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J.W.

## Five Year Financial Plan Update & Budget Instructions

Budget and Finance Committee

February 3, 2016



## Agenda

- Five Year Financial Plan Update (Joint Report)
  - Key Assumptions
  - Changes to the General Fund Base Case
  - Recession Scenario
- Budget Instructions
- Questions?



## Financial Planning and Policies

- The City has worked over the last several years to strengthen its long term financial management and reduce volatility in our budget process.
- Two-year budgeting
- Consistent Long-Term Planning
  - Five Year Financial Plan
  - Five Year Information and Communication Technology (ICT) Plan
  - Ten Year Capital Plan
- Responsible Fiscal Policies
  - Continue to increase reserves
  - Limit the use of one-time sources to balance the budget
  - Codify debt policies and restrictions



## Joint Report – Key Assumptions

- No major changes to service levels and numbers of employees, unless specified.
- Continued economic expansion with revenue increases; the pace of revenue growth will depend on the strength of the national economy and local industry.
- No recession occurs within the projection period.
- Previously negotiated wages and then CPI of 2.5% in the out years.
- Assumes funding levels equal to FY 2016-17 adopted budget for IT, capital, equipment, and non-salary spending. Plan levels in out years.



## Joint Report

**Table 1: Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)**

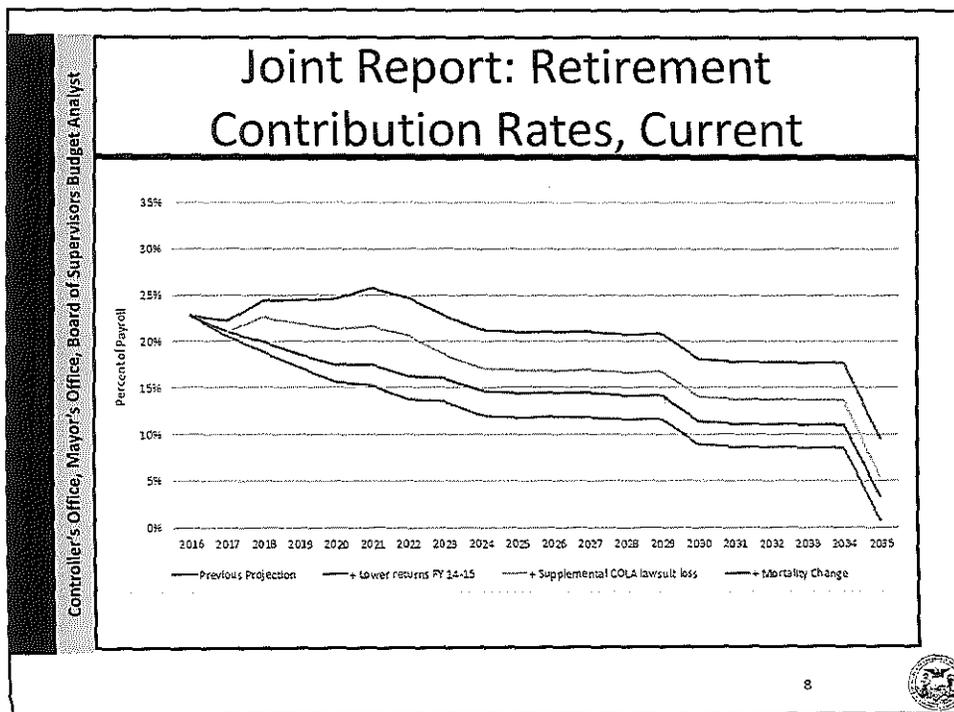
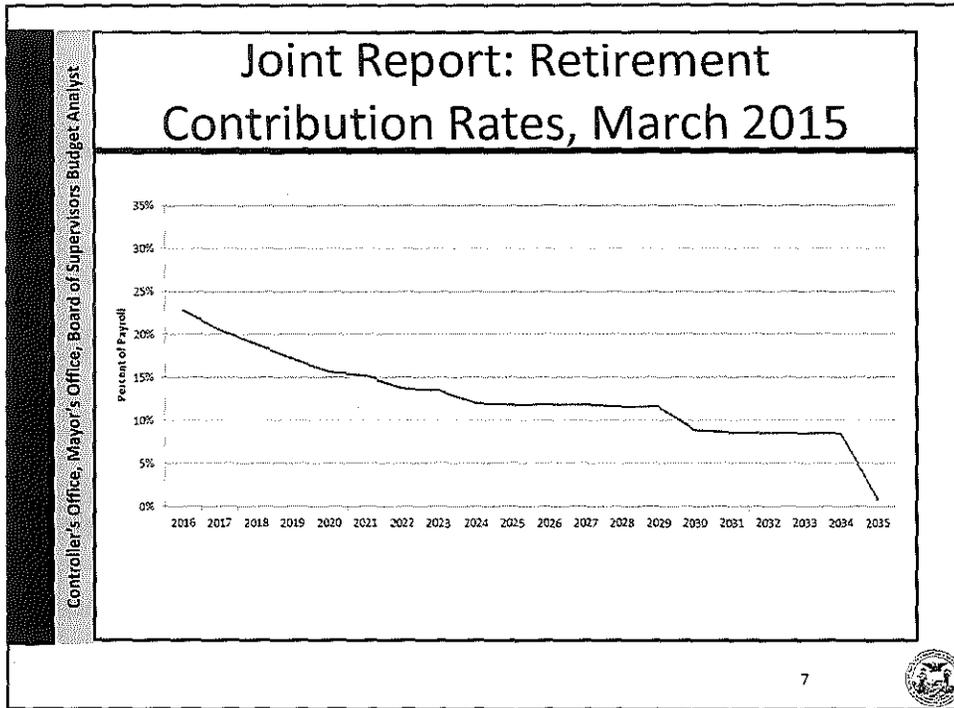
Sources	Savings / (Cost) Change from Prior Year, \$ Million			
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(57.0)	-	(126.3)	-
Regular Revenues, Transfers, & Other	132.6	152.5	168.2	164.5
<b>Subtotal - Sources</b>	<b>75.6</b>	<b>152.5</b>	<b>42.0</b>	<b>164.5</b>
Uses				
Salaries & Benefits	(112.4)	(100.2)	(98.7)	(120.8)
Other Expenditures, Reserves & Transfers	(63.0)	(192.7)	(177.5)	(107.6)
<b>Subtotal - Uses</b>	<b>(175.4)</b>	<b>(292.9)</b>	<b>(276.2)</b>	<b>(228.4)</b>
Total Net General Fund Impact (from Prior Year)	(99.8)	(140.4)	(234.3)	(63.8)
<b>Projected Cumulative Surplus / (Shortfall)</b>	<b>(99.8)</b>	<b>(240.2)</b>	<b>(474.5)</b>	<b>(538.4)</b>
March 2015 Projected Cumulative Surplus / (Shortfall)	(66.5)	(289.1)	(376.1)	(402.0)
Change from March 2015 Projection	(33.3)	48.9	(98.4)	(136.4)

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## Joint Report

- Strong revenue growth (10%) outpaced by expenditure growth (21%)
- Drivers of the projected deficit:
  - Increase in employer retirement contributions
  - Voter approved propositions and set-asides

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## Joint Report: Voter Adopted Set Asides and Baselines

### Cumulative Effect of Voter Adopted Baselines and Set Asides 2011-2015

	2016-17	2017-18	2018-19	2019-20
Housing Trust Fund 2011	(2.8)	(2.8)	(2.8)	(2.8)
MTA population growth 2014	(5.0)	(3.0)	(3.2)	(3.3)
Children's Fund Increase 2014	(5.3)	(5.6)	(6.5)	(1.1)
Minimum Wage 2014	(11.3)	(14.8)	(16.1)	(7.6)
Legacy Business 2015*	(3.7)	(3.9)	(3.8)	(4.2)
Subtotal Propositions	(28.1)	(30.2)	(32.3)	(19.0)
<b>Cumulative Propositions</b>	<b>(28.1)</b>	<b>(58.3)</b>	<b>(90.6)</b>	<b>(109.6)</b>

\* Legacy Business is not a charter amendment, which means it is subject to the Budget Appropriation Ordinance each year.

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## Joint Report: Continued Strong Revenue Outlook

SOURCES Increase / (Decrease)	2016-17	2017-18	2018-19	2019-20
General Fund Taxes, Revenues and Transfers net of items below	132.7	133.6	138.7	140.0
Change in One-Time Sources	(80.2)	-	(126.3)	-
Department of Public Health Revenues	6.5	10.3	11.0	11.8
OCII Tax Increment	(1.3)	(2.6)	3.4	4.1
Other General Fund Support	17.9	11.2	15.1	8.6
<b>TOTAL CHANGES TO SOURCES</b>	<b>75.6</b>	<b>152.5</b>	<b>42.0</b>	<b>164.5</b>

- Strong 10% growth in sources projected over next four years
- Projection assumes large growth year-over-year in revenues flattens out due to a higher risk of an economic downturn
- Fund balance of \$123.2 million assumed in each of the next two years - including \$36 million projected current year increase in fund balance

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## Joint Report: Expenditures Continue to Outpace Revenues

Uses	2016-17	2017-18	2018-19	2019-20
Baselines and Reserves	(25.6)	(36.7)	(46.6)	(35.7)
Salaries & Benefits	(112.4)	(100.2)	(98.7)	(120.8)
Citywide Operating Budget Costs	(24.6)	(120.2)	(109.1)	(66.1)
Departmental Costs	(12.8)	(35.8)	(21.8)	(5.8)
<b>Subtotal - Uses:</b>	<b>(175.4)</b>	<b>(292.9)</b>	<b>(276.2)</b>	<b>(228.4)</b>

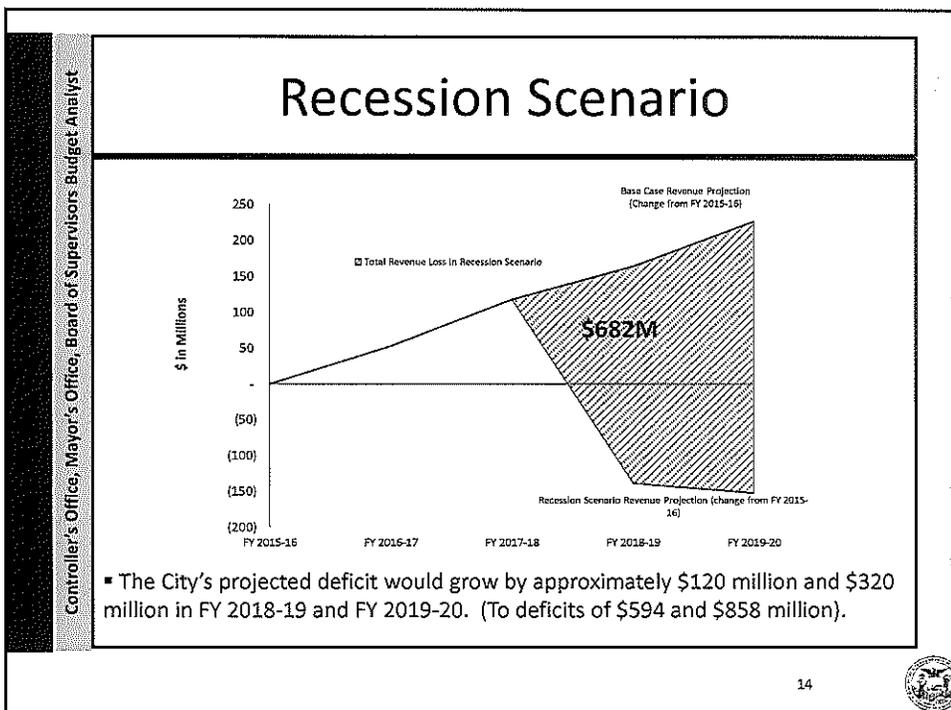
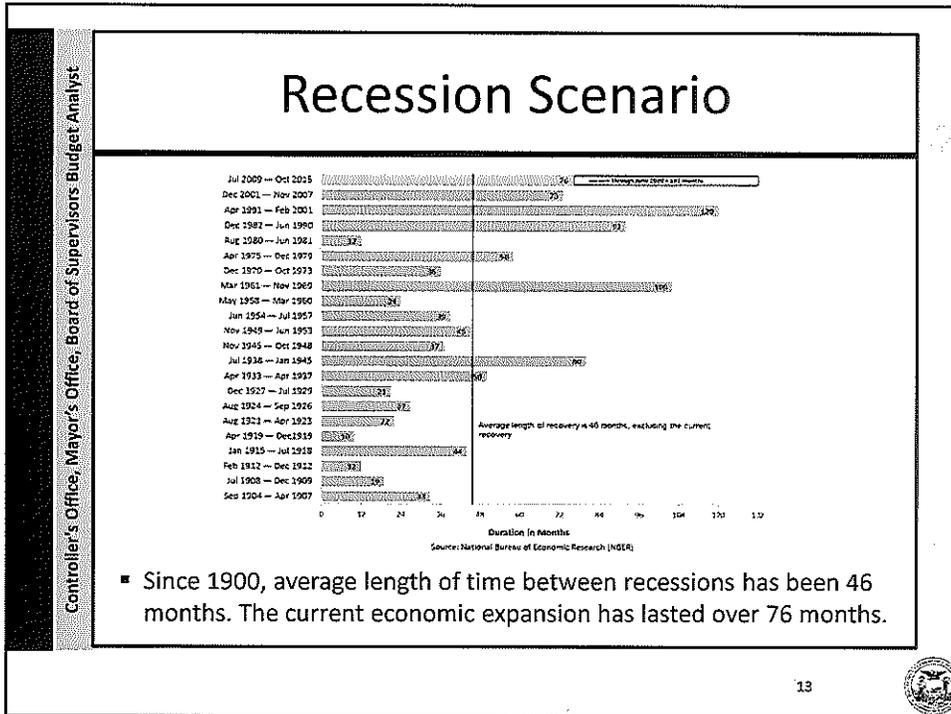
- Baselines & Reserves reflect increased revenues
- Salary & Benefits assume negotiated labor agreements and CPI-U in out years; pension cost increases
- Citywide Operating Costs assume minimum wage increase; investments in IT, capital and equipment
- Departmental Costs include costs related to elections; public safety hiring plans; and Public Health capital projects



## Joint Report: Key Factors that Could Affect the Forecast

- Labor costs (health, retirement)
- New budgetary commitments
- State or Federal funding changes
- Current year overspending or supplemental appropriations
- Changes in the economy





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## Budget Instructions

PROJECTED BUDGET SHORTFALL	FY16-17	FY17-18
Total Sources	75.6	152.5
Total Uses	(175.4)	(292.9)
Incremental Shortfall	(99.8)	(140.4)
Cumulative Shortfall	(99.8)	(240.2)

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## Budget Instructions

- FY 2016-17: Propose ongoing reductions and revenues equal to 1.5% of adjusted GF support.
- FY 2017-18: Propose additional ongoing reductions and revenues equal to 1.5% of adjusted GF support.
- Enterprise / self supporting must absorb all known cost increases.

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## Budget Instructions

- Reflect the priorities and programmatic goals identified in each department's proposed five year strategic plan
- Support the development of a modern, responsive and engaged government:
  - Public trust and civic engagement
  - Public experience of city services
  - Performance, accountability, investing in what works
  - Giving employees the tools to do their best work
- Minimize service impacts
- Identify and pursue opportunities for cross-departmental collaboration

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## Calendar

Dec 1	Budget Instructions
Dec 7	Budget system opens to departments
January	Governor's Budget Released
January 15	IT Plans and Capital Budget Requests Due
February	Controller's 6-Month Report
February 22	Budget Submissions Due
April 1	May 1 Departments legislation due to the Mayor's Office
May	Controller's 9-Month Report
	Governor's May Revise
	May 1 Departments Budget Committee Hearings
May 2	Departments identified as May Budgets Introduced to BOS
	June 1 Departments legislation due to the Mayor's Office
June 1	Mayor Proposes Citywide budget to Board of Supervisors
June	June 1 Departments Budget Committee Hearings
July	Budget Considered at Board of Supervisors

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