and desired outcomes for services based on the needs identified in their assessment. Finally, the department scored all proposals submitted for the 2018-23 funding cycle on a set of criteria, including whether the proposals projected to serve 75 percent of participants from the high-need populations identified. These considerations informed the final award decisions, and the department will monitor program results for expected outcomes amongst target populations.

Finally, the Library Preservation Fund which stipulates funding for the City's public libraries, requires the Library Commission to conduct a comprehensive assessment of community needs to modify service hours as appropriate at least once every five years. The San Francisco Public Library conducted a data-driven assessment in 2017 that included multiple inputs, including hourly patron visitor data sampled over three years, patron surveys, and community engagement meetings in each supervisorial district. From the assessment, SFPL prioritized equitable access to library services by providing a baseline of 50 weekly hours of operation at every neighborhood library, 21 percent above the charter mandate. Moreover, with a network of 28 branch libraries geographically distributed in every neighborhood, all library locations are now open seven days a week, ensuring a strong commitment to equity in the delivery of library services.

Creating and Preserving Affordable and Inclusive Communities

HOPE SF

The City is committed to transforming four of San Francisco's most distressed public housing sites into vibrant, thriving communities through holistic revitalization. HOPE SF is spearheading this work through rebuilding and improving physical housing assets while providing robust social services. HOPE SF is a key step in ensuring that families living in Public Housing have the same opportunities as all San Franciscans.

In FY 2017-18, HOPE SF successfully re-housed 535 families, markedly improving household employment and income levels, and achieved record low-levels of neighborhood crime across each community. In close collaboration with its many public and private partners, particularly the Office of Community Investment and Infrastructure (OCII), the HOPE SF development team achieved the following milestones:

- Hunters View - The final 54 former public housing households at Hunters View were successfully re-housed in their community with the completion of Block 10, bringing the percentage of families successfully relocated and retained to 70 percent. This is a remarkable achievement compared to the national rate of return of 27.6 percent for all public housing residents in HOPE VI developments from 1993 to 2014. Also, the market-rate developer City Ventures finalized a deal to build 80 for-sale townhomes in the community, advancing the mixed-income vision of HOPE SF.

- Alice Griffith - Across three phases, 303 units of newly built affordable housing were completed in Double Rock, successfully housing 207 former public housing households, and bringing the retention rate to 82 percent with only a handful of households remaining to be housed in 2019.
- Potrero Hill - Construction started on Block X, the first building on the Potrero Public Housing Site. Block X will become a state-of-the-art building that will provide 72 affordable units in early 2019.
- Sunnydale - In Sunnydale, Parcel Q (55 units) commenced construction in FY 2017-18 and 23 families wishing to move to brand-new units at the Transbay 7 Natalie Gubb Commons were successfully relocated. The economic opportunity provided by the Sunnydale redevelopment allowed 22 residents to be successfully placed in new construction jobs.

Lastly, HOPE SF deployed approximately $2.5 million in wrap-around support services through community wellness centers, peer health leadership programming, eviction prevention services and resources, and workforce supports.

MAP 2020

The Mission Action Plan 2020 (MAP2020) formally launched in early 2015 as a community-initiated collaboration with the City that seeks to provide immediate and long-term strategies to help stem the displacement trends in the Mission, ensure equitable outcomes from economic growth, and address the disproportionate impacts on the groups most impacted by the housing affordability crisis. The comprehensive action plan seeks to retain longtime residents, businesses, arts, and community organizations to strengthen and preserve the socioeconomic diversity of the Mission neighborhood. The Plan provides a range of actions and investment under the following categories that can help protect, sustain, and grow the community: Tenant Protections; Housing Production; Housing Preservation; Economic Development (retention of small business, arts and community organizations); Community Planning; Homelessness; and Single Room Occupancy Hotels.

MAP2020 is in its third year of implementation with 36 of the original 51 strategies in the Plan underway or complete as of 2018. In line with the City's goal of producing 5,000 units every year, the City has invested $298 million in affordable housing in the Mission through the current fiscal year; more than $9 million in non-profit, workforce, arts, and small business support; and $32 million in tenant protections, homelessness prevention, family support, educational success, cultural arts, workforce development, and non-profit displacement in the Mission and citywide to support the Latino community and other vulnerable populations. Some specific impacts influenced by MAP2020 include a decline in eviction notices and buyouts, the production of close to 1,000 units of affordable housing, legislation to protect businesses, and assistance to 300 non-profits and stabilization of 110,000 square feet of non-profit space.

Invest in Neighborhoods

The Invest in Neighborhoods initiative, led by the Office of Economic and Workforce Development, was launched in 2012 to advance economic opportunities in San Francisco neighborhoods using strategies centered on diversity, equity, and inclusion to increase quality of life and prosperity for residents and businesses. The initiative's primary objective is to create vibrate and healthy neighborhoods by providing customized programs and services that support small business and community partners in commercial districts.

The City's fiscal investment to the Invest In Neighborhoods initiative over the last two years has totaled approximately $15 million which goes toward developing and deploying targeted programs that retain and strengthen small businesses, including real estate and legal assistance, business planning, façade and tenant improvements, ADA compliance and assistance, and the Women Entrepreneurship's Fund programs. In target neighborhoods, Invest in Neighborhoods has increased investments in capacity building, through administration of community development block grants, the creation of Community Benefit Districts, Neighborhood Strategies, and Cultural District Planning.

Advancing Economic Mobility for Residents

Opportunities for All

Nationally, youth unemployment rates have increased, with low-income and young people of color experiencing disproportionate rates of unemployment. Moreover, thousands of San Francisco youth are on waiting lists for internships and work-based learning opportunities, and too many lack the necessary experience to access gainful employment in the workforce. Opportunities for All (OFA) is a city initiative led by the Mayor's Office and the Human Rights Commission that exposes, prepares, and connects diverse young San Franciscans to employment, training, and work-based learning opportunities in order to address youth unemployment rates. The initiative will serve 2,000 high school-aged youth who are ready and interested in working, as well as provide opportunities for another 1,000 youth who might need additional support by offering new programming focused on addressing gaps in skills.

Academy for All

The California Academy of Science is committed to opening its doors to everyone in the Bay Area, especially children, so they can enjoy the benefits of scientific literacy. Lowering the barriers to the Academy – including cost, access, and language – is a priority to ensure equitable access. Academy for All serves nearly 330,000 children and families annually through several programs that feature free or subsidized admission days and youth internships.

Community Free Days (free admission for all), Neighborhood Free Weekends (admission by a San Francisco zip code), and Free Admission Tickets (distributed to low-income families by local partners like the San Francisco Public Library) draw thousands of visitors from the Bay Area's diverse community. The Academy also features the Museums4Inclusion internship program for youth and adults with developmental and intellectual disabilities. Finally, the Academy is a partner in Museums for All, a collaborative initiative that ensures every child and family has access to the museum by offering $3 general admission to visitors that present an EBT (Electronic Benefit Transfer) or WIC (Women, Infants, Children) card upon entrance.

CityBuild Academy

CityBuild, a program in the Office of Economic and Workforce Development, manages workforce development training programs, employment networking services, and compliance oversight of key workforce legislation and initiatives. For the last two years, CityBuild has continued to operate the CityBuild Academy Pre-apprenticeship Training Program (Academy) and the Construction Administrative Professional Services Academy (CAPSA). In this two-year period the Academy graduated 204 participants and placed 190 (93 percent) of its graduates into union apprenticeship jobs. In the same period, CAPSA has graduated 79 participants and placed 43 (54 percent) graduates into jobs such as junior engineer and administrative assistants.

In addition to training and placement, CityBuild also operates an employment networking service to connect construction jobseekers with employers seeking to hire. In the past two years, CityBuild has placed over 2,900 local residents into employment opportunities across construction projects managed as part of the City's Mandatory Local Hiring Policy for Construction. CityBuild ensures local residents, particularly from targeted communities like Bayview Hunters Point, benefit with employment opportunities, advancing equity through a successful career in well-paid union construction jobs.

Paid Parental Leave Ordinance

Individuals within the lowest tax bracket in California, are far less likely to take advantage of California Paid Family Leave (PFL), which supports parents in taking time off of work to care for newborn children. The Paid Parental Leave Ordinance (PPLO), passed in 2016, seeks to address this disparity by requiring San Francisco employers to supplement the PFL partial wage replacement, providing employees with 100 percent of their salary for a set timeframe. This helps ensure that concern over loss of income does not preclude any parent in San Francisco from bonding with their newborn child.

To implement the PPLO, the San Francisco Office of Labor Standards Enforcement (OLSE) has provided technical assistance to employers, conducted extensive outreach to employees, and investigated alleged violations of the law. OLSE and its community partners developed a suite of PPLO educational materials, hosted webinars for more than 2,000 employer representatives and conducted outreach to 1,800 new parents and health and social services providers.

Initial analysis suggests that San Francisco's Paid Parental Leave policy is succeeding in encouraging more parents to take new-child bonding leave, even during 2017, the initial phase-in period. The State of California's Employment Development Department reports that in 2017, 5,590 San Francisco residents filed bonding claims for Paid Family Leave, 8.5 percent more than in 2016. Researchers at UC Berkeley's School of Public Health are continuing to study the ordinance's impact.

Gender Equity Challenge

In San Francisco, women's participation in the workforce is among the highest in the country, at 62 percent (nationally, 57 percent). Recent legislation, such as the Paid Parental Leave Ordinance, lactation accommodations, and a citywide salary history ban, has contributed to this success for working women and their families. Nevertheless, new legislation can pose implementation challenges for employers. The Gender Equity Challenge, run by the Department on the Status of Women, supports employers by organizing roundtables on equal pay, parental leave, lactation accommodations, and other strategies to showcase best practices to advance gender equity in the workplace. Next, the Department on the Status of Women plans to focus on issue-specific solutions. For example, a recent convening on equal pay will form the basis of a 2019 resource guide with tools for employers to advance pay equity.

Engaging Community for Collective Impact

Muni Equity Strategy

The Muni Service Equity Strategy was created to assess Muni service performance in select neighborhoods in which transit is critical, identify Muni transit-related challenges impacting these neighborhoods with community stakeholder outreach, and develop strategies to address the major challenges. Neighborhoods were selected based on percentage of low-income households, private vehicle availability, and race/ethnicity demographics. There is also special focus on Muni routes that are heavily used by seniors and people with disabilities.

The Equity Strategy operates on a two-year cycle, tied directly with the operating budget, so decisions about Muni service improvements and expenditures are actively focused on those with the most need. The latest Strategy was adopted in spring 2018 and presents recommendations for FY 2019-20. These recommendations will be rolled out across the next two years, and other projects are already underway.

Code Enforcement Outreach Program

The Department of Building Inspection (DBI) funds two outreach programs developed to improve tenants' living conditions by bringing rental housing into code compliance. The Code Enforcement Outreach Program (CEOP) is a partnership between DBI and community based organizations to assist tenants in obtaining needed repairs to their rental units. CEOP seeks to expedite the code enforcement process by educating tenants and landlords of their respective rights and responsibilities and improving landlord tenant communication. The Single Room Occupancy Hotel Collaborative Program (SRO) is a partnership between DBI and community based organizations to assist residential hotel tenants obtain needed repairs. SRO supports tenants through outreach, tenant stabilization and general advocacy.

Both programs assist the department in meeting its goal of providing equitable services throughout the City by focusing on low-income, very low-income, limited and non-English speaking, and other underserved communities. Services are focused in the Mission, Tenderloin, and Chinatown. Recently, the department extended services to artists and others living in non-traditional spaces. CEOP has assisted over 120,000 households with issues such as lack of heat and hot water, inadequate toilet and shower facilities, and inadequate egress and smoke alarms. The SRO Collaborative has addressed similar issues serving over 20,000 very low-income residential hotel tenants.

SF Benefits Net Outreach — Medi-Cal & CalFresh

The Human Services Agency (HSA) administers the CalFresh nutrition assistance and Medi-Cal health coverage programs for low-income San Francisco residents. An equity analysis conducted by HSA indicated that households with Chinese-speaking, Spanish-speaking, aged, and young adult recipients underutilize these programs. In order to reach likely eligible residents who are not yet enrolled, HSA has a robust outreach strategy that includes co-location of CalFresh and Medi-Cal staff at service sites in neighborhoods throughout the City, high-volume phone outreach to known likely eligible residents, and partnering with a diverse group of community-based organizations such as the San Francisco-Marin Food Bank, Cameron House, Chinese Newcomers, and Wu Yee to do outreach and provide application assistance to underrepresented populations.

In 2019, HSA will make an outreach push to increase the CalFresh utilization rate among seniors and persons with disabilities by leveraging a new state policy that allows recipients of federal SSI benefits to receive CalFresh for the first time. Other planned efforts include targeted outreach to college students and the launch of a social media marketing campaign targeting elderly Chinese speakers, Spanish-speaking adults, and pregnant women. HSA's investment in these outreach strategies has grown from about $500,000 per year in FY 2013-14 to $750,000 in FY 2018-19.

Community Health Equity & Promotion

The Community Health Equity & Promotion (CHEP) Branch of the Department of Public Health (DPH) aims to support community well-being, sustain healthy communities, and work toward health equity through sustainable change approaches, community capacity building, mobilization, and community partnerships with a racial and cultural humility lens. CHEP plans, implements, monitors, and evaluates prioritized community initiatives, including promoting active living, safe and healthy environments and community-clinical linkages, and decreasing HIV, sexually transmitted infections, viral hepatitis, and the effects of trauma. CHEP integrates quality improvement into all its efforts, with a focus on achieving health equity through results-based accountability. Included in the CHEP portfolio of programs are the Black/African American Health Initiative, Newcomers Health Program for refugees, asylees, and immigrants, and Holistic Health to Address HIV Health Disparities.

Transforming Community Safety & Criminal Justice

Reentry Council SF

The Reentry Council was established by a City ordinance in 2008 with the purpose of coordinating local planning efforts, information sharing, and engagement strategies to support adults reentering their communities from jail, prison, and out of home placements. The Council, co-chaired by the Office of the Mayor, the District Attorney, the Public Defender, Chief Adult Probation Officer and the Sheriff, has 24 members, including previously incarcerated voting members. In 2013, the Council, in partnership with the Burns Institute, played a leadership role in detailing racial and ethnic disparities at every key touchpoint in the criminal justice system. This research and advocacy work advanced further analyses by criminal justice partners, and continues to spark and inform other local policy, best practices, grant and planning efforts. The Council shares the citywide vision of achieving greater racial equity in San Francisco, and will continue to leverage its efforts to advance this goal.

Community Assessment Service Center

Opened in 2012, the Community Assessment Service Center (CASC) is a one-stop reentry center that bridges the Adult Probation Department's (APD) supervision services with comprehensive support services for people exiting the criminal justice system. The CASC empowers personal responsibility and streamlines access to evidence-based services including clinical and reentry case management, medication management and distribution, peer coaching, cognitive behavioral interventions, substance dependency and recovery services, education and employment services, barrier removal, and benefits enrollment assistance. Eight community-based organizations run programs at the CASC. It also serves as a meeting space for community partners. In 2018, over 3,000 individuals came through the CASC for services.

Pretrial Capacity for Bail Alternatives

The San Francisco Pretrial Diversion Project (SFPDP) was formed to provide first-time misdemeanor offenders on non-violent charges with the opportunity to have their case dismissed by completing a program. As bail practices are reformed statewide, the SFPDP has expanded its capacity to provide risk assessments to judges and case management to clients. Approximately 86 percent of San Francisco's County Jail population is pretrial. Research documents that individuals jailed more than two days are statistically predisposed to higher rates of job loss, housing loss, and loss of custody of their children. They are also convicted at higher rates, sentenced to longer periods of time, and more likely to be re-arrested. Through the variety of programs offered by SFPDP, including Assertive Case Management, Pretrial Diversion, and Own Recognizance, individuals are afforded a variety of important opportunities for alternative-driven programs.

Providing Sanctuary and Equity to Immigrant Communities

Immigration Defense

Detained non-citizens facing deportation do not have the right to an appointed lawyer, and often defend their own immigration cases. These cases often result in deportation, even for people who have resided in the United States for more than a decade. The Public Defender's Immigration Defense Unit aims to provide access to counsel for detained immigrants, so that they have a fair chance at defending against their deportation. The Immigration Defense Unit serves non-citizens who are detained, face deportation in the San Francisco Immigration Court, and are unable to hire a lawyer. Since its inception, in May 2017, the program has represented non-citizens facing deportation, assisted in securing the release of individuals from immigration custody, conducted bond hearings, filed applications for relief, and won final victories for many non-citizen clients, converting their status from unlawful to lawful.

Immigrant Assistance & Integration: Citizenship & DACA Efforts

San Francisco is determined to ensure that all city residents feel welcomed and have access to accurate information, social services, language assistance, and legal services. The San Francisco Pathways to Citizenship Initiative, a private/public/non-profit partnership between Office of Civic Engagement & Immigrant Affairs (OCEIA), local philanthropic foundations, community based-organizations, and over 500 volunteers, has helped over 8,000 naturalization applicants since 2013.

The DreamSF Fellows Program has trained and prepared over 80 young Deferred Action for Childhood Arrivals (DACA) recipients for leadership, employment and professional development. Fellows participate in weekly leadership training, are placed in local host organizations that serve immigrants, and provide thousands of service hours to the community.

Census "Hard to Count"

The 2020 Census will be one of the most challenging counts in US history with an all-digital count, cybersecurity concerns, and the addition of a citizenship question raising fear among immigrants. This is in addition to the existing difficulty in reaching historically hard-to-count populations (homeless, individuals in non-conventional housing, immigrants and non-citizens, monolingual communities, renters, and young children). San Francisco is one of 50 major cities nationally, and one of 13 in California, with the highest number of hard-to-count populations. Over 13 percent of the City's population is currently unconnected to the internet or lacking basic technology access.

The FY 2018-19 and FY 2019-20 budget provided $2.4 million in support, complemented by additional state resources in the current year, to OCEIA to prepare for the 2020 Census citywide campaign, with a special focus on outreach to hard-to-count populations and residents who lack technology access. The SF Complete Count Committee, a comprehensive outreach plan, a technology advisory committee, and a community grant program will be launched by January 2019.

NEXT STEPS

The Controller's Office will continue to work with the Mayor's Office and individual departments to align and improve the City's Performance Measurement program to better reflect updated goals and priorities. Moreover, the City will continue integrating accountability and equity monitoring into the annual budget process and five-year financial planning process. These initiatives are expected to strengthen over time as the City coordinates a citywide equity strategy that can unite departmental efforts to achieve equitable outcomes in service delivery, and maximize the impact of every dollar.

Appendices

Other Long-Range Financial Planning
Major Department Issues and Goals

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Other Long-Range Financial Planning

In addition to this document, which provides a high-level look at projected revenues and expenditures in the next five years, the City has additional citywide long-term planning processes, including documents specifically focused on investments in capital projects and information and communication technology. Outlined below are additional long-term financial liabilities that extend decades into the future, beyond the scope of the five-year outlook of this plan. Further, the Ten-Year Capital Plan and Five-Year Information and Communication Technology Plan 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.

LONG-TERM LIABILITIES

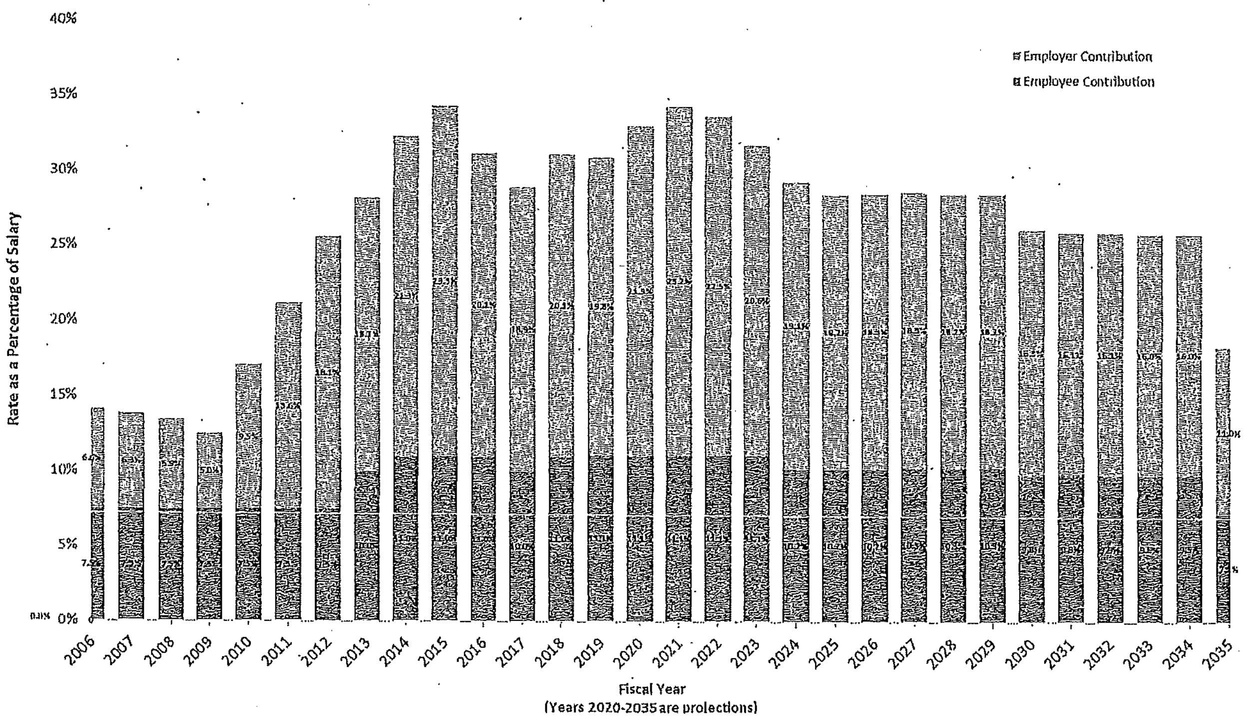
While this plan focuses on the financial outlook of the City over the next five fiscal years, the City has financial obligations that extend decades into the future, such as its pension liability, the cost of providing health care to retirees and their dependents (OPEB, or Other Post-Employment Benefits), and capital and deferred maintenance.

Pension Liability

Retirement contribution rates have changed significantly over the past decade, particularly the employer portion, which increased from 6.6% of payroll in FY 2005-06 to 19.8% in FY 2018-19, representing employer contributions of $126.5 million and $664.8 million, respectively. The December 2016 Five-Year Financial Plan anticipated contribution rates to peak in FY 2021-22. The current plan anticipates that rates will peak slightly earlier, in FY 2020-21, after which rates would decline as the cost of prior pension enhancements fully amortize.

In addition to a projected decrease in the employer pension contribution rate after FY 2020-21, a slight increase in investment returns between FY 2015-16 and FY 2016-17 decreased the City's net pension liability from $5.8 billion in June 2016 to $5.0 billion million as of June 2017. However, as these figures illustrate, net liability is highly sensitive to year to year changes in assets' market value. At this time, per Cheiron estimates for the total retirement system in October 2018, employer contribution rates are projected to decrease over a longer horizon, declining by half over a 20 year period, as illustrated below. Note that the estimates below are not adjusted to reflect changes in possible future supplemental COLA increases or potential prepayment discounts. Additionally, these projections are highly sensitive to a number of actuarial assumptions, most notably investment returns, and fluctuations in these factors will need to be carefully monitored to effectively manage this long-term liability.

Figure 22: Actual and Projected Retirement Contribution Rates, FY 2005-06 through FY 2034-35



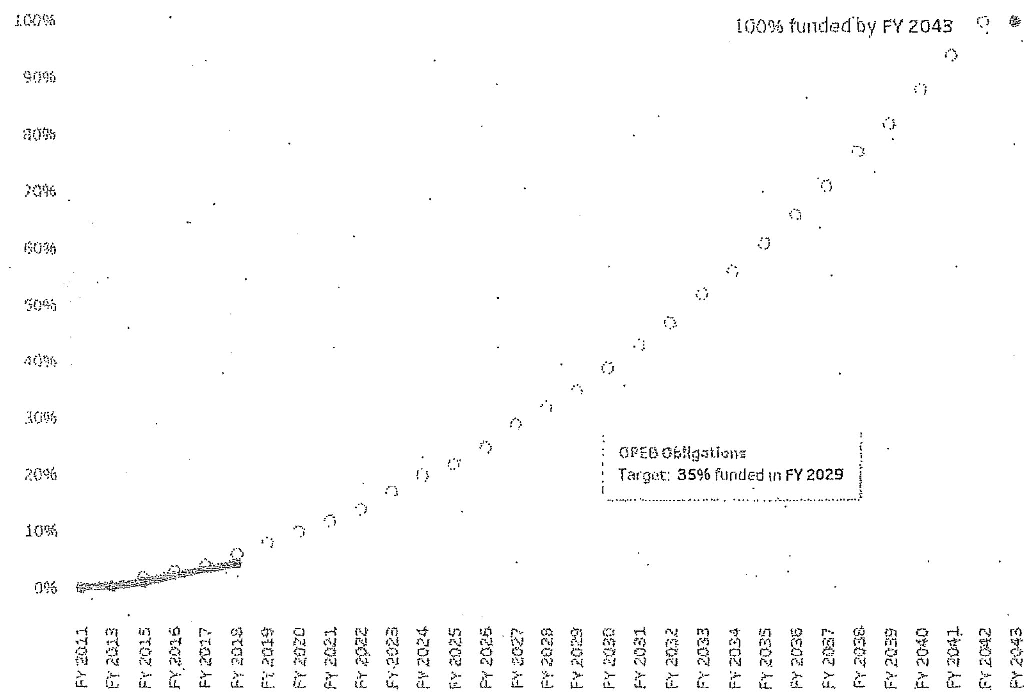
Other Post-Employment Benefits (OPEB) Liability

The City also carries a significant unfunded OPEB liability, predominantly due to a retiree health benefit in place prior to recent voter changes – for retirees hired before January 2009, the City guaranteed the full cost of health benefits for retirees after five years of city service. The actuarial liability for retiree health benefits is currently estimated at $4.3 billion.

The City's voters have adopted a number of significant changes to these benefits in recent years, including adoption of a new lower-cost benefit plan for new employees, creation of a trust to prefund these benefits, and requirements for both employees and the City to contribute to this fund. As result, projections indicate that the percent of liabilities that are covered by the trust will gradually over time, from 0.4% as of July 2012 to 20% by the end of this plan's forecast period in FY 2023-24, reaching full funding by 2043, as shown in Figure 23.

The City's ability to achieve full funding will depend heavily on the investment returns of the Trust and employee demographics, among other factors, and will need to be monitored in carefully in future years.

Figure 23: OPEB Projected to be Fully Funded in FY 2043



Capital and Deferred Maintenance

Strong economic performance and tax revenues during the most recent recovery have allowed the City to fund a record level of critical facility and infrastructure projects in recent years, increasing debt capacity and issuance, as well as cash-funded work. Despite this progress, however, a significant funding gap remains. The upcoming Capital Plan (for FY 2019-20 through FY 2028-29, set to be adopted by the Capital Planning Committee in March 2019) defers $1.3 billion in identified renewal needs for General Fund departments, and does not fully fund annual state-of-good-repair needs until FY 2026-27.

Current projections estimate a backlog of routine repair and renewal needs of $800 million at the end of FY 2019-20. As shown in Figure 24, below, at currently proposed funding levels, this backlog is expected to grow to $1.1 billion by FY 2028-29.

Figure 24: Pay-as-you-go Program Impact of Funding Level on Backlog

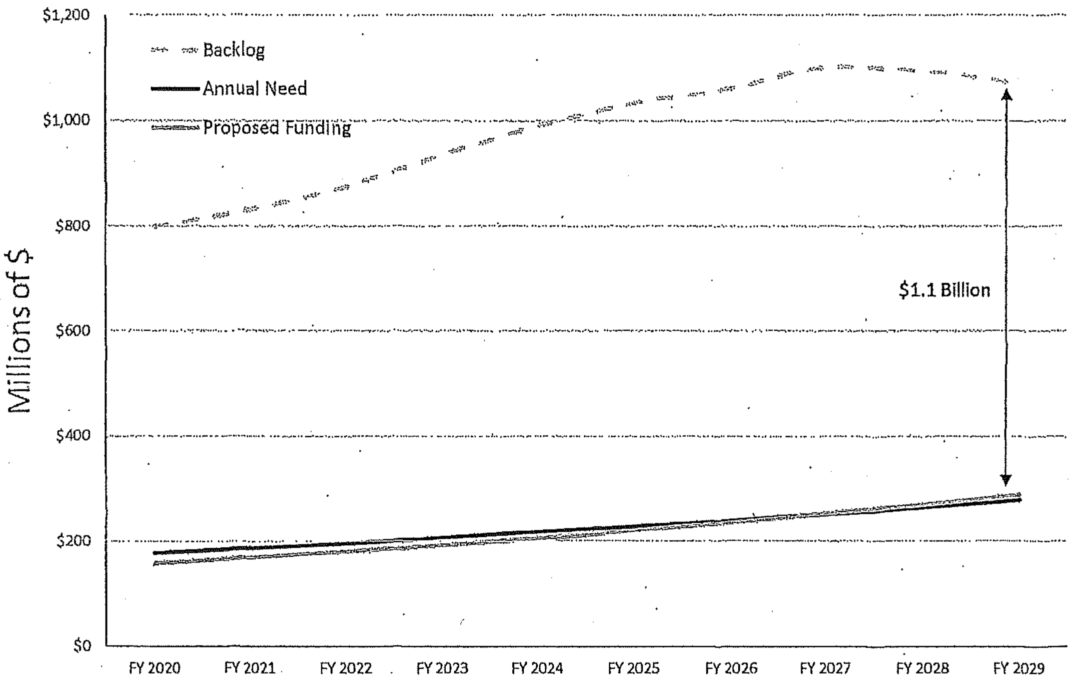
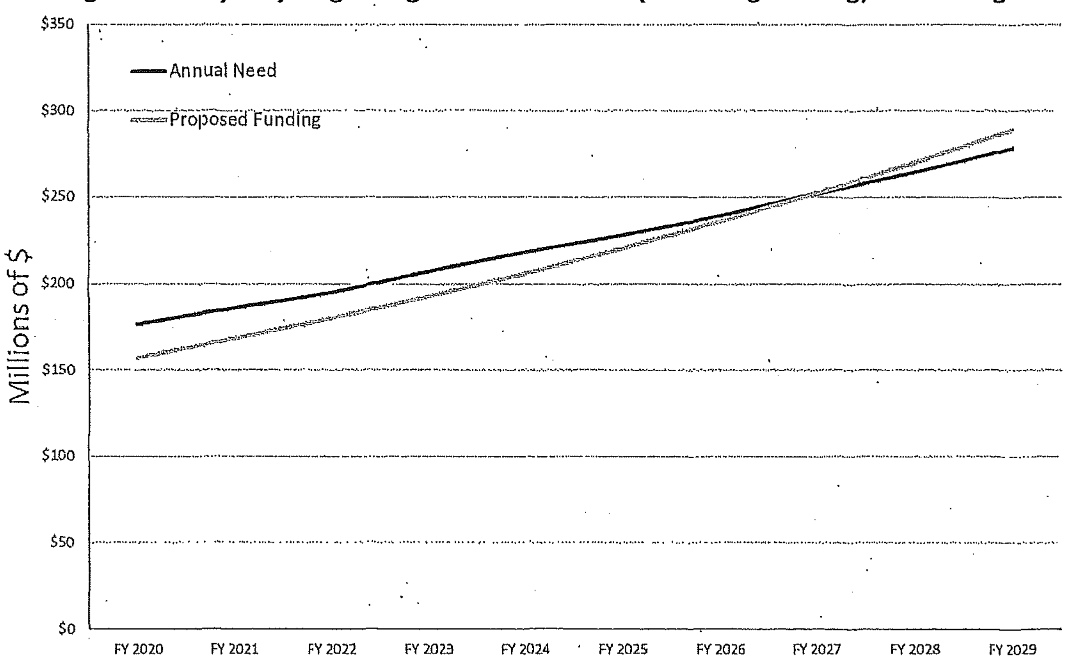


Figure 25 compares the currently proposed funding level with the projected annual need, and shows that the projected annual need is expected to be fully funded from FY 2026-27 onwards. At that point, the annual funding is projected to satisfy state-of-good repair needs, meaning that there would be no projected growth to the backlog in those years.

Figure 25: Pay-as-you-go Program Annual Need (Excluding Backlog) vs Funding



OTHER LONG-TERM PLANNING DOCUMENTS

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 2019 and submitted to the Board of Supervisors and the Mayor, will cover FY 2019-20 to FY 2028-29.

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

- **Pay-As-You-Go program:** Projects funded through this program are supported through the annual budget process with General Fund sources as described in the Capital Plan. 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, the funds available in this program are escalated each year by 7%. In the past five years, FY 2014-15 through FY 2018-19, the City's adopted budget included full funding for this program.

- **Debt financing tools:** This category of funding 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 that 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-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 nine years, voters have approved nine Capital Plan-recommended G.O. bonds totaling approximately $3.9 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 2019-20 through FY 2023-24 and is expected to be adopted by the Committee on Information Technology (COIT) in the spring of 2019.

Since the adoption of the last ICT Plan in 2017, the City has begun implementation of several key priorities, including upgrading the City's network and telephone systems, and replacing critical city systems such as the property tax and assessment system, and the public safety radio system. The upcoming ICT plan will focus on continuing to support those projects as well as outline future IT funding priorities.

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

- **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 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. COIT has recommended three Major IT Projects in the next five years:

- Public safety radio replacement project ($74 million);
- The Assessor-Recorder's property tax systems ($68 million); and
- Computer aided dispatch replacement (estimated at $30 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

- Be a powerful voice for sustainability and biodiversity across the globe;
- Expand its reach through the museum, planetarium, rainforest, Steinhart Aquarium, and scientific collections;
- Provide science, technology, engineering, and math (STEM) education opportunities to all, especially currently underrepresented communities;
- Be a leader in workforce inclusivity;
- Maintain its viability as a public attraction through sustainable fiscal operations.

Adult Probation

- Implement innovative approaches that break the cycle of crime, are effective in achieving behavior change, and prevent reoffending and victimization;
- Help victims of crime recover from financial and emotional hardships;
- Provide effective supervision of high-risk individuals through evidence-based supervision strategies that are effective in reducing recidivism and improving outcomes; and
- Offer effective, family-focused rehabilitative programs both internally and through partnerships with community-based organizations and other city departments.

Aging and Adult Services

- Maintain a strong network of community-based services, strengthen the caregiver network, and support high-risk individuals to live in the community instead of institutional settings;
- Protect populations from abuse, neglect, and exploitation by developing specialized resources to address high-risk and complex needs and collaborating with community and government partners;
- Provide consumer-centered programs to address needs, increase community awareness of the one-stop service center, and ensure programs are culturally appropriate for the City's diverse low-income seniors and adults with disabilities;
- Address current and future population needs through large-scale planning efforts, and increase the use of evidence-based programs, performance measures, and data-sharing to maximize impact and outcomes; and
- Support and develop an engaged professional workforce that is prepared to work with older adults and people with disabilities.

Airport

- Revolutionize the passenger experience by creating a seamless door-to-door experience, and meeting the needs of modern travelers;
- Achieve net zero energy and zero waste by 2021;
- Be the industry leader in safety and security;
- Nurture a highly competitive and robust air service market;

- Deliver exceptional business performance; and
- Care for and protect Airport communities.

Arts Commission
- Invest in a vibrant arts community through equity-based grant funding, arts education, and by creating economic opportunities for artists and craftspeople in San Francisco;
- Enliven the urban environment by commissioning high-quality and diverse public artworks, ensuring the quality of the built environment, and preserving the City's cultural assets;
- Build public awareness of the value and benefit of the Arts; and
- Improve operations to better serve residents and arts through the creation of an online grants management system and centralized database.

Asian Art Museum
- Deliver a diversified portfolio of programs and exhibitions to engage a global audience;
- Reach and engage expanded audiences by building capacity in marketing and communications and optimizing the Museum's online strategy;
- Invest in the future of the museum by adding a special exhibition pavilion, and by updating and repurposing existing spaces to better serve audiences and visitors;
- Encourage creativity and collaboration through interdisciplinary team engagement, donor cultivation, and business plan implementation; and
- Achieve financial sustainability by 2021 by growing the Museum's endowment, annual fund, and paid attendance.

Assessor-Recorder
- Collect all documented transfer tax due, assess all taxable property within the City and County of San Francisco, and effectively defend and resolve assessment appeals;
- Provide outstanding customer service;
- Modernize the City's property assessment and tax systems by replacing legacy IT systems; and
- Utilize data and analytics to improve business processes, manage incoming workloads, and close the assessment roll on time.

Board of Appeals
- Enhance the appeal process for all participants (the public, Board members, and staff) through the increased use of technology;
- Foster workforce development through cross-training employees to ensure coverage and service provision at all times; and
- Analyze and amend the Board's rules of procedure and governing legislation to modernize appeal processing, enhance the public's understanding of appeal rights and the appeal process, and eliminate inconsistencies.

Board of Supervisors
- Align resources to allow the Board to achieve its mission and duties to support open and participatory government;
- Strengthen the Board's accountability to city residents and facilitate the public's access to government data and information; and
- Ensure equal opportunity to engage with the Board.

Building Inspection

- Review plans and issue building permits safeguarding life and property in compliance with city and state regulations;
- Perform inspections to enforce codes and standards to ensure safety and quality of life;
- Deliver the highest level of customer service;
- Utilize efficient and effective administrative practices; and
- Proactively engage and educate customers, contractors, and stakeholders on DBI's services, functions, and legislated programs.

Child Support Services

- Increase the reliability of child support payments to families and decrease the amount of unpaid child support;
- Improve caseworker processes and communication to understand customer satisfaction and whether customer needs are met;
- Strengthen relationships with courts, employers, and other service providers as a way to improve support for children and families; and
- Use technology to make accessing services easier for children and families, such as an online registration and depositing cash payments directly into client accounts.

Children and Families Commission

- Facilitate innovative work between organizations, communities, individuals, and public agencies to advance the well-being of children from birth to age eight and their families;
- Ensure 100% of city-funded Early Care and Education sites participate in the Quality Rating and Improvement System and meet quality standards;
- Provide family support programs and systems to improve families' ability to support children's life-long success; and
- Establish a system of universal early identification and intervention for children birth to age five.

Children, Youth, and Their Families

- Promote practice and research informed programs, seed innovation, and seek to address inequities in access and opportunity;
- Provide leadership in developing high-quality programs and strong community-based organizations in the interest of promoting positive outcomes;
- Prioritize children, youth, Transitional Age Youth, and families' voices in setting funding priorities and build department's knowledge of and presence in neighborhoods across San Francisco; and
- Work with city stakeholders to help set funding priorities, practices, and policies that are based on an equity framework.

City Administrator

- Improve the public experience through new online services, upgraded and integrated Customer Relationship Management systems, new apps, revised websites, and increased language access;
- Strengthen the City's resilience and recovery planning – including disaster mitigation – through research, establishing technical standards, and earthquake retrofitting. Support post-disaster recovery with interim housing, drinking water, and sanitation plans;
- Develop policy and coordinate investments for the City's technology, infrastructure, and facilities maintenance by leading the Committee on Information Technology and the Capital Planning Committee;

- Promote civic participation and inclusive policies to improve the lives of San Francisco's residents, particularly immigrants, underserved, and vulnerable communities. Engage immigrants and people with limited English proficiency so they may participate in civic activity and have equal access to available services; and
- Continue development of Treasure Island, ultimately providing up to 8,000 housing units, new commercial and retail space, and over 300 acres of parklands, wetlands, recreational sites, trails, and native habitat on the island by 2030.

City Attorney

- Provide advice and counsel to city departments on legal issues related to the administration of local government, and draft legislation expressing the desired policies of the City;
- Represent the City in civil litigation of critical importance to the welfare of the citizens of San Francisco; and
- Retain and recruit quality employees by developing strategies for succession planning, as well as professional development and leadership training.

City Planning

- Design and build housing and public spaces that are welcoming to all;
- Streamline project approval processes;
- Create a long-term transportation vision;
- Plan for resiliency and sustainability; and
- Inspire a creative, diverse, and positive work environment.

Civil Service Commission

- Increase access to the Commission's resources and create greater transparency and efficiencies by improving how the City hires and promotes employees;
- Ensure the timely resolution of appeals;
- Ensure policies and procedures are easily understood by providing clear, well-organized information, ensuring conflicts are addressed quickly and fairly, and hiring and promoting employees using methods that decrease the potential for bias; and
- Strengthen oversight of the merit system by working with departments to ensure fair and lawful hiring practices.

Community Investment and Infrastructure

- Continue the wind-down of redevelopment activities and the completion of existing enforceable obligations in the Major Approved Development Project Areas.
- Accelerate the production of new housing and the creation of new public infrastructure and open spaces;
- Invest in disadvantaged and at-risk communities while prioritizing connectivity, sustainability and resilience;
- Maximize opportunities for local business and workers;
- Use low-cost public financing; and
- Invest in and value employees.

Controller

- Ensure government is accountable to city residents;

- Support informed policy decisions;
- Safeguard the City's long-term financial health;
- Provide high-quality financial services;
- Increase access to useful and timely information; and
- Invest in and value employees.

District Attorney
- Support the Independent Investigation Bureau in conducting independent investigations of potential crimes committed by sworn personnel;
- Continue the transition to a fully paperless system throughout the Department through an upgrade of the case management system to a web-based interface; and
- Improve the use of data to determine driving factors of crime, optimal prosecutorial strategies, crime prevention measures, and the overall volume, efficiency, and quality of work.

Early Care and Education (ECE)
- Build a citywide ECE system which enables all families with children 0-5 years old to access high quality early education and care;
- Increase the percentage of children who are school-ready as indicated by the Kindergarten Observation Form, targeting African American children, Latino children, English language learners, low-income children, and children with disabilities;
- Streamline funding to ensure a seamless system for children, families, and providers with the intent of fully utilizing federal and state resources; and
- Evaluate and improve strategies to recruit, retain, and promote San Francisco early educators.

Economic and Workforce Development
- Facilitate a resilient and robust economy that helps businesses start, stay, and grow in San Francisco;
- Create economic prosperity for all residents, including the unemployed, underemployed, and hard to employ, by preparing, training, and connecting San Franciscans to sustainable jobs with strong career pathways;
- Support diverse and vibrant neighborhoods by strengthening and investing in small businesses, non-profits, community organizations, commercial corridors, and public spaces;
- Lead the approval and implementation of significant development projects to create space for jobs, recreation, community benefits, and housing affordable to a variety of income levels; and
- Deliver excellent service through collaboration, transparency, and team member support within the Department and the diverse communities it serves.

Elections
- Ensure access for all residents by offering voting materials and services in multiple languages, cultivating partnerships with community organizations, and administering conditional voter registration for those who register after the registration deadline;
- Implement an accessible vote-by-mail system for voters with disabilities and those serving in the military or living abroad;
- Determine an appropriate replacement for the City's voting system, and continue to explore the possibility of developing a new voting system based on open source software; and
- Expand programs serving new registrants and administer non-citizen voting in school board elections, as required under Proposition N passed by voters in November 2016.

Emergency Management

- Improve the City's resiliency and ability to recover from an emergency event or natural disaster;
- Ensure equity in emergency preparedness through the development of partnerships with community-serving organizations, educational institutions, neighborhood groups, and businesses;
- Meet current and new performance standards for answering 9-1-1 calls and dispatching police, fire, and medics; and
- Coordinate with city, state, federal, and non-profit partners, and participate in regional training and exercises to increase the City's ability to collaboratively plan for and respond to a large-scale emergency.

Environment

- Lead on climate action, promote healthy ecosystems, and strengthen community resilience;
- Continue to work toward the goals outlined in San Francisco's climate action plan, which include sending zero waste to landfill, making 80% of all trips outside of personal vehicles, and transitioning to 100% renewable energy; and
- Support other important city initiatives that impact the environment such as the Safe Drug Disposal Stewardship Ordinance and promoting policies and actions that support an increase in electric vehicles in San Francisco.

Ethics Commission

- Strengthen the thoroughness and timeliness of investigations, enforcement of case resolutions, and campaign and lobbying audits;
- Provide compliance assistance to interested stakeholders and the general public, as well as provide city officers and employees with the tools necessary to navigate and disclose any potential ethical issues or conflicts of interest more effectively and openly; and
- Improve access to public information through campaign, lobbying, and city officer disclosures.

Fine Arts Museums

- Sustain and develop the City's prestigious collections of world art;
- Mirror and model the diversity of San Francisco in hiring, exhibitions, accessibility, programs, and community outreach that welcomes the underserved;
- Contribute to San Francisco's economy and civic pride as a must-see destination for local, national, and international visitors; and
- Excel in operational and fiscal management of city resources.

Fire Department

- Ensure that the Department continues to provide the highest level of service possible;
- Maintain ambulance response times to Code 2 calls under 20 minutes and Code 3 calls under 10 minutes for at least 90% of service calls;
- Update aging facilities and equipment;
- Ensure first responders have the necessary rescue tools and personal protective equipment to address emergency incidents and meet the demands of a growing city; and
- Staff the Department and provide professional development for department employees to meet the needs of the community.

Health Services System

- Provide affordable, quality health care to Health Service System members, and invest in employee wellness to improve clinical outcomes and affordability;
- Promote an informed, transparent, and effective governance;

- Educate and empower city workers by promoting wellness and prioritizing healthy relationships and work environments; and
- Ensure operational excellence by simplifying how employees access services and providing specialized support for employees managing chronic conditions.

Homelessness and Supportive Housing

- Create alignment and standardization across homelessness interventions by implementing coordinated systems for adults, families with children, and youth;
- End large, long-term vehicle encampments by December 2019;
- Implement performance accountability measures across the entire homelessness response system;
- End family homelessness by December 2021 through a combination of additional Rapid Rehousing, Rent Subsidies, Permanent Supportive Housing, and other interventions;
- Reallocate resources, develop new housing units, invest in new housing programs, and work on preventative strategies to reduce chronic homelessness among adults by 50% by 2022; and
- Offer flexible, low-barrier housing models and tailored services to reduce youth homelessness by 50% by 2022.

Human Resources

- Retain top talent while shaping the future workforce through the use of career development programs and expanded apprenticeship, fellowship, and internship opportunities;
- Use technology to improve services by streamlining the online application process, and implementing human-centered design for recruitment and hiring;
- Improve employee well-being, satisfaction, and engagement through employee engagement tools and trainings; and
- Champion diversity, fairness, and inclusion, and build a workforce that reflects San Francisco's diverse community at all levels of employment.

Human Rights Commission

- Advise city departments on how to make city services more accessible for all residents, and develop equity measures to use as a tool to reduce racial inequality;
- Connect community members to available resources on discrimination and hate violence;
- Convene town hall forums between youth and police to build trust and address safety concerns between law enforcement and communities of color;
- Continue to support youth empowerment programs such as Black to the Future, My Brother and Sister's Keeper, and Everybody Reads; and
- Fund LGBTQI community-based organizations to address hate violence, discrimination, and trauma, particularly in transgender communities of color, and support LGBTQI survivors of violence through one-on-one counseling, peer support, and leadership development.

Human Services Agency

- Help low-income San Franciscans enroll in and maintain all of the public benefits for which they are eligible, including cash assistance, health insurance, food and nutrition support, subsidized child care, and job training and placement;
- Create pathways to self-sufficiency for public assistance clients through employment, education and related support services;
- Improve the safety of children and families in child welfare, and enhance the well-being of foster youth by ensuring they have permanent, nurturing relationships;

- Enhance services to promote healthy, community-based aging, food security, and economic well-being for seniors and adults with disabilities;
- Improve use of data to expand access to services, strengthen the customer experience, and make internal programs run more smoothly; and
- Modernize business processes, technology, and facilities to improve service delivery.

Juvenile Probation
- Reduce the number of repeat offenders;
- Utilize probation services and community resources to assist youth in successfully navigating and completing their probation;
- Provide a safe and secure environment for staff and detainees; and
- Improve the quality of customer service to youth and their families.

Law Library
- Ensure public access to current legal information; and
- Provide training and outreach to the community on the use of electronic legal resources.

Mayor's Office of Housing and Community Development
- Create permanently affordable housing by building new affordable housing, helping households qualify for below market rate housing, and providing down payment assistance loans to income-qualified first-time homebuyers;
- Preserve affordable housing by partnering with the San Francisco Housing Authority, funding and facilitating the rehabilitation of the City's existing affordable housing, and financing the purchase of rent-controlled properties at risk of converting to market-rate;
- Improve access to affordable housing and protect housing rights through housing counseling, application assistance, and eviction prevention services;
- Promote resiliency and economic self-sufficiency for all; and
- Foster healthy communities and neighborhoods.

Municipal Transportation Agency
- Create a safer transportation experience for everyone;
- Make transit and other sustainable modes of travel the most attractive and preferred means of travel;
- Improve the environment and quality of life in San Francisco and the region; and
- Create a workplace that delivers outstanding service.

Police
- Build strong partnerships with the community and city agencies for addressing community-wide challenges that impact safety with respect;
- Improve ability to respond in a timely, informed, unbiased and procedurally just way, and work towards a collaborative resolution;
- Align on a shared vision and transparent way of measuring safety with respect in order to work better with each other and the community;
- Instill safety with respect into how the Department organizes, evaluates performance, recruits, trains, promotes, rewards, deploys, and leads; and
- Develop a future-focused, longer-term strategic plan for a more modern, evolving, and inclusive Department with input from internal and external stakeholders.

Police Accountability
- Address civilian complaints of police misconduct professionally and efficiently;
- Facilitate corrective action in response to complaints;
- Investigate all officer-involved shootings for police misconduct; and
- Regularly audit the Police Department's internal policies on use-of-force and officer misconduct.

Port
- Enhance and balance the Port's maritime and economic purpose, history, and changing relationship with the City;
- Work with the City and community partners to ensure that the Port continues to advance a diverse, equitable, and inclusive city;
- Promote diverse industrial and business opportunities and living wage jobs, affordable housing in new waterfront communities, and expanded, integrated public transit service;
- Lead the City's efforts in addressing threats from earthquake and flood risks through planning and infrastructure improvements to the Seawall and other Port property;
- Implement Port-wide practices that protect the environment and promote ecological balance, such as achieving zero waste in operations and construction; and
- Continue to plan and design the Mission Bay Ferry Landing with the goal of breaking ground in 2020 and completing construction in 2022.

Public Defender
- Provide competent, effective, and ethical legal representation to indigent persons accused of crimes or involved in conservatorship matters in San Francisco;
- Advocate for clients' releases, and provide re-entry services to clients upon release; and
- Ensure fair and transparent treatment of all cases, including providing immigrant representation.

Public Health
- Ensure equitable access to all by reducing economic barriers to health and addressing health disparities;
- Create an environment that respects, values, and invests in people;
- Ensure transparent and accountable stewardship of resources;
- Improve the health of and provide the best experience for the people the Department serves; and
- Ensure a safe environment for clients, patients, and staff.

Public Library
- Provide accessible and welcoming library facilities to meet the needs of all San Franciscans;
- Deliver robust collections, services and programs to promote literacy and learning;
- Engage youth in learning, workforce development, and personal growth opportunities;
- Provide access to innovative information services through access to high speed broadband, technology and the library's virtual presence; and
- Invest in staff development and training to enhance library services for San Franciscans.

Public Utilities Commission
- Provide reliable, 24/7 services to customers by investing in water and sewer infrastructure, and optimizing operations, and by ensuring an ability to mitigate, respond to, and recover from threats and disasters;
- Achieve organizational excellence through developing a department-wide management framework to enhance efficiency and accountability;

- Position the department as an employer of choice by fostering career pathways for employees and promoting opportunities for the community;
- Maintain financial sustainability, and ensure rates are fair, equitable, affordable, and meet policy goals; and
- Sustainably manage natural resources and systems to protect the people, environment, and ecosystems that the Department affects.

Public Works
- Ensure safe, clean, sustainable, and inviting streets and public spaces;
- Proactively anticipate client needs, engage community stakeholders, and communicate timely and accurate information to the public;
- Drive innovation and exceptional service by implementing new safety practices, and developing a comprehensive Public Works asset management plan;
- Build and strengthen partnerships to activate public spaces and maintain capital projects; and
- Attract, engage, and empower a diverse, creative, and motivated workforce through streamlining time-to-hire, improving employee performance plan and appraisal process, and strengthening apprenticeship programs.

Recreation and Parks
- Inspire public space by renovating outdated parks and playgrounds and building new parks to accommodate a growing city;
- Inspire play by overcoming language barriers and increasing participation in recreational activities for residents living in low-income neighborhoods;
- Strengthen the safety, health, and wellbeing of San Francisco's youth and seniors;
- Inspire investment by identifying public investment strategies in partnership with the Mayor, Board of Supervisors, the Park Recreation and Open Space Advisory Committee, SF Parks Alliance, and the parks community; and
- Inspire the Recreation and Parks team by using data-driven decision-making for all programs and operations and providing job trainings and career pathways.

Rent Arbitration Board
- Efficiently process tenant and landlord petitions by streamlining the system, including processing some petitions and applications without hearings where appropriate;
- Successfully educate tenants and landlords on the complex Rent Ordinance;
- Make all applicable documents available in Chinese, Spanish, and Filipino to ensure all information is accessible to a diverse community; and
- Strengthen data sharing with other departments to ease workload and increase ability to provide fair treatment in resolving disputes.

Retirement System
- Educate employees about retirement planning and options;
- Enhance member experience through a self-service website and 24/7 modules for active and retired members;
- Enhance service quality and responsiveness; and
- Support a qualified and sustainable workforce.

Sheriff

- Permanently close the seismically unsafe Hall of Justice jail while maintaining public safety and continuing the exploration of alternatives to incarceration;
- Provide for the secure and safe detention of persons arrested or under court order;
- Implement evidence-based decision-making by building a robust information technology infrastructure, to improve data collection, reporting capability, and transparency;
- Provide alternative sentencing options, as well as education, skill development, counseling, and crime prevention programs in jail; and
- Continue to hire, train, and prepare staff at all levels to be productive and accountable to the people of San Francisco.

Status of Women

- Advance women and family economic security through citywide policies and programs.
- Maintain and enhance a safety net for women survivors of violence through the Violence Against Women Prevention and Intervention (VAW) Grants Program;
- Promote economic empowerment of women by partnering with the private sector to showcase model practices and promote peer learning; and
- Pursue greater equity in department operations through the Engineering for Equity/Government Alliance for Racial Equity Citywide initiative.

Technology

- Strengthen shared service delivery through strong management, effective delivery, transparent reporting, and integration of customer feedback;
- Invest in infrastructure, the Network, and cloud environments to meet the current and future needs of the City;
- Enhance cybersecurity efforts to secure networks and data, and remain vigilant against cyber threats; and
- Increase organizational performance by using data to improve business practices.

Treasurer-Tax Collector

- Maximize revenue by building and executing high-quality collections and compliance systems that balance equity, security, and ease of use;
- Assess and reform fines, fees, and financial penalties that have a disproportionate impact low-income people and people of color;
- Manage the City's Treasury service to increase operational efficiency and decrease cost;
- Manage the City's investment portfolio to preserve capital, maintain liquidity, and enhance yield;
- Provide high quality customer service and diverse channels that support all San Franciscans; and
- Equip San Franciscans with knowledge, skills, and resources to strengthen their financial health and well-being.

War Memorial

- Provide first-class facilities that are accessible to all residents and visitors for cultural, educational, and entertainment activities;
- Offer affordable spaces for non-profit organizations that support veterans or provide cultural, artistic, and educational programming; and
- Maintain, upgrade, and preserve important historic facilities and capital assets for the future.

CITY AND COUNTY OF SAN FRANCISCO

MEMORANDUM

TO: Mayor London Breed
Members of the Board of Supervisors

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

DATE: March 19, 2019

SUBJECT: Update to the City's FY 2019-20 through FY 2023-24 Financial Plan

Executive Summary

- This memo summarizes our offices' current projections of the City's General Fund revenues and expenditures for the coming five fiscal years, through Fiscal Year (FY) 2023-24. The projection updates the Plan that was jointly prepared in January 2019.
- This projection shows a $156.1 million cumulative shortfall for the upcoming two fiscal years – the period for which the City is required to adopt a two-year budget in the coming months. This represents an improvement of $114.7 million versus the $270.8 million projected in the January report. These changes are detailed in the report, but are primarily driven by stronger revenue in the early years of the report, offset by higher pension contributions.
    - The revised cumulative deficit projection for each year is as follows: $30.6 million for FY 2019-20, $125.5 million for FY 2020-21, $354.5 million for FY 2021-22, $533.9 million for FY 2022-23 and $694.5 million for FY 2023-24.
- As was the case in the January projection, projected expenditure growth will exceed revenue growth in all years, resulting in growing shortfalls during the forecast period. The Charter requires the City to balance each fiscal year's budget, and to the extent ongoing solutions are adopted in that process, shortfalls in future years will be reduced accordingly.
- While the shortfalls during the first two years of the forecast have declined, it is in large part due to the use of one-time revenue sources. The projected shortfalls in the out years of the forecast remain significant. The shortfall for FY 2023-24, the final year of the projection, has increased from $643.9 million in the January projection to $694.5 million currently. This increase is driven primarily by increasing pension contributions as a result of anticipated poor pension fund returns in the current year.
- While uncertain and therefore not included in the projections above, a number of significant issues may materially affect this forecast. These issues are discussed in this report, and include:
    - **Potential additional revenues or savings:** The City may be eligible to retain additional property tax revenues from the County's Educational Revenue Augmentation Fund (ERAF) in future years, absent changes in State law and subject to considerable formula volatility. Additionally, several preliminary State budget proposals, if ultimately adopted, will provide financial benefits to the City.
    - **Labor agreements:** The City is currently engaged in negotiations with all labor unions excluding Police and Fire. For projection purposes, forecasts assume salary increases equal

to the change in the Consumer Price Index (CPI) for future wages for open contracts. Any difference from these assumptions in final negotiated agreements would impact projected shortfalls.

- **Additional costs relating to policy changes or ballot measures:** Forecasts do not assume potential costs or benefits related to future possible ballot measures, including the Charter Amendment to mandate funding levels for City College which has been placed on the November 2019 ballot. Additional potential costs associated with recently-adopted changes to the Minimum Compensation Ordinance are uncertain, as are future costs associated with possibly assuming responsibility for the essential functions currently being performed by the San Francisco Housing Authority.
- **Risk of economic climate:** Lastly, the projections in the January report, updated here, assume a continuation of current strong economic trends. Projections do not assume a downturn or large changes in the economy. Given the duration of the current period of economic expansion, this presents a significant risk to the five year projections included in this update.

Five-Year Financial Plan Update

On January 4, 2019, the Proposed Five-Year Financial Plan for FY 2019-20 through FY 2023-24 was jointly released by the 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.

The cost of City services is projected to outpace revenue growth. Total General Fund expenditures are projected to grow by $1.46 billion over the next five years, which represents an increase of 27% over FY 2018-19 budgeted spending levels. In contrast, available General Fund sources are projected to grow 14%, or $769.4 million over the same period. If the City does not take corrective action, the projected gap between revenues and expenditures will rise from $30.6 million in FY 2019-20 to approximately $694.5 million in FY 2023-24, as shown in Table 1 below.

Table 1: Updated Base Case – Summary of FY 2020-24 General Fund-Supported Projected Budgetary Cumulative Surplus / (Shortfall) ($ in millions)

	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	% of Uses
***SOURCES** Increase / (Decrease)*	274.6	525.0	562.8	651.6	769.4	
Uses						
Baselines & Reserves	(65.1)	(103.4)	(139.7)	(184.5)	(245.6)	16.8%
Salaries & Benefits	(180.3)	(324.0)	(438.6)	(539.6)	(630.2)	43.1%
Citywide Operating Budget Costs	(64.0)	(193.0)	(251.7)	(334.8)	(416.4)	28.4%
Departmental Costs	4.2	(30.0)	(87.4)	(126.6)	(171.5)	11.7%
USES (Increase) / Decrease	**(305.2)**	**(650.5)**	**(917.3)**	**(1,185.4)**	**(1,463.8)**	100.0%
Projected Cumulative Surplus / (Shortfall)	(30.6)	(125.5)	(354.5)	(533.9)	(694.5)	

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

- Additional sources identified in the Controller's FY 2018-19 Six-Month Budget Status Report and a revision of the City's revenue projections based on recent information;
- Changes in inflationary costs, as projected by the California Department of Finance and Moody's;
- Increases to projected employer pension contribution rates based on poor returns-to-date in the current fiscal year;
- Updates to citywide costs based on projected operating and lease costs of City utilized office space and changes to debt costs based on the most recent Capital Plan; and
- Increases to projected departmental costs, including updates to project schedules.

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 2019-20 through FY 2023-24 was jointly released by the Mayor's Office, Controller's Office, and Budget and Legislative Analyst's Office on January 4, 2019.

Changes from the Proposed Five-Year Financial Plan Projection Released in January 2019

Most of the key assumptions outlined in the Five-Year Financial Plan released in January 2019 still apply to this memo, with the changes outlined below. Table 2 identifies changes from the prior plan. The City's projected deficit decreased by $76.8 million in FY 2019-20, and increased by $38.9 million in FY 2020-21, $29.6 million in FY 2021-22, $22.3 million in FY 2022-23, and $36.6 million in FY 2023-24.

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

Incremental Changes to:	*FY 19-20*	*FY 20-21*	*FY 21-22*	*FY 22-23*	*FY 23-24*
Sources: Revenue and Fund Balance	92.6	(33.6)	(23.3)	(14.0)	(11.0)
Uses: Baselines & Reserves	(9.8)	5.4	14.0	(14.8)	(1.7)
Uses: Salaries & Benefits	0.4	(6.6)	(10.5)	6.2	(21.4)
Uses: Citywide Operating Budget Costs	(8.8)	(1.7)	(5.1)	(0.2)	(0.0)
Uses: Departmental Costs	2.4	(2.5)	(4.6)	0.4	(2.5)
Total Incremental Change	**76.8**	**(38.9)**	**(29.6)**	**(22.3)**	**(36.6)**
Total Cumulative Change	***76.8***	***37.9***	***8.4***	***(14.0)***	***(50.6)***

The changes from the January 2019 projections are described in more detail below:

SOURCES – Revenue and Fund Balance: Projected General Fund sources have increased by $92.6 million in FY 2019-20, decreased by $33.6 million in FY 2020-21, decreased by an additional $23.3 million in FY 2021-22, an additional $14.0 million in FY 2022-23, and $11.0 million FY 2023-24.

- **Fund Balance:** On February 15, 2019, the Controller's Office issued its FY 2018-19 Six-Month Budget Status Report. The Report projected the FY 2018-19 ending fund balance to be $79.8 million above the balance assumed in the Five-Year Financial Plan. In addition, the Controller's Office identified an additional $24.8 million given a final year-end close balance for FY 2017-18. Consistent with the January report, this update assumes approximately two-thirds of this fund balance will be used in FY 2019-20 and FY 2020-21 with the remaining third used in FY 2021-22 and FY 2022-23, as a one-time source.

- **Local Tax Revenue:** The net increase of $10.3 million in General Fund revenue across the five-year projection period from the January 2019 Plan reflects the minimal change in economic outlook since that time. As discussed in the January 2019 Plan, continued growth in General Fund revenues is projected, slowing in the latter years of the forecast period given the length of the current economic expansion. The projected revenue increase in FY 2019-20 in this update is driven by stronger than expected real property transfer tax in the current year. Transfer tax is one of the City's most volatile revenue sources, due to the large proportion of the revenue generated by a small number of high-value transactions. In FY 2020-21 and beyond, transfer tax is expected to return to lower, average historic levels, while other local taxes continue to grow at moderate rates.

USES – Baselines and Reserves: Increases to projected General Fund sources over the next five years result in corresponding increases to baselines and reserves. The projections also include a correction to the required deposit projections in the January Plan. The net results are costs increased by $9.8 million in FY 2019-20, decreased by $5.4 million in FY 2020-21, decreased by $14.0 million in FY 2021-22, increased by $14.8 million in FY 2022-23, and an additional $1.7 million in FY 2023-24.

- **Baselines:** Net increases in projected revenue baseline funding to the Municipal Transportation Agency, Library, Children's and Public Education Enrichment Fund, Street Tree Maintenance Fund, and other baselines in all years except FY 2019-20. Based on projected aggregate discretionary revenue, this report assumes a *shortfall* from required expenditure appropriation for the Children's Baseline.

- **Reserves:** Revenue increases also trigger additional General Reserve deposits. This report corrects the required deposits in the January 2019 report. The update does not assume any deposit to the Budget Stabilization or Rainy Day Reserves.

USES – Salaries and Benefits: Salary and benefit costs decreased by $0.4 million in FY 2019-20, increased by $6.6 million in FY 2020-21, increased by $10.5 million in FY 2021-22, decreased by $6.2 million in FY 2022-23, and increased by $21.4 million in FY 2023-24, due to the following changes:

- **Labor Agreements:** In years where contracts are open, projections continue to assume CPI increases, which are revised in this Plan to be 2.97% in FY 2019-20, 2.79% in FY 2020-21, 2.94% in FY 2021-22, 3.02% in FY 2022-23, and 3.00% in FY 2023-24. These changes are based on updates to the average projections of the California Department of Finance SF Area CPI and Moody's SF Metropolitan Statistical Area CPI. CPI assumptions have been updated since the January report as follows:

Table 3: Updates to CPI Assumptions

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
January 2019	2.85%	3.08%	2.99%	3.03%	3.01%
March 2019	2.97%	2.79%	2.94%	3.02%	3.00%
Difference	*0.12%*	*-0.29%*	*-0.05%*	*-0.01%*	*-0.01%*

- **Retirement Benefits – Employer Contribution Rates:** The most significant driver of increases in projected salary and benefit costs compared to the January 2019 projections are changes to assumed employer contribution rates for SFERS. Recent estimated SFERS portfolio value (as of January 31, 2019) showed a year-to-date return of 1.0%, well below the 7.5% assumed rate of return in the January report. Updated projections reflect this 1.0% rate of return for FY 2018-19 which will be realized beginning in FY 2020-21, resulting in increases in employer contribution from the prior projection of $14.7 million in FY 2020-21, $10.9 million in FY 2021-22, a decrease of $5.7 million in FY 2022-23, and an increase of $18.3 million in FY 2023-24.

USES – Citywide Operating Costs: Citywide operating costs increased by $8.8 million in FY 2019-20, $1.7 million in FY 2020-21, $5.1 million in FY 2021-22, decreased by $0.2 million in FY 2022-23, and remain flat in FY 2023-24. These changes are primarily due to changes in debt service and real estate (detailed below), as well as updates to Workers' Compensation projections based on latest available year-to-date actual expenditure in the current year.

- **Debt Service & Real Estate:** Changes to citywide debt service are related to the City's long-range capital planning efforts. On March 5, 2019, the City's Proposed Ten-Year Capital Plan for 2019-20 through 2028-29 was introduced to the Board of Supervisors. The assumptions in the Capital Plan are reflected in this update. Notable changes to this update are related to the schedule of issuances of Certificates of Participation (COPs), which has changed from the schedule included in the January projections. The updated COP schedule includes a shifting of anticipated issuances into the time horizon of the report, resulting in increased costs in the near term. Additionally, General Fund lease and operating costs for City-owned and leased facilities have increased since the January report primarily due to updated information on lease terms, changes to modeling methodology, and changes in tenancy.

- **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 at the rate of the updated Consumer Price Index (CPI) projection, which results in increases of 2.97% in FY 2019-20, 2.79% in FY 2020-21, 2.94% in FY 2021-22, 3.02% in FY 2022-23, and 3.00% in FY 2023-24, as shown in Table 3.

USES – Departmental Costs: Departmental costs decreased by $2.4 million in FY 2019-20, increased by $2.5 million in FY 2020-21, increased by $4.6 million in FY 2021-22, decreased by $0.4 million in FY 2022-23, and increased by $2.5 million in FY 2023-24. These changes include updates to CPI and the Local Operating Support Program (LOSP):

- **Hope SF and Local Operating Subsidy Program:** The projected cost of the City's Local Operating Subsidy Program (LOSP), which provides operating subsidies and social services at affordable housing developments occupied by formerly homeless individuals, has decreased. This is due to shifts in the estimated occupancy dates of upcoming developments.

Key Factors that Could Affect the Forecast

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. The following areas of potential revenue and funding growth as well as potential costs associated with pending ballot measures and labor negotiations, are not assumed in this update but may have material impacts on the budget.

- **Collective bargaining agreement negotiations:** With the exception of Police and Fire unions, most labor unions have open contracts beginning in FY 2019-20. In years where contracts are open, the report continues to assume CPI increases, which are revised in this update. Any changes to wages or benefits different from these assumptions would increase or decrease the City's projected deficit. For example, a difference in wages of 1% compared to CPI assumptions in each year would change the General Fund cost for Salaries and Benefits by approximately $23 million in FY 2019-20 and $46 million in FY 2020-21.

- **Property tax shifts:** Given the uncertainty and potential for State changes to funding levels for K-12 and community college districts, these projections do not include allocations of property tax revenue that could accrue to the General Fund from the County's Educational Revenue Augmentation Fund (ERAF). As mentioned in the January Plan, other counties with excess ERAF have responded to these risks by adopting financial policies that limit some or all spending of these proceeds to one-time purposes.

  Assuming the State takes no legislative action to alter ERAF allocations or school funding guarantees this legislative session, Table 5 below provides the most current estimates of FY 2019-20 excess ERAF revenues. These estimates are informed by projections of local property tax revenue and the most recent available schedules of State funding for K-12 and community college districts. Absent these changes and subject to considerable volatility, these allocations in later years would likely range between $150 - $200 million.

Table 4: Estimated ERAF Revenue in FY 2019-20 ($ Millions)

	2019-20
Revenue	**183.0**
Mandated Baseline Contributions and Reserve Deposits	
MTA	(16.8)
Library	(4.2)
PEEF Baseline	(0.5)
PEEF Annual Contribution	(5.6)
Children's Baseline	(8.8)
TAY Baseline	(1.1)
Street Tree Maintenance	(1.0)
General Reserve	(5.0)
Baselines & Reserves	**(43.1)**
Net Available - Discretionary General Fund	**140.0**

- **State and Federal budget impacts:** On January 10th, Governor Gavin Newsom proposed a $144 billion (General Fund) FY 2019-20 State budget. Because this proposal is likely to change in the upcoming May Revise and final adopted budget, this projection does not reflect State budget proposals at this time. Many changes included in the January proposed budget would have a significant impact to the City should they be adopted in their current form, including adjustments to the In-Home Supportive Services Maintenance of Effort (IHSS MOE) and new funding sources for affordable housing production and homelessness reduction efforts.

The Governor's proposed budget includes substantial changes to the way that the IHSS MOE, which was put in place in 2012 as part of the Coordinated Care Initiative, will be calculated beginning in FY 2019-20. The MOE was most recently adjusted in FY 2017-18 resulting in a significant cost shift to counties. As a result of this cost shift, current projections assume $56 million in additional annual costs in FY 2019-20 and $69 million in additional costs in FY 2020-21 as compared to prior projections. If the proposal moves forward in the State budget, the City could expect meaningful savings relative to current projections. The Human Services Agency estimates an offset to the growing costs of approximately $10 million in FY 2019-20 and $18 million in FY 2020-21 relative to the current projection, with similar impacts anticipated in the remaining years of this forecast.

The proposed State budget also allocates $750 million statewide ($500 million for production, $250 million for planning/technical assistance) in short-term grants to local governments in order to spur housing production. In addition, the Governor's proposal would provide $250 million in technical assistance grants that the City could apply for to identify and propose new housing at small sites around the City and sell it at affordable prices to middle-income owners. The proposed State budget also includes incentives for regional collaboration and performance-based outcomes by designating $300 million in one-time statewide funding to local jurisdictions with plans for shelter bed developments and an additional $200 million statewide for jurisdictions that meet shelter bed and supportive housing goals. Finally, the Governor's proposed budget would allocate $100 million statewide to extend Whole Person Care (WPC) pilot programs.

The proposed FY 2019-20 Federal Budget also contains major changes to domestic funding which, if adopted, could have significant impact on San Francisco's budget. In addition, there is a risk of another Federal government shutdown occurring in September 2019, which could have detrimental impacts on the City. These risks are not included in the projection.

Again, as final legislative adoption of these State and Federal proposals is uncertain, this projection does not assume potential State and Federal losses or gains resulting from the items enumerated above.

- **Minimum Compensation Ordinance (MCO):** Significant changes to the MCO were adopted in the fall of 2018 and included increases in minimum hourly pay for IHSS and contracted workers. The estimated costs for IHSS as well as the Controller's initial estimate for the direct cost impact on nonprofit providers to increase minimum wages was included in the January projection. The Controller's Office is currently convening an advisory group comprised of nonprofits, labor union representatives, and City department representatives to ascertain potential indirect cost impacts to nonprofit entities. The potential indirect cost impacts are estimated at $2 million to $20 million a year per the Controller's Office initial analysis in the fall of 2018. These potential costs have not been included in the deficit projections.

- **San Francisco Housing Authority:** On March 7, 2019, the San Francisco Housing Authority (SFHA) received a notice from the U.S. Department of Housing and Urban Development (HUD) stating that SFHA had defaulted on its obligations to administer low-income housing programs. The letter further requested that the City and County of San Francisco assume responsibility for the essential functions currently being performed by SFHA.

  The City is committed to ensuring that the approximately 14,000 households that rely on SFHA subsidies are not affected by this transition. The obligations imposed by HUD are likely to have significant costs. However, the full costs are not known at this time and are not included in the deficits projected in this report.

- **Ballot Measures:** Future ballot measures that have not yet been introduced may create an additional impact on the budget outlook; one measure is known at this time. In December 2018, the Board of Supervisors passed a charter amendment to create a Free City College Fund baseline, which will go before voters at the November 2019 election. If passed, the City would be required to make an annual baseline contribution of $15.0 million in FY 2020-21, $15.7 million in FY 2021-22, and $16.4 million in FY 2022-23. Thereafter, contributions would be adjusted by the percentage increase or decrease in aggregate City discretionary revenues until the baseline expires in FY 2030-31. These funds would provide tuition assistance and stipends to San Francisco residents that participate in the Free City College Program at the City College of San Francisco. These potential costs have not been included in the projections.

- **Changes in the economic cycle:** 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 nine years ago. It would be a 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 monitor indicators that currently suggest the broader economic climate is cooling.

Conclusion

As noted above, revenue projections have been updated primarily due to strong current year performance of real property transfer tax, one of the most volatile revenue sources for the City, and one-time increase to fund balance. Not included in projections are potential increases in sources related to future ERAF-related property tax shifts as well as opportunities for additional programmatic funding based on the Governor's proposed budget. Should these sources come to fruition, they present opportunities to help close the projected shortfalls and meet growing service demands. However, the reliance on nonrecurring and unreliable revenues, coupled with uncertainty stemming from the timing of the economic cycle, upcoming labor negotiations, and other noted factors, present meaningful downside risk to the City's financial outlook.

While the projected shortfalls shown in the Proposed Five-Year Financial Plan and this update 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 budget each year will require some combination of expenditures reductions and additional revenues. To the extent that budgets are balanced with one-time solutions, future shortfalls will continue to be significant and pose difficult choices for policy makers.

Appendix A: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2020-24 – INCREMENTAL CHANGE

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

Table A-1 Base Case Projection - Year-Over-Year Change (Incremental)

SOURCES Increase / (Decrease)	2019-20	2020-21	2021-22	2022-23	2023-24
General Fund Taxes, Revenues and Transfers net of items below	322.0	94.8	131.8	131.4	145.0
Change in One-Time Sources	(66.1)	124.8	(124.8)	(69.3)	(55.5)
Children's Fund Property Tax Setaside Revenue	2.5	4.8	4.9	4.9	5.9
Department of Public Health Revenues	3.5	16.3	16.6	17.0	17.4
Cannabis Tax	3.0	4.3	4.3	-	-
Other General Fund Support	9.7	5.4	5.0	4.9	5.0
TOTAL CHANGES TO SOURCES	**274.6**	**250.4**	**37.7**	**88.8**	**117.8**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(33.8)	(12.5)	(16.1)	(16.0)	(17.5)
MTA New Central Subway	(3.5)	(6.9)	(3.5)	(0.4)	(0.5)
Children's Fund, Baseline, and Public Education Enrichment Fund	(16.4)	(10.7)	(15.5)	(15.0)	(17.1)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Dignity Fund	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Recreation and Parks Baseline	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
All Other Baselines	(9.3)	(3.5)	(4.3)	(4.2)	(4.6)
Deposits to General Reserve	(0.6)	4.6	12.4	0.1	(0.4)
Other Contributions to Reserves	7.3	(0.4)	(0.5)	(0.5)	(12.4)
Subtotal Baselines & Reserves	**(65.1)**	**(38.3)**	**(36.3)**	**(44.8)**	**(61.2)**
Salaries & Benefits					
Annualization of Partial Year Positions	(25.1)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(18.0)	(23.1)	(1.8)	-	-
Projected Costs of Open Labor Agreements	(68.3)	(71.2)	(96.5)	(98.8)	(99.6)
Health & Dental Benefits - Current & Retired Employees	(10.4)	(25.6)	(23.4)	(25.2)	(26.6)
Retirement Benefits - Employer Contribution Rates	(33.8)	(27.6)	14.2	31.3	28.4
Other Salaries and Benefits Savings / (Costs)	(24.8)	3.6	(6.9)	(8.3)	7.2
Subtotal Salaries & Benefits	**(180.3)**	**(143.7)**	**(114.5)**	**(101.0)**	**(90.6)**
Citywide Operating Budget Costs					
Minimum Wage and Minimum Compensation Ordinance	(18.4)	(3.7)	(1.7)	(8.4)	(2.1)
Capital, Equipment, & Technology	2.9	(53.6)	6.7	(19.5)	(26.4)
Inflation on non-personnel costs and grants to non-profits	(13.5)	(32.4)	(35.1)	(37.1)	(38.0)
Debt Service & Real Estate	(21.1)	(29.3)	(17.2)	(9.5)	(6.0)
Sewer, Water, and Power Rates	(1.6)	(2.8)	(2.9)	(3.1)	(3.3)
Cannabis Tax Expenditures	(2.4)	(3.4)	(3.4)	-	-
Other Citywide Costs	(9.8)	(3.8)	(5.0)	(5.4)	(5.8)
Subtotal Citywide Operating Budget Costs	**(64.0)**	**(129.1)**	**(58.6)**	**(83.1)**	**(81.7)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	11.2	(5.3)	(1.0)	(1.0)	(1.1)
Elections - Number of Scheduled Elections	(5.6)	3.8	(0.4)	(0.4)	(0.4)
Ethics Commission - Public Financing of Elections	(0.7)	2.9	(2.0)	1.1	(0.7)
Free City College	(3.1)	-	-	-	-
Mission Bay Transportation Improvement Fund	(6.7)	(0.2)	(0.2)	(0.3)	(0.3)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(9.7)	(4.1)	(8.8)	(2.9)	(3.9)
Human Services Agency - IHSS	(24.7)	(16.3)	(14.0)	(16.1)	(22.4)
Public Health - Operating and one-time costs for capital projects	34.0	(9.0)	(24.8)	(15.7)	(16.7)
All Other Departmental Savings / (Costs)	9.6	(6.1)	(6.1)	(3.9)	0.6
Subtotal Departmental Costs	**4.2**	**(34.2)**	**(57.4)**	**(39.2)**	**(44.9)**
TOTAL CHANGES TO USES	**(305.2)**	**(345.3)**	**(266.8)**	**(268.2)**	**(278.4)**
Projected Surplus (Shortfall) vs. Prior Year	**(30.6)**	**(94.9)**	**(229.1)**	**(179.3)**	**(160.6)**
Cumulative Projected Surplus (Shortfall)	**(30.6)**	**(125.5)**	**(354.5)**	**(533.9)**	**(694.5)**

Appendix B: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2020-24 – CUMULATIVE CHANGE

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

Table A-1 Base Case Projection - Year-Over-Year Change (Cumulative)

SOURCES Increase / (Decrease)	2019-20	2020-21	2021-22	2022-23	2023-24
General Fund Taxes, Revenues and Transfers net of items below	322.0	416.9	548.7	680.1	825.1
Change in One-Time Sources	(66.1)	58.7	(66.1)	(135.4)	(190.9)
Children's Fund Property Tax Setaside Revenue	2.5	7.3	12.2	17.1	22.9
Department of Public Health Revenues	3.5	19.8	36.4	53.4	70.8
Cannabis Tax	3.0	7.3	11.5	11.5	11.5
Other General Fund Support	9.7	15.1	20.1	25.0	30.0
TOTAL CHANGES TO SOURCES	**274.6**	**525.0**	**562.8**	**651.6**	**769.4**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(33.8)	(46.3)	(62.5)	(78.5)	(96.0)
MTA New Central Subway	(3.5)	(10.4)	(13.9)	(14.3)	(14.7)
Children's Fund, Baseline, and Public Education Enrichment Fund	(16.4)	(27.1)	(42.6)	(57.6)	(74.7)
Housing Trust Fund	(2.8)	(5.6)	(8.4)	(11.2)	(14.0)
Dignity Fund	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
Recreation and Parks Baseline	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
All Other Baselines	(9.3)	(12.8)	(17.1)	(21.3)	(25.9)
Deposits to General Reserve	(0.6)	4.0	16.3	16.5	16.1
Other Contributions to Reserves	7.3	6.9	6.5	6.0	(6.4)
Subtotal Baselines & Reserves	**(65.1)**	**(103.4)**	**(139.7)**	**(184.5)**	**(245.6)**
Salaries & Benefits					
Annualization of Partial Year Positions	(25.1)	(25.1)	(25.1)	(25.1)	(25.1)
Previously Negotiated Closed Labor Agreements	(18.0)	(41.1)	(42.9)	(42.9)	(42.9)
Projected Costs of Open Labor Agreements	(68.3)	(139.5)	(236.0)	(334.8)	(434.4)
Health & Dental Benefits - Current & Retired Employees	(10.4)	(35.9)	(59.3)	(84.6)	(111.2)
Retirement Benefits - Employer Contribution Rates	(33.8)	(61.3)	(47.2)	(15.9)	12.5
Other Salaries and Benefits Savings / (Costs)	(24.8)	(21.1)	(28.1)	(36.4)	(29.2)
Subtotal Salaries & Benefits	**(180.3)**	**(324.0)**	**(438.6)**	**(539.6)**	**(630.2)**
Citywide Operating Budget Costs					
Minimum Wage and Minimum Compensation Ordinance	(18.4)	(22.1)	(23.8)	(32.2)	(34.4)
Capital, Equipment, & Technology	2.9	(50.7)	(44.0)	(63.4)	(89.8)
Inflation on non-personnel costs and grants to non-profits	(13.5)	(46.0)	(81.1)	(118.2)	(156.3)
Debt Service & Real Estate	(21.1)	(50.4)	(67.6)	(77.1)	(83.2)
Sewer, Water, and Power Rates	(1.6)	(4.5)	(7.3)	(10.4)	(13.7)
Cannabis Tax Expenditures	(2.4)	(5.8)	(9.2)	(9.2)	(9.2)
Other Citywide Costs	(9.8)	(13.6)	(18.7)	(24.1)	(29.9)
Subtotal Citywide Operating Budget Costs	**(64.0)**	**(193.0)**	**(251.7)**	**(334.8)**	**(416.4)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	11.2	6.0	5.0	3.9	2.8
Elections - Number of Scheduled Elections	(5.6)	(1.7)	(2.1)	(2.5)	(3.0)
Ethics Commission - Public Financing of Elections	(0.7)	2.2	0.2	1.3	0.6
Free City College	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Mission Bay Transportation Improvement Fund	(6.7)	(6.9)	(7.1)	(7.4)	(7.7)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(9.7)	(13.8)	(22.7)	(25.6)	(29.5)
Human Services Agency - IHSS	(24.7)	(41.0)	(54.9)	(71.0)	(93.4)
Public Health - Operating and one-time costs for capital projects	34.0	24.9	0.1	(15.6)	(32.3)
All Other Departmental Savings / (Costs)	9.6	3.5	(2.6)	(6.5)	(5.9)
Subtotal Departmental Costs	**4.2**	**(30.0)**	**(87.4)**	**(126.6)**	**(171.5)**
TOTAL CHANGES TO USES	**(305.2)**	**(650.5)**	**(917.3)**	**(1,185.4)**	**(1,463.8)**
Cumulative Projected Surplus (Shortfall)	**(30.6)**	**(125.5)**	**(354.5)**	**(533.9)**	**(694.5)**

Appendix C: Updated Summary of General Fund-Supported Operating Revenues and Transfers in Sources & Uses FY 2020-24

This appendix provides an updated version of Table 6 from the January Five-Year Financial Plan.

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-24
	Year-End Pre-Audit	Original Budget	Projection	Projection	Projection	Projection	Projection
Property Taxes	$ 1,661.0	$ 1,728.0	$ 1,779.0	$ 1,860.0	$ 1,942.0	$ 2,023.0	$ 2,119.0
Business Taxes	897.1	879.4	1,015.9	1,051.4	1,080.8	1,113.0	1,146.2
Sales Tax	192.9	196.9	203.4	205.3	207.3	210.8	214.4
Hotel Room Tax	382.2	375.8	389.1	397.0	401.0	403.1	404.9
Utility Users Tax	94.5	99.1	97.7	99.2	100.8	102.5	104.3
Parking Tax	83.5	85.5	84.0	84.0	84.0	84.0	84.0
Real Property Transfer Tax	280.4	228.0	278.7	228.0	228.0	228.0	228.0
Sugar Sweetened Beverage Tax	7.9	15.0	15.0	15.0	15.0	15.0	15.0
Stadium Admission Tax	1.1	1.2	5.5	5.5	5.5	5.5	5.5
Access Line Tax	51.3	51.9	52.6	54.2	55.8	57.5	59.2
Cannabis Tax	-	-	3.0	7.3	11.5	11.5	11.5
Subtotal - Local Tax Revenues	**3,651.8**	**3,660.8**	**3,923.9**	**4,006.8**	**4,131.7**	**4,253.9**	**4,392.0**
Licenses, Permits & Franchises	28.8	30.8	30.6	30.7	30.9	31.1	31.3
Fines, Forfeitures & Penalties	8.2	3.1	3.2	3.2	3.2	3.2	3.2
Interest & Investment Income	50.4	27.3	76.6	86.6	91.4	93.8	93.8
Rents & Concessions	14.4	14.8	15.0	15.0	15.0	15.0	15.0
Subtotal - Licenses, Fines, Interest, Rent	**101.7**	**76.0**	**125.3**	**135.5**	**140.5**	**143.1**	**143.3**
						112.0	
Social Service Subventions	232.8	265.8	271.2	271.2	271.2	271.2	271.2
Other Grants & Subventions	1.3	12.7	13.2	13.2	13.2	13.2	13.2
Subtotal - Federal Subventions	**234.1**	**278.4**	**284.4**	**284.4**	**284.4**	**284.4**	**284.4**
Social Service Subventions	197.4	219.4	222.6	222.6	222.6	222.6	222.6
Health & Welfare Realignment - Sales Tax	156.0	168.0	161.7	164.8	168.0	171.4	174.9
Health & Welfare Realignment - VLF	41.9	41.1	45.5	45.9	46.3	46.7	47.1
Health & Welfare Realignment - CalWORKs	26.1	19.9	20.2	20.2	20.2	20.2	20.2
Health/Mental Health Subventions	140.8	153.1	154.6	154.6	154.6	154.6	154.6
Public Safety Sales Tax	104.8	104.7	105.1	106.9	108.7	110.6	112.6
Motor Vehicle In-Lieu (County & City)	0.8	-	-	-	-	-	-
Public Safety Realignment (AB109)	37.4	39.0	42.1	42.8	43.5	44.3	45.1
Other Grants & Subventions	24.2	15.9	16.4	16.4	16.4	16.4	16.4
Subtotal - State Subventions	**729.5**	**761.0**	**768.2**	**774.1**	**780.3**	**786.9**	**793.6**
General Government Service Charges	62.6	64.4	65.0	65.0	65.0	65.0	65.0
Public Safety Service Charges	43.0	43.6	44.3	44.3	44.3	44.3	44.3
Recreation Charges - Rec/Park	20.9	21.5	22.1	22.1	22.1	22.1	22.1
MediCal, MediCare & Health Svc. Chgs.	90.5	87.5	84.9	84.9	84.9	84.9	84.9
Other Service Charges	23.0	31.3	18.5	18.5	18.5	18.5	18.5
Subtotal - Charges for Services	**240.0**	**248.4**	**234.9**	**234.9**	**234.9**	**234.9**	**234.9**
Recovery of General Government Costs	9.9	12.9	12.9	12.9	12.9	12.9	12.9
Other General Fund Revenues	17.5	53.4	43.8	43.8	43.8	43.8	43.8
TOTAL REVENUES	**4,984.5**	**5,090.9**	**5,393.4**	**5,492.5**	**5,628.6**	**5,759.9**	**5,904.9**
Transfers in to General Fund							
Airport	46.5	46.6	51.5	53.7	55.6	57.2	58.8
Other Transfers	185.0	124.1	104.7	104.7	104.7	114.7	114.7
Total Transfers-In	**231.5**	**170.7**	**156.2**	**158.4**	**160.2**	**171.9**	**173.5**
TOTAL GF Revenues and Transfers-In	**5,216.0**	**5,261.6**	**5,549.6**	**5,650.9**	**5,788.8**	**5,931.8**	**6,078.4**

File # 190313
Received in Committee
4/10/19

March Update to the Five-Year Financial Plan

FY 2019-20 through FY 2023-24

April 10, 2019

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Five-Year Financial Plan – Assumptions

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

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March Update Projection

	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	% of Uses
SOURCES Increase / (Decrease)	**274.6**	**525.0**	**562.8**	**651.6**	**769.4**	
Uses						
Baselines & Reserves	(65.1)	(103.4)	(139.7)	(184.5)	(245.6)	16.8%
Salaries & Benefits	(180.3)	(324.0)	(438.6)	(539.6)	(630.2)	43.1%
Citywide Operating Budget Costs	(64.0)	(193.0)	(251.7)	(334.8)	(416.4)	28.4%
Departmental Costs	4.2	(30.0)	(87.4)	(126.6)	(171.5)	11.7%
USES (Increase) / Decrease	**(305.2)**	**(650.5)**	**(917.3)**	**(1,185.4)**	**(1,463.8)**	100.0%
Projected Cumulative Surplus / (Shortfall)	**(30.6)**	**(125.5)**	**(354.5)**	**(533.9)**	**(694.5)**	

Approx. $156 million shortfall for the upcoming two-year budget. Mayor must introduce a balanced two-year budget each year.

Changes from January Report

- The 2-year deficit at the time of issuing the Five-Year Financial Plan in early January was $270.8 million
- The March Update now projects a 2-year $156.1 million deficit, a $114.7 million improvement from January
  - Revenue
    - $104.6 in additional fund balance FY 2018-19 fund balance from Six-Month Report and FY 2017-18 year-end close
    - Higher than previously projected transfer tax revenue
  - Salary and Benefits
    - Revised CPI assumptions
    - Revised projected employer pension contributions
  - Citywide Costs
    - Revised CPI assumptions
    - Debt Service & Real Estate
    - Local Operating Subsidy Program

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Significant Uncertainties Not Factored into the Deficit

- ERAF in future years
- State budget impacts – Governor's May Budget Revise
- Labor negotiations - outcome different from CPI planning assumption
- SF Housing Authority
- MCO for non-profits -- wage compaction factors
- Ballot Measures, i.e. City College Charter Amendment
- Recession risk

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OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Kanishka Karunaratne Cheng KKC
RE: Adopting the Five-Year Financial Plan – FYs 2019-2020 through 2023-2024
DATE: March 19, 2019

Resolution adopting the City's Five-Year Financial Plan for Fiscal Years 2019-2020 through 2023-2024 pursuant to Charter Section 9.119.

Should you have any questions, please contact Kanishka Karunaratne Cheng at 415-554-6696.

1 DR. CARLTON B. GOODLETT PLACE, ROOM 200
SAN FRANCISCO, CALIFORNIA 94102-4681
TELEPHONE: (415) 554-6141