File No. 170299

Committee Item No. 4
Board Item No. ______

COMMITTEE/BOARD OF SUPERVISORS
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Committee: Budget & Finance Committee **Date** April 13, 2017

Board of Supervisors Meeting **Date** ______

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Completed by: Linda Wong **Date** April 7, 2017
Completed by: Linda Wong **Date** ______

FILE NO. 170299 RESOLUTION NO.

[Five-Year Financial Plan - FYs 2017-2022]

Resolution adopting the City's Five-Year Financial Plan for FYs 2017-2022, pursuant to Charter, Section 9.119.

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

WHEREAS, Charter, Section 9.119 provides that the City shall adopt the third City-wide five year plan by May 1, 2017; and

WHEREAS, The Mayor has submitted his proposed five year plan to the Board of Supervisors for its consideration, which is on file with the Clerk of the Board of Supervisors in File No. 170299, and which is hereby declared to be a part of this resolution as if set forth fully herein; and

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

RESOLVED, That the Board of Supervisors adopts the Mayor's proposed plan and the financial strategies outlined therein, with such amendments and revisions as the Board deems appropriate, as the City's Five Year Financial Plan for FYs 2017-2022, as provided in Charter, Section 9.119.

CITY AND COUNTY OF SAN FRANCISCO

MEMORANDUM

TO: Mayor Edwin Lee
Members of the Board of Supervisors

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

DATE: March 23, 2017

SUBJECT: The City's Five Year Financial Plan Update

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) 2021-22. The projection updates the Plan that was jointly prepared in December 2016.

- As was the case in the December 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.

- This projection shows a $288 million cumulative shortfall for the upcoming two fiscal years – the period for which the City is required to adopt a two-year budget in coming months. This represents an improvement of $60 million versus the $348 million projected following issuance of the Controller's Six Month Budget Status Report in February. These changes are detailed in the report, but are primarily driven by lower projected spending on debt service in the early years of the forecast.

- While the shortfalls during the first two years of the forecast have declined, those projected in out years of the forecast have increased. The shortfall for FY 2021-22, the final year of the projection, has increased from $848 million in the December projection to $907 million currently. These increases are driven primarily by increasing estimates of inflation during the five year period.

- Importantly, these forecasts do not assume any losses of federal or state revenues (except for formula-driven CalWORKS reductions), which together account for approximately 20% of City revenues. Although proposals that would have a significant negative impact on the City budget are pending at both the state and federal level, it is unclear which will ultimately be adopted and what the specific impacts will be. Our offices will continue to keep a close watch on potential state and federal budget changes over the coming months.

Five Year Financial Plan Update

On December 16, 2016, the Proposed Five Year Financial Plan for FY 2017-18 through FY 2021-22 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 expenditures are projected to grow by $1.4 billion over the next five years, which represents an increase of 30% over FY 2016-17 budgeted spending levels. In contrast, available General Fund sources are projected to grow 11%, or $541.3 million over the same period. If the City does not take corrective action, the projected gap between revenues and expenditures will rise from $87.1 million in FY 2017-18 to approximately $907.4 million in FY 2021-22, as shown in Table 1 below.

Table 1: Updated Base Case – Summary of FY 2018-22 General Fund-Supported Projected Budgetary Cumulative Surplus / (Shortfall) ($ in millions)

Five Year Projection:	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	% Growth
SOURCES Increase / (Decrease)	*170.4*	*399.1*	*296.8*	*428.0*	*541.3*	
Baselines & Reserves	(54.1)	(112.2)	(150.8)	(190.2)	(213.6)	15%
Salaries & Benefits	(135.3)	(272.9)	(446.0)	(608.4)	(732.0)	51%
Citywide Operating Budget Costs	(48.7)	(182.7)	(268.4)	(362.3)	(450.6)	31%
Departmental Costs	(19.3)	(31.8)	(43.6)	(40.8)	(52.4)	4%
USES Increase / (Decrease)	*(257.5)*	*(599.6)*	*(908.8)*	*(1,201.7)*	*(1,448.7)*	*100%*
Projected Cumulative Surplus / (Shortfall)	**(87.1)**	**(200.5)**	**(611.9)**	**(773.7)**	**(907.4)**	

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

- Additional sources identified in the Controller's FY 2016-17 Six-Month Budget Status Report and a revision of the City's revenue projections based on recent information;
- Increased inflationary costs, as projected by the California Department of Finance and Moody's; and
- Changes in projected expenditures for capital improvements, as recommend by the City's Capital Plan, released in early March 2017.

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 2017-18 through FY 2021-22 was jointly released by the Mayor's Office, Controller's Office and Budget and Legislative Analyst's Office on December 16, 2016.

This memo updates projections in that Plan, and also addresses Charter Section 9.101, which requires the Controller to identify whether there will be significant increases in revenues or expenditures in FY 2017-18 for those departments with a fixed two-year budget: the Public Utilities Commission, the Port, the Airport, Child Support Services, and the Employees' Retirement System. None of these departments are projected to have significant changes to their approved FY 2017-18 budgets.

Changes from the Five Year Financial Plan Projection Released in December 2016

Most of the key assumptions outlined in the Five Year Financial Plan released in December 2016 still apply to this memo, with the changes outlined below. Table 2 identifies changes from the prior plan. The City's projected deficit decreased incrementally by $31.9 million in FY 2017-18, decreased by an additional $51.0 million in FY 2018-19, increased by $110.1 million in FY 2019-20, increased further by $33 million in FY 2020-21, and decreased by $1.3 million in FY 2021-22.

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

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Incremental Changes To:					
Sources - Revenue and Fund Balance	26.5	44.0	(86.0)	1.2	(4.2)
Uses - Baselines & Reserves	(7.4)	11.3	(4.3)	(0.9)	0.0
Uses - Salaries & Benefits	10.5	(10.3)	(17.9)	(16.7)	0.3
Uses - Citywide Operating Budget Costs	(0.2)	11.3	(4.8)	(18.3)	11.5
Uses Departmental Costs	2.6	(5.3)	2.9	1.7	(6.4)
Total Incremental Change	**31.9**	**51.0**	**(110.1)**	**(33.0)**	**1.3**

The changes from the December 2016 projections are described in more detail below:

SOURCES – Revenue and Fund Balance: Projected General Fund sources have increased by $26.5 million in FY 2017-18 and $44 million in FY 2018-19, then decreased by $86 million in FY 2019-20, increased by $1.2 million in FY 2020-21, and decreased by $4.2 million FY 2021-22.

- **Fund Balance** – On February 10, 2017, the Controller's Office issued its FY 2016-17 Six-Month Budget Status Report. The report projected the FY 2016-17 ending fund balance to be $71.8 million above the balance assumed in the Five Year Financial Plan. This update assumes use of this fund balance to be split one-third in FY 2017-18 and two-thirds in FY 2018-19. In addition, this update assumes $60 million of unappropriated fund balance ("Reserve for Unknown Impacts") is appropriated and split one-third in FY 2017-18 and two-thirds in FY 2018-19. In the December 2016 Plan, the entire reserve was assumed to be appropriated in FY 2017-18.

- **Local Tax Revenue** – Based on input on the City's underlying economic condition provided during February's Municipal Finance Advisory Committee (MFAC) meeting as well as six months of collections in the current fiscal year, General Fund revenues are projected to grow faster in FY 2017-18 and slower in subsequent years compared to the December 2016 plan. The revenue increase in FY 2017-18 is due to higher than projected real property transfer and property tax, tempered by weakness in most other local taxes, notably declines in hotel tax. In FY 2018-19 and beyond, transfer tax is expected to return to lower, average historic levels, while other local taxes continue to grow but at even more moderate rates than previously assumed.

- **CalWORKs Revenue** – The Human Services Agency anticipates an on-going $6.6 million decline in State CalWORKs revenues beginning in FY 2017-18 due to statewide declining caseloads. Despite lower caseloads, the City will feel a cost impact because of its robust program which includes supplemental county-funded initiatives. The entire $6.6 million revenue loss is assumed in the updated deficit projection.

USES – Baselines and Reserves: Increases to projected General Fund sources over the next five years result in corresponding increases to baseline and reserves in all five years except FY 2018-19. These costs increased by $7.4 million in FY 2017-18, decreased by $11.3 million in FY 2018-19, increased by $4.3 million in FY 2019-20 and $0.9 million in FY 2020-21, and remained steady in FY 2021-22.

- **Baselines** – Net increases in projected revenue increase 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 2018-19.

- **Reserves** – Revenue increases also trigger additional General Reserve deposits. In addition, the Plan reflects replenishment of $1.5 million to the General Reserve in FY 2017-18 related to the FY 2016-17 supplemental appropriation supporting funds for legal services for immigrants. 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 $10.5 million in FY 2017-18, increased by $10.3 million in FY 2018-19, increased by $17.9 million in FY 2019-20, increased by $16.7 million in FY 2020-21, and decreased by $0.3 million in FY 2021-22, due to the following changes:

- **Labor Agreements** – Since the Five Year Financial Plan was released in December 2016, the City has reached a contract extension with many of the City's unions for the upcoming two fiscal years. The contract extension includes salary increases of 3% on July 1, 2017 and an additional 3% increase on July 1, 2018 for most miscellaneous employees. In years where contracts are open, the report continues to assume CPI increases, which are revised in this plan and fully outlined below, including 3.43% in FY 2019-20, 3.19% in FY 2020-21, and 2.76% in FY 2021-22. The contract extension also includes triggers for a six month delay of the raise on July 1, 2018 if the City's projected deficit for FY 2018-19 exceeds $200 million.

- **Retirement Benefits – Employer Contribution Rates** – On February 8, 2017 the SFERS Retirement Board approved the results of the July 1, 2016 actuarial funding valuation. These results have been incorporated into this update, resulting in slightly lower SFERS contribution rates paid by the City for miscellaneous employees. Furthermore, on December 21, 2016, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.5% to 7% over the next three years. This memo reflects the contribution increases by the City for CalPERS employees as a result of the discount rate changes beginning in FY 2018-19. The projected rate increases are 1.47% higher in FY 2018-19, 3.27% higher in FY 2019-20, 6.99% higher in FY 2020-21, and 8.87% higher in FY 2021-22.

- **Health and Dental Benefits for Current Employees** – The update includes a revised assumption for the annual growth in health costs for current employees, increasing from 7% growth per year to 8% growth per year. This assumption has been revised due to several factors including the rising cost of pharmaceuticals and uncertainty in healthcare markets.

USES – Citywide Operating Costs: Citywide operating costs increased by $0.2 million in FY 2017-18, then decreased by $11.3 million in FY 2018-19, increased by $4.8 million in FY 2019-20, increased further by $18.3 million in FY 2020-21, and decreased by $11.5 million in FY 2021-22. These changes are primarily due to:

- **Updates to the City's Ten-Year Capital Plan** – Significant changes to Citywide Operating costs are related to the City's long range capital planning efforts. On February 28, 2017, the City's Proposed Ten-Year Capital Plan for 2018-2027 was introduced to the Board of Supervisors. The assumptions in the plan are reflected in this update. The changes most significant to this memo are related to the proposed schedule of issuances of Certificates of Participation (COPs), which has varied significantly from the schedule paid out in the previous Ten-Year Capital Plan. The new schedule results in General Fund savings, especially in the upcoming two budget years, as large COP issuances are pushed further out and result in smaller debt service payments in the near term.

- **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 3.43% in FY 2018-19 and FY 2019-20, 3.19% in FY 2020-21, and 2.76% in FY 2021-22.

- **Rebalancing Plan Expenditure Update** – This update assumes the full cost of the Mayor's rebalancing plan that was released in December 2016. This includes funding for homelessness services, street trees, the Free City College program, and immigration services. This Plan also assumes additional costs above the rebalancing plan for the Free City College program and funding for immigration related services at the Public Defender's Office to reflect later agreements made between the Mayor and the Board of Supervisors.

USES – Departmental Costs: Departmental costs decreased by $2.6 million in FY 2017-18, increased by $5.3 million in FY 2018-19, decreased by $2.9 million in FY 2019-20, decreased by $1.7 million in FY 2020-21, and increased by $6.4 million in FY 2021-22. These changes are primarily due to changes related to the Moscone Convention Facility and the Local Operating Support Program (LOSP):

- **Convention Facilities Subsidy** – The estimated General Fund operating cost of the City's Moscone Convention Center has decreased due to increased fund balance identified in the Controller's Office Six-Month Report which can be used to decrease the General Fund support needed to operate the facility.

- **Hope SF and Local Operating Support Program** – The projected cost of the City's Local Operating Support Program (LOSP), which provides operating subsidies and social services at affordable housing developments occupied by formerly homeless individuals, has increased. This is due to shifts in the estimated occupancy dates of upcoming developments as well as changes to the estimates for services provision and operating costs.

<u>**Key Factors that Could Affect the Forecast**</u>

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition:

- **Changes in the Economic Cycle** – 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 experienced in the early part of the recovery have slowed, and in some cases declined, and low 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, given the duration of economic expansions over the last century, it would be an historical anomaly if there were no recession during the forecast period.

- **Federal and State Budget Impacts** – Since December both the Governor and President have released proposed state and federal budgets. Aside from the formula changes to CalWORKs outlined in the revenue section, this report does not assume significant changes in funding at the state and federal levels. While a number of proposals at both the state and federal levels that would have financial impacts on the City are pending, final legislative adoption of these proposals is uncertain. Additionally, specific federal budget details necessary to more fully estimate the impact on local programs are not yet available. Given this, this projection does not assume potential state and federal losses. However, the table below summarizes several significant pending proposals that are known at this time.

Table 3: Estimated Impacts of Known State and Federal Budget Proposals, Savings / (Cost) ($ in millions)

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
State Proposals					
Cancel In-Home Supportive Services (IHSS) Maintenance of Effort (Governor's Proposed Budget)*	(43.4)	(54.9)	(68.4)	(68.4)	(68.4)
Funding for Transportation - Gas Tax and VRF (Senate Bill 1)	34.5	38.5	40.0	40.0	40.0
Federal Proposals					
Mayor's Office of Housing: Eliminate Community Development Block Grants (CDBG) and HOME Investment Partnerships Program Grants	-	(20.6)	(20.6)	(20.6)	(20.6)

* These estimates are subject to increase based on caseloads, wages, and other inflationary drivers, particularly in the later years of this projection.

- *State Budget* – On January 10, 2017, the Governor submitted a proposed budget to the California legislature. Based on the proposal, this projection assumes the formula-driven loss of $6.6 million of revenue, related to decreased statewide CalWORKs caseloads. It does not assume the adoption of any other state budget proposal due to uncertainty. However, there are two proposals which would have a significant impact to the City should they be adopted in their current form: the elimination of the In-Home Supportive Services Maintenance of Effort (IHSS MOE) and the Transportation Funding legislation (SB1).

  Eliminating the IHSS MOE, which was put in place in 2012 as part of the Coordinated Care Initiative (CCI), would shift $43.4 million of costs from the State to the City in FY 2017-18, with growing costs in future years. Since 2012, the IHSS program costs have grown significantly as a result of: impacts of minimum wage laws (state or local); caseload growth (7% per year recently); medical inflation; and administrative cost increases. If the MOE is eliminated and returned to a cost sharing model, the City will have to pay for the full impact of these costs that have grown in the past five years. At this time, the Governor has indicated willingness to work with counties on the implementation of this policy change and the State Assembly has put forward a proposal that would mitigate the impact of the policy changes on counties.

  Proposed Transportation Funding legislation (SB 1 Beall) would raise on-going funds through increased gas and diesel taxes, vehicle registration fee adjustments, a new vehicle registration fee for zero-emissions vehicles, and restoring weight fees. Additionally, the legislation accelerates the repayment of outstanding loans to counties, a one-time source. If adopted, these funds would support road and bridge repairs, as well as transit. As proposed, once fully phased in, the local impact is estimated to be $40 million annually.

- *Federal Budget* – On March 16, 2017, the President released a preliminary budget blueprint ("skinny budget"), which proposed reductions to numerous federal agencies to fund growth primarily at the Department of Defense and Department of Homeland Security. The proposed budget eliminates Community Development Block Grants and HOME Investment Partnership Program Grants, which would reduce City spending by $20.6 million starting in FY 2018-19 if enacted as proposed.

On January 25, 2017 the President issued Executive Order 13,768 entitled, "Enhancing Public Safety in the Interior of the United States," which proposes to withhold funds to "sanctuary jurisdictions." Additionally, Congress is currently proposing legislation to "repeal and replace" the Affordable Care Act (ACA).

Changes to the ACA could significantly impact the Department of Public Health, the City's safety net care provider. This update does not include assumptions about any federal budget proposals due to lack of concrete details and significant uncertainty regarding outcome; however, there is great reason to believe some reductions will move forward in the near term.

Conclusion

As noted above, after several years of higher than expected revenue growth, revenues in this update have changed only marginally from December projections, and future growth is curbed by housing, transportation, and other infrastructure constraints. While property-related revenues remain strong, economically sensitive sources, such as hotel, sales and parking taxes, are experiencing slow to negative growth. This shift, coupled with great uncertainty from the state and federal budgets, results in real downside risk to the City's financial outlook.

While the projected shortfalls shown in the Proposed Five Year Financial Plan and this updated memo reflect the difference in projected revenues and expenditures if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and additional revenues. These projections assume no ongoing solutions are implemented. To the extent that budgets are balanced with ongoing solutions, future shortfalls will decrease.

Appendix A: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2018-22 – INCREMENTAL CHANGE

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

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

	2017-18	2018-19	2019-20	2020-21	2021-22
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	205.5	83.8	122.9	107.0	102.8
Change in One-Time Sources	(95.0)	99.9	(199.9)	-	-
Use of Reserves for One-time Impacts	20.0	20.0	(40.0)	-	-
Children's Fund Property Tax Setaside Revenue	13.6	9.7	3.4	3.2	3.4
Department of Public Health Revenues	(1.4)	7.3	6.8	14.3	2.7
OCII Tax Increment	(11.4)	(3.0)	(2.8)	1.5	(0.0)
November 2016 Election and Rebalancing Plan - Revenues (net of baselines)	37.0	5.7	(0.0)	(0.0)	-
Other General Fund Support	2.2	5.4	7.4	5.2	4.3
TOTAL CHANGES TO SOURCES	**170.4**	**228.8**	**(102.3)**	**131.2**	**113.3**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(15.7)	(12.9)	(17.7)	(17.2)	(13.3)
MTA New Central Subway	-	(10.4)	(3.5)	(0.4)	(0.4)
Children's Fund and Public Education Enrichment Fund	(20.1)	(20.4)	(12.7)	(9.4)	(9.8)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Dignity Fund	(6.0)	(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	(5.1)	(2.8)	(3.5)	(3.0)	(2.9)
Deposits to General Reserve	3.9	2.6	(1.5)	(0.2)	12.3
Other Contributions to Reserves	(5.3)	(5.5)	9.1	(0.5)	(0.5)
Subtotal Baselines & Reserves	**(54.1)**	**(58.1)**	**(38.5)**	**(39.5)**	**(23.3)**
Salaries & Benefits					
Annualization of Partial Year Positions	(20.3)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(77.6)	(62.9)	-	-	-
Projected Costs of Open Labor Agreements	-	(28.9)	(104.3)	(103.9)	(88.8)
Health & Dental Benefits - Current & Retired Employees	(24.9)	(33.2)	(36.5)	(36.8)	(39.6)
Retirement Benefits - Employer Contribution Rates	(21.2)	(12.7)	(12.3)	(30.8)	5.9
Other Salaries and Benefits Savings / (Costs)	8.8	-	(19.9)	9.1	(1.1)
Subtotal Salaries & Benefits	**(135.3)**	**(137.6)**	**(173.0)**	**(162.4)**	**(123.6)**
Citywide Operating Budget Costs					
Minimum Wage	(6.7)	(10.3)	(3.2)	(0.6)	(0.6)
Capital, Equipment, & Technology	29.7	(40.8)	(10.7)	(12.8)	(23.1)
Inflation on non-personnel costs and grants to non-profits	(21.1)	(52.5)	(45.4)	(44.3)	(40.8)
Debt Service & Real Estate	(6.7)	(14.5)	(17.7)	(30.8)	(18.9)
Sewer, Water, and Power Rates	(1.9)	(4.3)	(1.5)	(1.6)	(1.5)
November 2016 Election and Rebalancing Plan - Expenditures	(42.4)	(8.5)	(3.9)	(0.6)	(0.6)
Other Citywide Costs	0.3	(3.2)	(3.5)	(3.2)	(2.9)
Subtotal Citywide Operating Budget Costs	**(48.7)**	**(134.0)**	**(85.7)**	**(93.8)**	**(88.4)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(9.6)	2.1	11.2	-	-
Elections - Number of Scheduled Elections	(0.8)	(0.3)	(5.4)	4.8	(0.3)
Ethics Commission - Public Financing of Elections	(1.3)	0.7	(0.7)	(0.0)	(0.0)
Golden State Warriors Event Center	0.7	(0.1)	(7.7)	(0.3)	(0.3)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(1.5)	(3.8)	(3.6)	(3.8)	(7.6)
Human Services Agency - Aid	(5.3)	(3.1)	(3.5)	(3.3)	(3.6)
Public Health - Operating and one-time costs for capital projects	(6.8)	(6.1)	0.0	8.6	0.8
All Other Departmental Savings / (Costs)	5.3	(1.9)	(2.1)	(3.1)	(0.6)
Subtotal Departmental Costs	**(19.3)**	**(12.5)**	**(11.9)**	**2.8**	**(11.6)**
TOTAL CHANGES TO USES	**(257.5)**	**(342.2)**	**(309.1)**	**(292.9)**	**(247.0)**
Projected Surplus (Shortfall) vs. Prior Year	**(87.1)**	**(113.4)**	**(411.4)**	**(161.7)**	**(133.7)**
Cumulative Projected Surplus (Shortfall)	**(87.1)**	**(200.5)**	**(611.9)**	**(773.7)**	**(907.4)**

Appendix B: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2018-22 – CUMULATIVE CHANGE

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

	2017-18	2018-19	2019-20	2020-21	2021-22
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	205.5	289.3	412.1	519.1	621.9
Change in One-Time Sources	(95.0)	4.9	(195.0)	(195.0)	(195.0)
Use of Reserves for One-time Impacts	20.0	40.0	-	-	-
Children's Fund Property Tax Setaside Revenue	13.6	23.3	26.6	29.8	33.3
Department of Public Health Revenues	(1.4)	5.8	12.6	26.9	29.7
OCII Tax Increment	(11.4)	(14.4)	(17.2)	(15.7)	(15.7)
November 2016 Election - Revenues (net of baselines)	37.0	42.7	42.6	42.6	42.6
Other General Fund Support	2.2	7.6	15.0	20.2	24.5
TOTAL CHANGES TO SOURCES	**170.4**	**399.1**	**296.8**	**428.0**	**541.3**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(15.7)	(28.6)	(46.3)	(63.5)	(76.8)
MTA New Central Subway	-	(10.4)	(13.9)	(14.4)	(14.8)
Children's Fund and Public Education Enrichment Fund	(20.1)	(40.5)	(53.2)	(62.6)	(72.4)
Housing Trust Fund	(2.8)	(5.6)	(8.4)	(11.2)	(14.0)
Dignity Fund	(6.0)	(9.0)	(12.0)	(15.0)	(18.0)
Recreation and Parks Baseline	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
All Other Baselines	(5.1)	(7.9)	(11.4)	(14.4)	(17.3)
Deposits to General Reserve	3.9	6.6	5.1	4.9	17.3
Other Contributions to Reserves	(5.3)	(10.8)	(1.7)	(2.1)	(2.6)
Subtotal Baselines & Reserves	**(54.1)**	**(112.2)**	**(150.8)**	**(190.2)**	**(213.6)**
Salaries & Benefits					
Annualization of Partial Year Positions	(20.3)	(20.3)	(20.3)	(20.3)	(20.3)
Previously Negotiated Closed Labor Agreements	(77.6)	(140.5)	(140.5)	(140.5)	(140.5)
Projected Costs of Open Labor Agreements	-	(28.9)	(133.2)	(237.1)	(325.9)
Health & Dental Benefits - Current & Retired Employees	(24.9)	(58.1)	(94.6)	(131.4)	(171.0)
Retirement Benefits - Employer Contribution Rates	(21.2)	(33.9)	(46.2)	(77.0)	(71.1)
Other Salaries and Benefits Savings / (Costs)	8.8	8.8	(11.2)	(2.1)	(3.2)
Subtotal Salaries & Benefits	**(135.3)**	**(272.9)**	**(446.0)**	**(608.4)**	**(732.0)**
Citywide Operating Budget Costs					
Minimum Wage	(6.7)	(17.0)	(20.2)	(20.8)	(21.4)
Capital, Equipment, & Technology	29.7	(11.1)	(21.8)	(34.6)	(57.7)
Inflation on non-personnel costs and grants to non-profits	(21.1)	(73.5)	(118.9)	(163.2)	(204.0)
Debt Service & Real Estate	(6.7)	(21.1)	(38.8)	(69.6)	(88.5)
Sewer, Water, and Power Rates	(1.9)	(6.2)	(7.7)	(9.3)	(10.8)
November 2016 Election - Expenditures	(42.4)	(50.9)	(54.7)	(55.3)	(55.9)
Other Citywide Costs	0.3	(2.9)	(6.3)	(9.5)	(12.4)
Subtotal Citywide Operating Budget Costs	**(48.7)**	**(182.7)**	**(268.4)**	**(362.3)**	**(450.6)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(9.6)	(7.5)	3.7	3.7	3.7
Elections - Number of Scheduled Elections	(0.8)	(1.1)	(6.5)	(1.7)	(2.0)
Ethics Commission - Public Financing of Elections	(1.3)	(0.6)	(1.4)	(1.4)	(1.4)
Golden State Warriors Event Center	0.7	0.7	(7.1)	(7.4)	(7.7)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(1.5)	(5.3)	(9.0)	(12.8)	(20.4)
Human Services Agency - Aid	(5.3)	(8.3)	(11.9)	(15.2)	(18.8)
Public Health - Operating and one-time costs for capital projects	(6.8)	(12.9)	(12.8)	(4.2)	(3.4)
All Other Departmental Savings / (Costs)	5.3	3.4	1.3	(1.9)	(2.5)
Subtotal Departmental Costs	**(19.3)**	**(31.8)**	**(43.6)**	**(40.8)**	**(52.4)**
TOTAL CHANGES TO USES	**(257.5)**	**(599.6)**	**(908.8)**	**(1,201.7)**	**(1,448.7)**
Cumulative Projected Surplus (Shortfall)	**(87.1)**	**(200.5)**	**(611.9)**	**(773.7)**	**(907.4)**

Appendix C: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2018-22

This appendix provides an updated version of Table 7 from the December Five Year Financial Plan.

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
	Actuals	Original Budget	Projection	Projection	Projection	Projection	Projection
Property Taxes	$ 1,392.3	$ 1,412.0	$ 1,550.0	$ 1,611.0	$ 1,668.0	$ 1,723.0	$ 1,781.0
Business Taxes	659.1	669.5	712.7	743.5	773.4	802.9	826.8
Sales Tax	167.9	237.5	204.7	210.8	215.1	219.4	223.7
Hotel Room Tax	387.7	409.3	378.8	404.5	422.4	430.6	439.6
Utility Users Tax	98.7	94.3	97.8	98.8	99.9	101.0	102.1
Parking Tax	86.0	92.8	86.0	87.6	89.3	90.1	90.6
Real Property Transfer Tax	269.1	235.0	300.0	245.0	245.0	245.0	245.0
Sugar Sweetened Beverage Tax	-	-	7.5	15.0	15.0	15.0	15.0
Stadium Admission Tax	1.2	1.4	1.4	1.4	6.5	6.5	6.5
Access Line Tax	43.6	47.0	48.6	50.1	51.9	53.5	55.0
Subtotal - Local Tax Revenues	**3,105.5**	**3,198.7**	**3,387.5**	**3,467.8**	**3,586.4**	**3,687.0**	**3,785.3**
Licenses, Permits & Franchises	27.9	28.9	29.3	29.5	29.7	29.7	30.0
Fines, Forfeitures & Penalties	9.0	4.6	4.6	4.6	4.6	4.6	4.6
Interest & Investment Income	15.1	14.0	15.4	15.6	15.8	17.7	17.9
Rents & Concessions	18.2	16.1	15.8	15.8	15.8	15.8	15.8
Subtotal - Licenses, Fines, Interest, Rent	**70.2**	**63.6**	**65.2**	**65.5**	**65.9**	**67.8**	**68.3**
Social Service Subventions	243.6	250.6	260.7	260.7	260.7	260.7	260.7
Other Grants & Subventions	(5.8)	2.7	2.7	2.7	2.7	2.7	2.7
Subtotal - Federal Subventions	**237.8**	**253.3**	**263.4**	**263.4**	**263.4**	**263.4**	**263.4**
Social Service Subventions	204.6	218.9	206.2	204.4	207.8	211.2	214.7
Health & Welfare Realignment - Sales Tax	138.3	144.7	150.0	155.8	155.8	155.8	155.8
Health & Welfare Realignment - VLF	38.0	34.9	33.9	33.4	33.4	33.4	33.4
Health & Welfare Realignment - CalWORKs MOE	11.7	22.6	16.2	16.2	16.2	16.2	16.2
Health/Mental Health Subventions	111.2	120.4	124.0	124.0	124.0	124.0	124.0
Public Safety Sales Tax	97.0	102.0	103.8	106.3	109.4	113.0	116.1
Motor Vehicle In-Lieu (County & City)	0.6	-	-	-	-	-	-
Public Safety Realignment (AB109)	39.8	40.5	41.9	43.1	44.0	44.9	45.8
Other Grants & Subventions	24.6	16.3	16.3	16.3	16.3	16.3	16.3
Subtotal - State Subventions	**665.9**	**700.3**	**692.3**	**699.5**	**706.9**	**714.7**	**722.2**
General Government Service Charges	58.8	66.1	66.4	66.4	66.4	66.4	66.4
Public Safety Service Charges	46.9	41.8	40.7	40.7	40.7	40.7	40.7
Recreation Charges - Rec/Park	19.8	19.4	19.6	19.6	19.6	19.6	19.6
MediCal, MediCare & Health Svc. Chgs.	82.0	80.6	81.4	81.4	81.4	81.4	81.4
Other Service Charges	17.9	17.4	16.8	16.8	16.8	16.8	16.8
Subtotal - Charges for Services	**225.4**	**225.2**	**224.9**	**224.9**	**224.9**	**224.9**	**224.9**
Recovery of General Government Costs	9.7	10.9	10.9	10.9	10.9	10.9	10.9
Other General Fund Revenues	51.2	67.7	32.0	32.0	32.0	32.0	32.0
TOTAL REVENUES	**4,365.6**	**4,519.7**	**4,676.2**	**4,764.1**	**4,890.3**	**5,000.6**	**5,107.0**
Transfers in to General Fund							
Airport	42.5	43.6	44.5	45.6	49.2	50.7	51.7
Other Transfers	164.0	118.4	114.7	114.7	114.7	114.7	114.7
Total Transfers-In	**206.5**	**162.0**	**159.2**	**160.3**	**163.9**	**165.4**	**166.4**
TOTAL GF Revenues and Transfers-In	**4,572.1**	**4,681.7**	**4,835.4**	**4,924.4**	**5,054.2**	**5,166.0**	**5,273.4**

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Proposed
Five-Year Financial Plan

Fiscal Years 2017-18 through 2021-22

DECEMBER 16, 2016

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Acknowledgements

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City and County of San Francisco
FIVE-YEAR FINANCIAL PLAN

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 but slowing growth in tax revenues. In addition, the Five-Year Financial Plan shows that the cost of city services is projected to outpace revenue growth during the five-year period. If the City does not take corrective action, the gap between revenues and expenditures will rise from $119.0 million to approximately $848.4 million from Fiscal Year (FY) 2017-18 to FY 2021-22.

Table 1: Base Case – Summary of General Fund-Supported Projected Budgetary Surplus (/Shortfall) FY 2018-22 ($ in millions)

Five Year Projection:	2017-18	2018-19	2019-20	2020-21	2021-22	% Growth
SOURCES Increase / (Decrease)	*143.9*	*328.7*	*312.4*	*442.4*	*559.9*	
Baselines and Reserves	(46.7)	(116.1)	(150.3)	(188.9)	(212.3)	15%
Salaries & Benefits	(145.8)	(273.1)	(428.2)	(574.0)	(698.0)	50%
Citywide Operating Budget Costs	(48.5)	(193.8)	(274.7)	(350.2)	(450.1)	32%
Departmental Costs	(21.9)	(29.1)	(43.8)	(42.7)	(48.0)	3%
USES Increase / (Decrease)	*(262.9)*	*(612.1)*	*(897.1)*	*(1,155.8)*	*(1,408.3)*	*100%*
Projected Surplus / (Shortfall):	**(119.0)**	**(283.4)**	**(584.7)**	**(713.4)**	**(848.4)**	

Total expenditures are projected to grow by $1,408.3 million over the next five years, which represents an increase of 29%. During the five years of the plan, baselines and reserves grow by $212.3 million (15% of total expenditure growth), employee salary, pension, and fringe benefit costs grow by $698.0 million (50% of total expenditure growth), citywide operating costs grow by $450.1 million (32% of total expenditure growth), and departmental costs are growing by $48.0 million (3% of total expenditure growth).

In contrast to expenditure growth, available General Fund sources are projected to increase by $559.9 million over the same period, an overall growth of 11%. 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. Despite significant efforts and policy changes in the past six years to address the City's long term structural deficit, the current five-year deficit projection has increased back up to 2011 levels. The reasons for are largely related to rising employee costs (pension being the biggest factor), increasing voter mandated commitments through baselines and set-asides, and increasing positions and services.

Additionally, in the past few years strong revenue growth has enabled the City to balance the budget while increasing services to the public. However, this year there is much more uncertainty with the City's fiscal condition in light of changes at the federal level as well as the long period of economic growth that the City has experienced. Revenues are projected to grow more slowly over the coming years; to ensure continued fiscal sustainability and a resilient future, 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 14% over the coming five years, as opposed to 29% growth that is projected to occur absent action.

Table 2: Proposed Fiscal Strategies ($ in millions)

Base Case Outlook ($ millions)	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
Cumulative Projected Surplus / (Shortfall)	(119)	(283)	(585)	(713)	(848)
Proposed Fiscal Strategies - Sources Growth faster and Expenditure Growth slower than Base Case					
Sources - Taxes, Fees & Other Revenues	26	53	152	181	216
Salaries and Benefits - Manage Employee Costs	25	60	145	190	225
Citywide - Limit Non-Personnel Inflation, Capital, Debt Service and Real Estate	14	62	144	180	227
Departmental - On-Going Revenues & Savings Initiatives	54	108	144	162	180
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 the 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 seven years ago, rendering the likelihood of a slowdown or a decline in revenue growth increasingly likely during the period that this plan addresses. Additionally, the change in federal administration makes it likely the City will see reduced funding in the time period covered in this report. If an economic slowdown or large loss of 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.

NEW CITYWIDE STRATEGIC INITIATIVES SECTION

The plan also includes a new Citywide Strategic Plan section outlining the Mayor's value and vision developed with City departments. Informed by citywide long-term planning processes, like citywide Capital and IT plans as well as Five-Year Departmental Strategic Plans, this section lays out a set of shared values and a vision for the City's future as well as larger initiatives the Mayor's Office and departments are undertaking to realize the City's vision and make it a reality.

Values

1. **Equity.** Our services reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city.
2. **Collaboration.** We are stronger when we work together. We serve through consensus building and cooperation across all sectors.
3. **Community.** The needs of an engaged and empowered community drive our service and we support participation and democracy for all.
4. **Compassion.** Our service is grounded in respect, dignity, embracing diversity, care, empathy and inclusion.
5. **Service Excellence.** We work to continuously improve services that are high quality, innovative, and informed by what works.
6. **Responsibility & Integrity.** We are stewards of the public's dollars. We make responsible decisions to ensure the long term success for our city and residents.
7. **Accountability and Transparency.** We hold ourselves accountable based on outcomes and believe that transparency fosters public trust.

Vision

1. Residents and families that thrive
2. Clean, safe and livable communities
3. A diverse, equitable and inclusive city
4. Excellent city services
5. A city and region prepared for the future

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ECONOMIC OVERVIEW

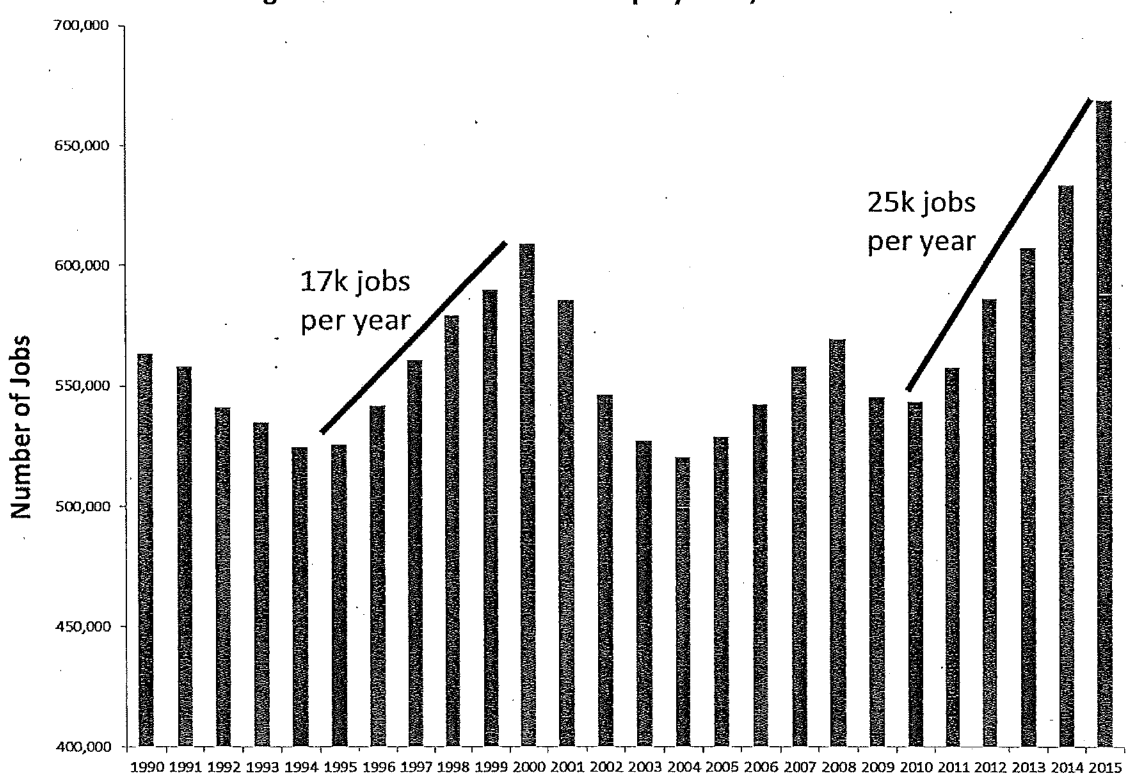
The FY 2017-18 through FY 2021-22 Five-Year Financial Plan is the fourth such plan produced by the City and County of San Francisco. The first Five-Year Financial Plan covered FY 2011-12 through FY 2015-16 and was released in March 2011. Significant changes have occurred since that time. Through 2016, 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 impending slowdown, which informs both the base case revenue growth and recession scenario presented in this plan.

LOOKING BACK

San Francisco's Economic Recovery: 2010-2015

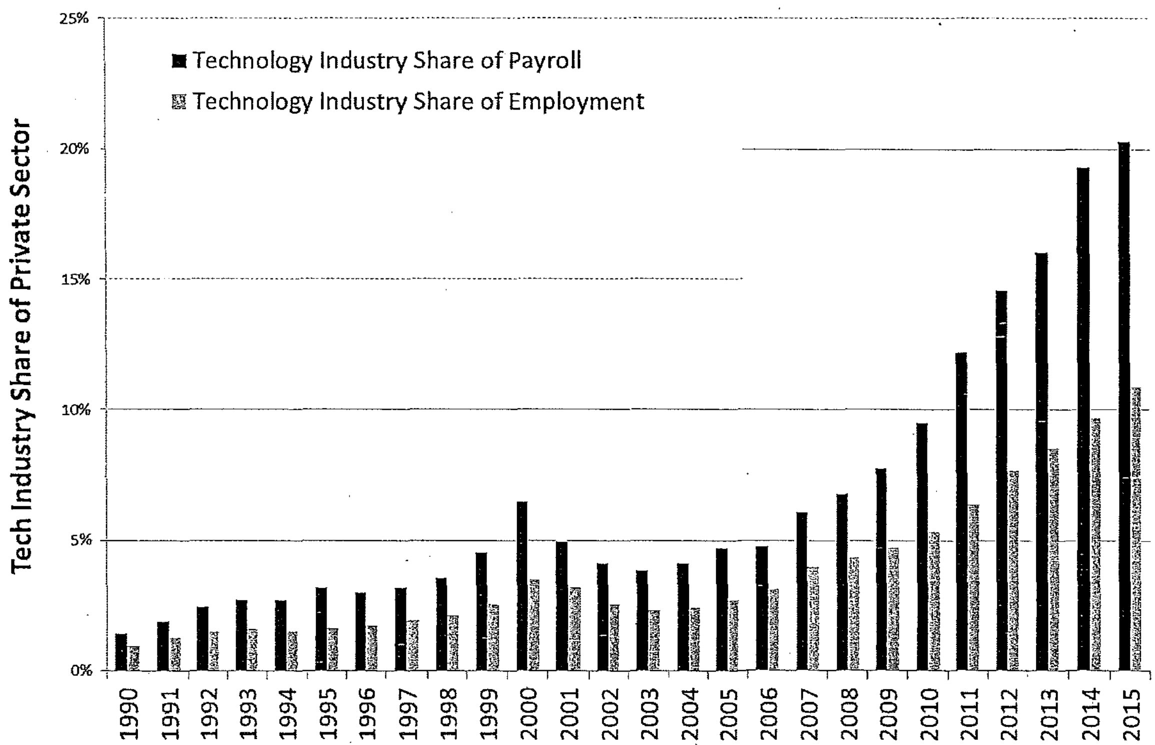
Employment. San Francisco has added an average of 25,000 new jobs per year since 2010. To put this into context, during the dot-com boom of the late 1990s, employment increased by only 17,000 jobs per year. By the end of 2015, there were 668,900 jobs in San Francisco – 60,000 more than at the City's previous economic peak in 2000, and 35,000 new jobs were added in 2015 alone.

Figure 1: Total San Francisco Employment, 1990-2015



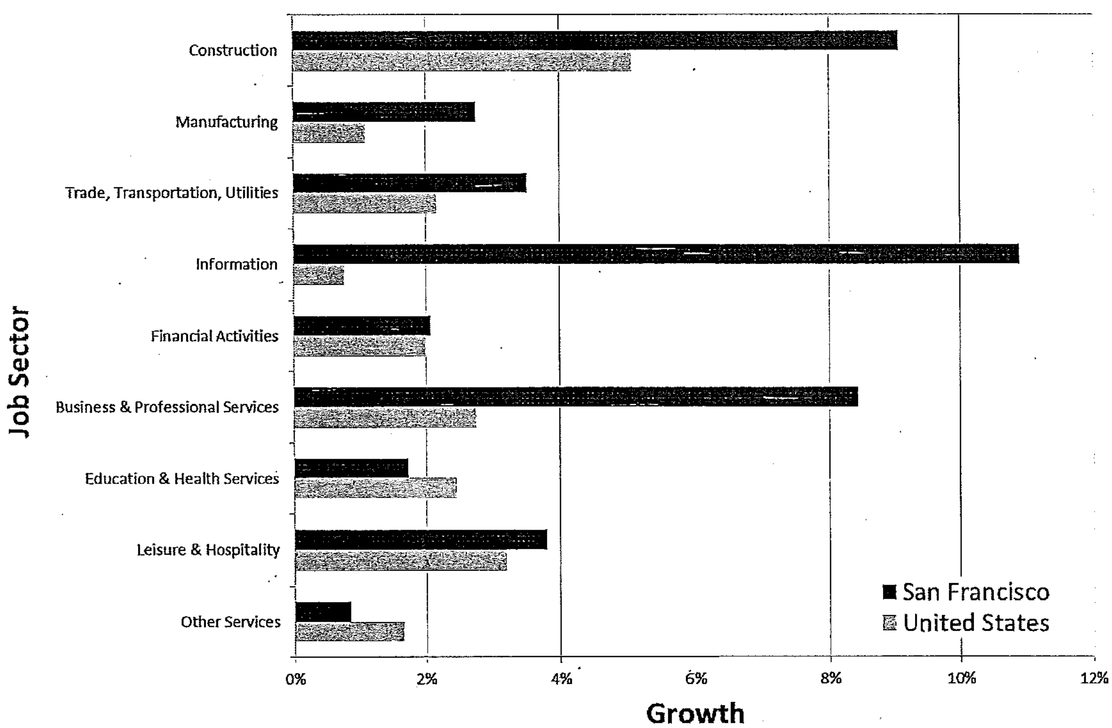
As discussed in more detail below, the City's economic growth has been fueled by the technology sector, whose share of San Francisco's total private sector employment has risen from 5% to 11% since 2010. As a share of total private sector payroll in the City, the tech industry's share has grown from 9% to over 20% from 2010 to 2015.

Figure 2: Technology Industry Share of Private Sector Payroll and Employment in San Francisco, 1990-2015



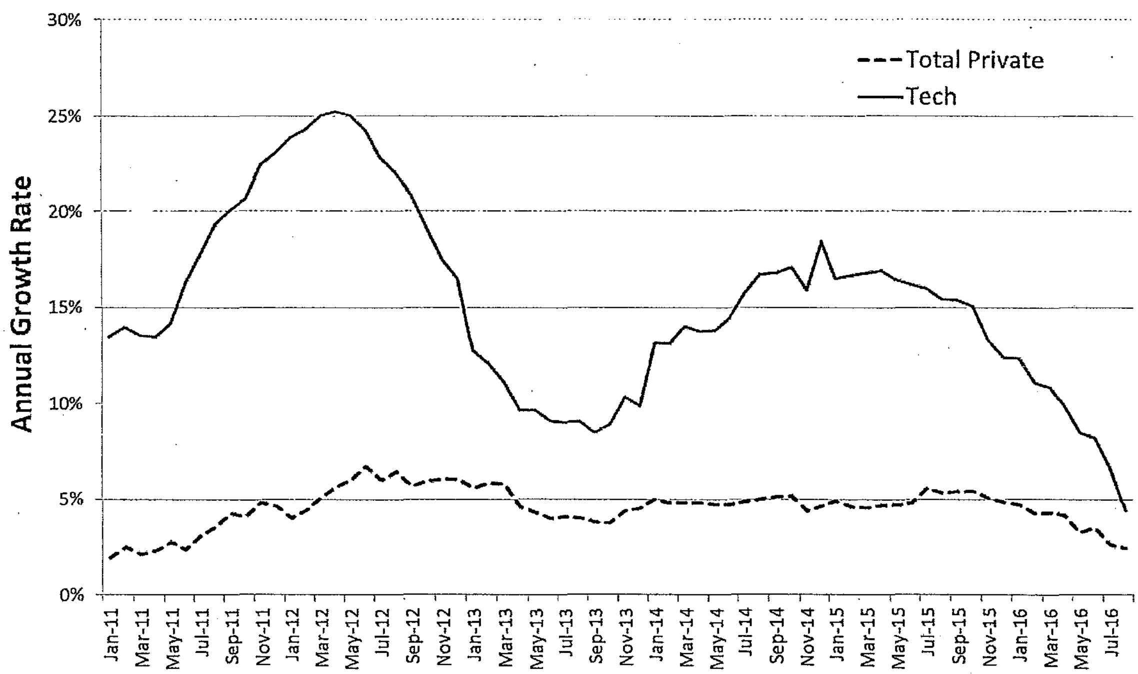
As an export sector that brings new investment and income into the City, the technology sector is an important economic driver for San Francisco. While it has been the fastest-growing part of the City's economy this decade, every sector has been adding employment, as shown below. In almost every case, in fact, San Francisco's industry sectors have been growing more rapidly than the same sectors in the U.S. as a whole. In the chart below, technology employment is split between the Information and Business & Professional Service sectors, and is largely responsible for the very rapid rate of job growth of those sectors.

Figure 3: Employment Growth by Sector
San Francisco and United States, 2014-2015



While the City's economic performance through 2010 has clearly been both strong and broad-based, signs emerged in 2016 that it may be reaching a plateau. Monthly employment data for San Francisco and San Mateo counties indicate that employment growth in the technology industry has slowed from a 15.4% annual rate in August 2015 to 4.4% annual rate in August 2016. The growth rate for all private, non-farm employment in the two-county area has also dropped – from a 5.3% annual rate last August to only 2.4% growth this August.

Figure 4: Annual Growth Rate in Tech and Private Non-Farm Employment San Francisco/San Mateo Counties, January 2011-August 2016



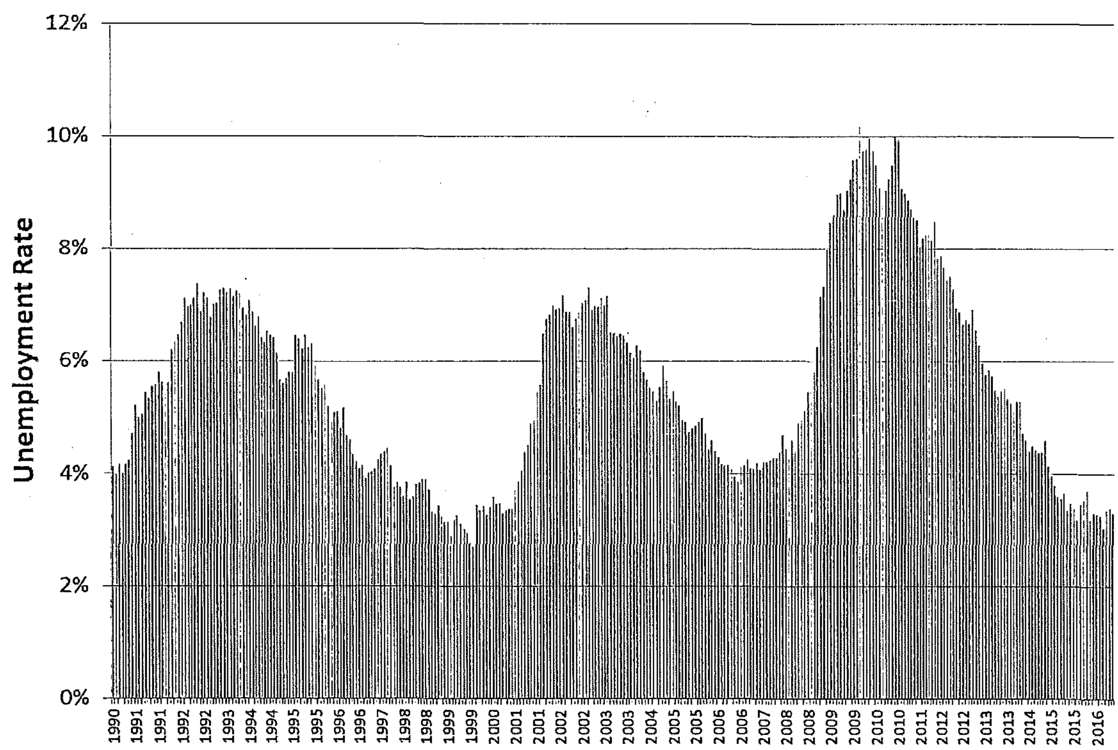
This trend may have important implications for the City's finances in upcoming years. A halving of the employment growth rate would likely have a proportionate effect on tax revenue from businesses, employees and residents, such as business, sales, and utility user taxes. On the other hand, the chart also shows that the tech industry also experienced a slowdown in 2013, only to re-accelerate in 2014. A slowdown therefore does not automatically mean that a recession is imminent.

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 both to the lack of capacity in the City's infrastructure to support continued growth, and signs of weakness in the technology industry, which are occurring irrespective of the City's infrastructure capacity. With respect to infrastructure issues, the first constraint is the City's housing supply, which limits the ability for the resident labor force to grow.

Unemployment. The City's seasonally-adjusted unemployment rate has been under 3.5% for all of 2016. During the previous economic cycle that peaked in 2007-08, the City's unemployment rate never fell below 4.0%, and had only previously fallen below 3.5% at the height of the dot-com boom in the late 1990s.

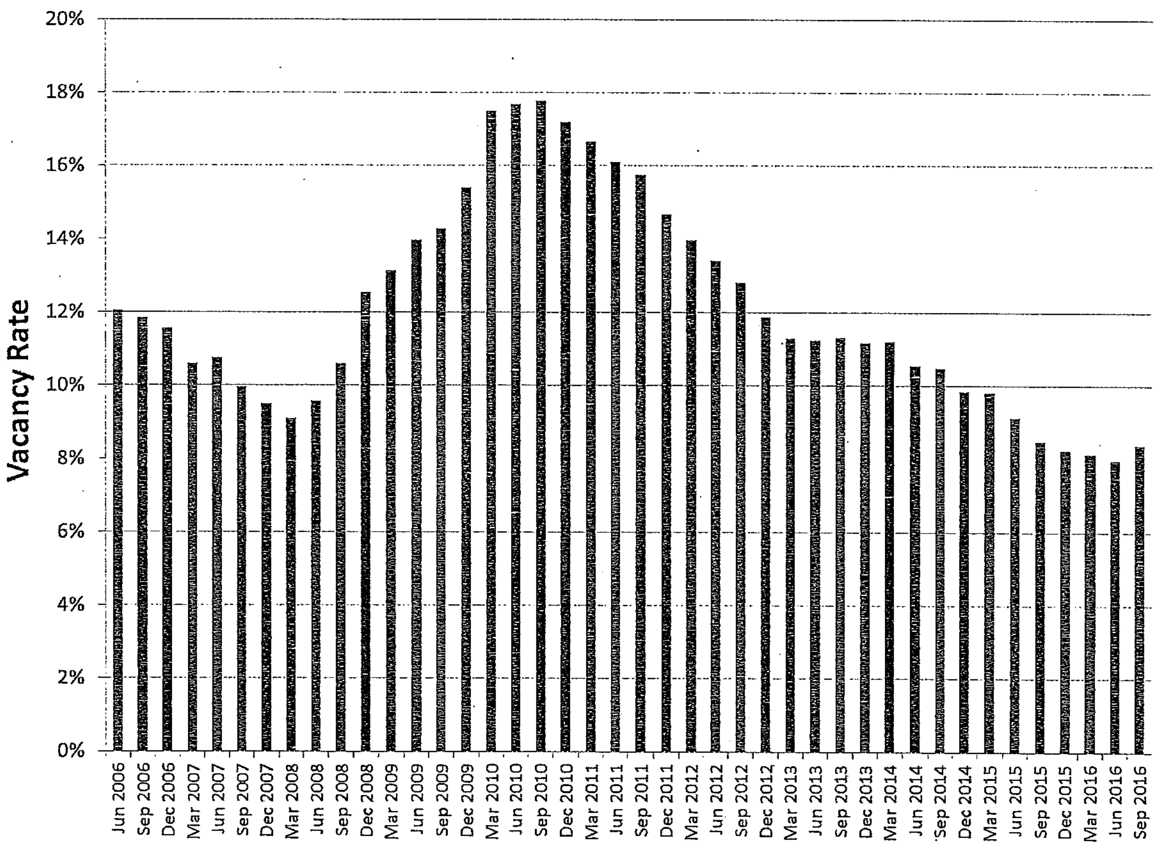
The current 3.5% rate is below what most economists would consider to be the "full employment" rate, and reflects an unusually low number of San Francisco residents looking for work. Given the City's constrained housing market, it is unlikely that the resident labor force can readily expand much further in the short term, and this should lead to a slowdown in the rate of job growth in the City, even if the demand for new hires remains high.

Figure 5: San Francisco Unemployment Rate, Seasonally-Adjusted
July 1990-August 2016



A second infrastructure-related constraint likely to drive a slowdown in employment and tax revenue growth is the office market. While not at historically-low vacancy levels, office vacancy by the 2nd quarter of 2016 was lower than it was any time since 2000. A tight office market limits employment and revenue growth in a manner similar to the tight housing market: even companies that want to add headcount in the City find it hard to find the space to do so. While interest in new development has picked up, even development to the maximum allowed under the City's annual commercial development cap would represent only a small fraction of the annual office employment seen this decade. Office employment in San Francisco can therefore be expected to grow more slowly for the remainder of the decade, irrespective of the state of the broader economy, or the desire of local businesses to hire.

Figure 6: San Francisco Class A Office Vacancy Rates, 2006-2016

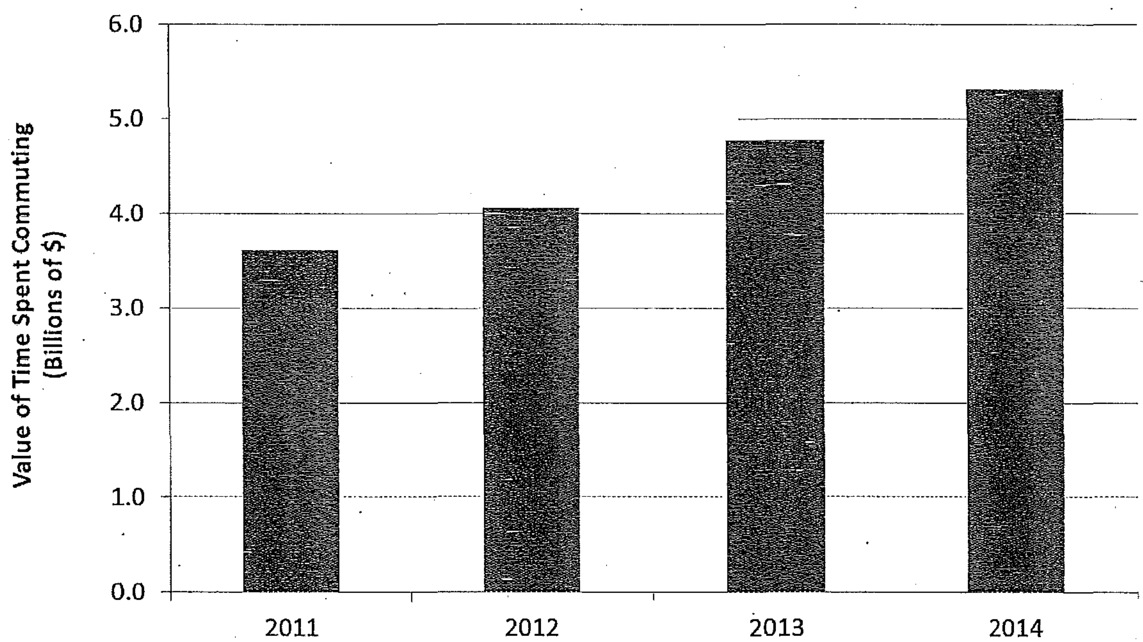


Thirdly, rapid economic growth this decade has placed strains on the region's transportation system, which will likely further limit the City's ability to grow at rates experienced earlier in this decade.

The chart below estimates the value of time lost by San Francisco workers to commuting, between 2011 and 2015. When transportation congestion leads to longer commutes, commuters lose work and leisure opportunities, which are conventionally valued 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 56% in only four years, 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 7: Aggregate Value of Time Spent Commuting by Workers in San Francisco 2011-2015

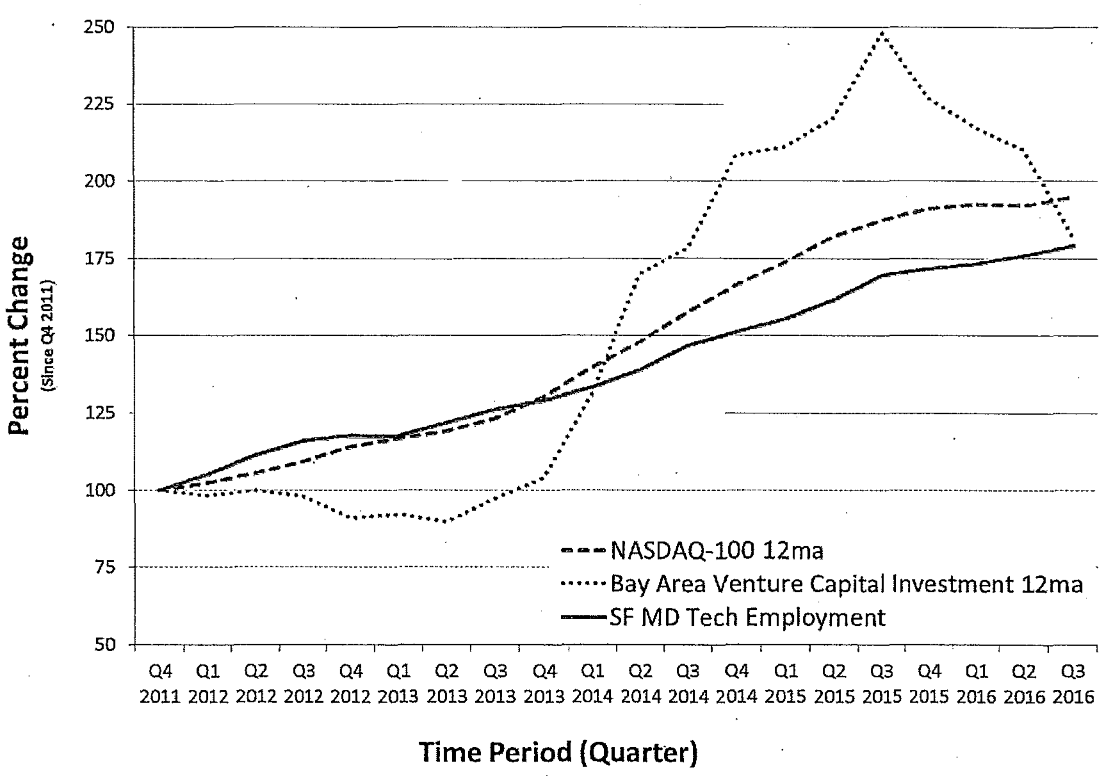


Technology Industry. While infrastructure constraints related to real estate and transportation will likely slow growth in the near term even if economic growth remains strong, there are increasing signs that the technology industry—the engine of so much of the City's growth this decade—may be beginning to slow of its own accord. The fact noted above, that tech employment growth is slowing, is itself an indication. Technology is a high-paying industry that has a greater capacity than other local industries to absorb high housing and labor costs, and high office rents. If it were only a matter of capacity constraints and high rents driving out employment, we would expect tech to withstand it better than other industries, yet the data suggests tech employment growth is slowing *more* than other industries.

Secondly, past experience suggests that the local tech industry is highly sensitive to changes in investors' perceptions of the value of equity in technology companies, particularly as registered by stock price indices such as the NASDAQ-100. When the prices of technology stocks decline, early-stage investment in technology companies often contracts, because investors foresee lower returns. As a result, tech companies that are dependent on new equity investment cannot grow as fast, and the industry's growth slows. In fact, since 1990, changes in the 4-quarter moving average of the NASDAQ-100 statistically account for almost 90% of the changes in total private sector payroll in San Francisco, across all industries, with a 2-quarter lag. The technology stock market, in other words, has been a powerful leading indicator of the City's technology industry and broader economy.

As seen in the chart below, the trends since the summer of 2015 indicate a slowing, but not a decline, in the NASDAQ-100 index (on a 12-month moving average basis). At present, the stock market is at or near an all-time high, buoyed by continuing low interest rates. The 12-month moving average tilted back up in the third quarter of 2016, after leveling off in the third quarter in 2015. That quarter also marked the peak of venture capital investment in the Bay Area, which has fallen 28% in the past year (also on a 12-month moving average basis).

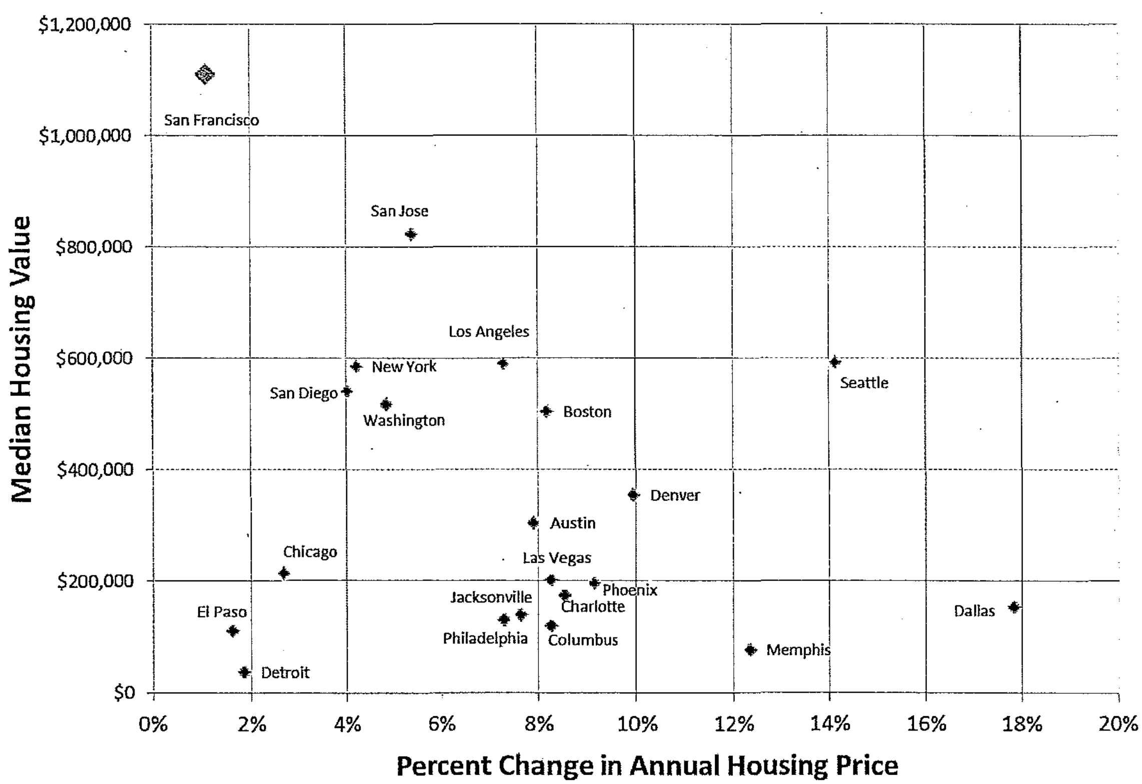
Figure 8: Trends in the NASDAQ-100, Bay Area Venture Investment, and San Francisco Metro Division Tech Employment, 2011-2016



While the data does not point to a tech-driven downturn in the local economy, it does suggest that the slow-down has more to do with the fundamentals of the tech industry's business cycle, than with San Francisco's real estate market. Not only has technology employment growth slowed more than overall employment, but leading indicators of the tech sector like the stock market and venture capital have slowed as well.

Housing. Additionally, there are signs from the housing market that the slowdown of 2016 may have more to do with an ebbing of demand than with infrastructure capacity constraints. Through most of the decade, San Francisco has featured both the nation's most expensive housing, and fastest-appreciating housing prices, among the largest U.S. cities. In the past year, however, growth in San Francisco's housing prices has slowed appreciably. According to Zillow, housing prices in the City have grown by only 1.1% from September 2015 to September 2016, and have in fact declined through calendar year 2016.

Figure 9: Median Housing Value (September 2016) and Annual Change in Housing Prices (September 2015-2016), Large U.S. Cities



Both supply-side factors such as infrastructure constraints, and demand-side factors such as a softening of growth in the technology sector, suggest that San Francisco is unlikely to match its economic performance of the first half of the 2010s in the second half.

LOOKING FORWARD

The base case projection, detailed in the next chapter, assume the economic recovery that began in FY 2009-10 will continue through the forecast period, resulting in continued growth in tax revenues during the next five years. As noted above, the rapid growth rates seen in the early stages of recovery have slowed, 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 2021-22, as the projection assumes, it will mark the longest economic expansion since 1900. The pace of growth will depend heavily on how shifts in the national economy and local technology industry shape employment, income, investment options, and other factors discussed above.

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 2016-17 and FY 2017-18 budget; there were five departments with fixed two-year budgets for the FY 2016-17 and FY 2017-18 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% to 3% of General Fund revenues by FY 2020-21. This report anticipates the General Reserve rising from 2.25% of regular General Fund revenues in FY 2017-18 to 3% in FY 2019-20. 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 an era of increased uncertainty from the Federal government, this planning process will enable San Francisco to more thoughtfully plan for revenue changes and adapt its programs accordingly. Overall, the City will minimize volatility by looking beyond the typical budget horizon, putting in place more stable public service delivery that citizens can expect and rely on.

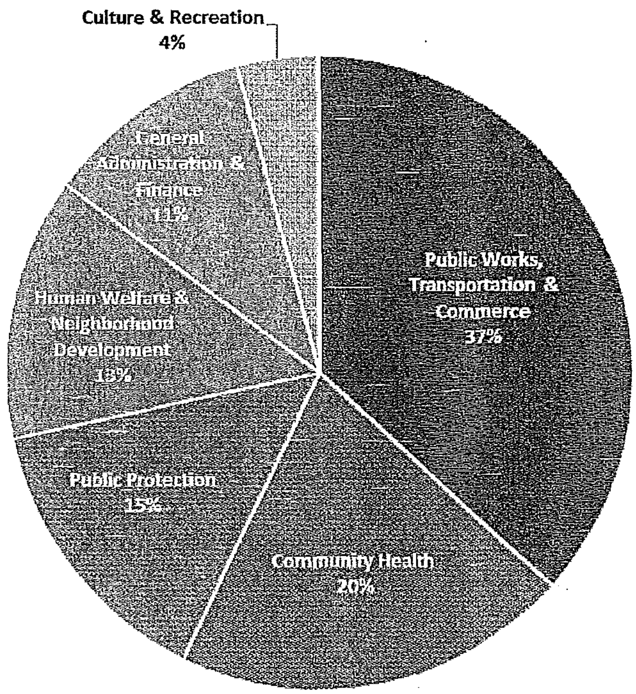
BUDGET OVERVIEW

The City and County of San Francisco's budget for FY 2016-17 is $9.6 billion. Roughly half of the budget, $4.7 billion, is comprised of self-supporting activities at the City's enterprise departments, which focus on city-related business operations and include the Port, the Municipal Transportation Agency, the Airport, the Public Utilities Commission, and others. The remaining 50%, or $4.9 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.

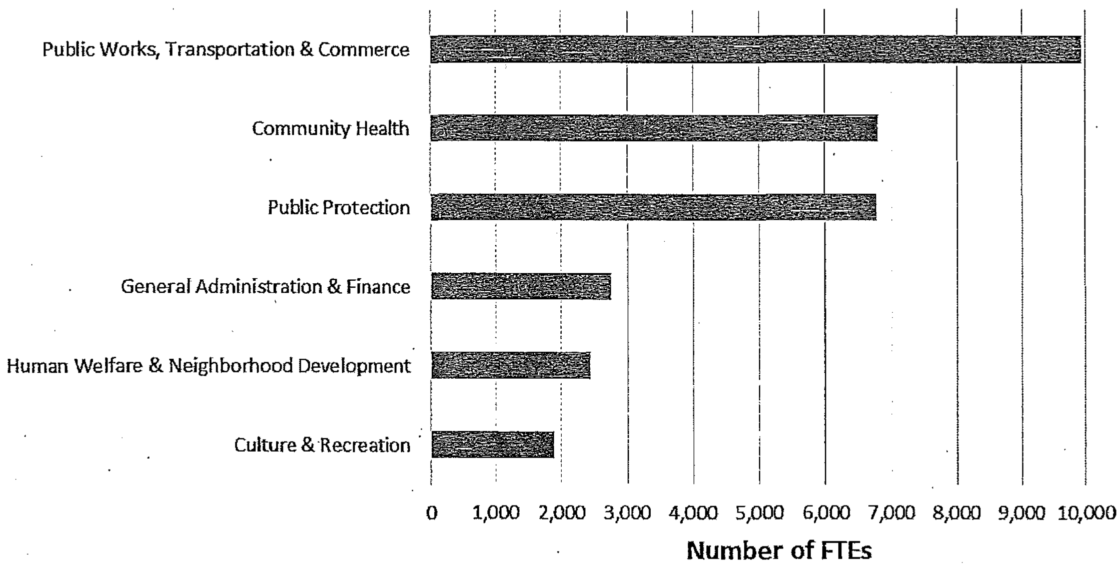
Figure 10 shows the total $9.6 billion citywide budget by major service area. The Public Works, Transportation & Commerce major service area has the largest overall budget, due primarily to the budgets for large enterprise departments.

Figure 10: Total Budget by Major Service Area FY 2016-17



There are 30,626 full-time equivalent positions (FTEs) budgeted and funded between all six major service areas in FY 2016-17. As shown in Figure 11, 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 11: Full Time Equivalent (FTE) Positions by Major Service Area FY 2016-17



FIVE-YEAR OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

San Francisco Administrative Code Section 3.6(b) requires that in each odd-numbered year, the City must submit a Five-Year Financial Plan; in even-numbered years, a similar report, called the Joint Report, must be issued with an update to the remaining four years of the previous year's Five-Year Financial Plan. In both the Five-Year Financial Plan and the Joint Report, the Mayor, the Controller, and the Board of Supervisors' Budget Analyst must forecast expenditures and revenues during the projection period. In the Five-Year Financial Plan, the Mayor's Office must also propose actions to balance revenues and expenditures during each year of the plan and discuss strategic goals and corresponding resources for city departments. This Five-Year Financial Plan provides expenditure and revenue projections for FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22.

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.

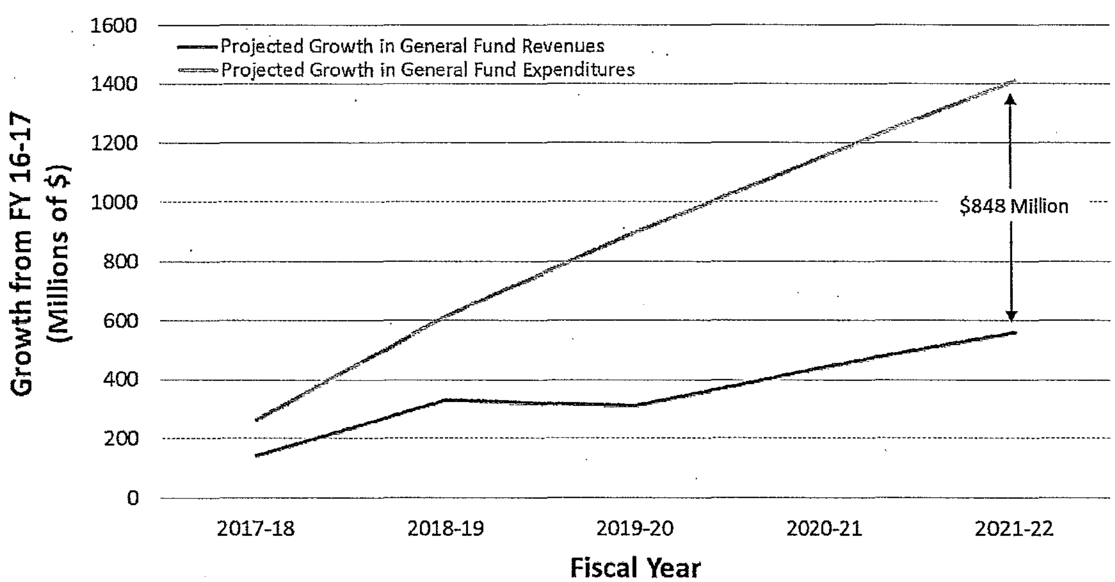
Table 3 summarizes the projected changes in General Fund supported revenues and expenditures over the next five years. As shown in Table 3, this report projects cumulative shortfalls of $119.0 million in FY 2017-18, $283.4 million in FY 2018-19, $584.7 million in FY 2019-20, $713.4 million in FY 2020-21, and $848.4 million in FY 2021-22.

Table 3: Base Case – Summary of FY 2018-22 General Fund-Supported Projected Budgetary Cumulative Surplus/(Shortfall) ($ in millions)

Five Year Projection:	2017-18	2018-19	2019-20	2020-21	2021-22	% Growth
SOURCES Increase / (Decrease)	*143.9*	*328.7*	*312.4*	*442.4*	*559.9*	
Baselines and Reserves	(46.7)	(116.1)	(150.3)	(188.9)	(212.3)	15%
Salaries & Benefits	(145.8)	(273.1)	(428.2)	(574.0)	(698.0)	50%
Citywide Operating Budget Costs	(48.5)	(193.8)	(274.7)	(350.2)	(450.1)	32%
Departmental Costs	(21.9)	(29.1)	(43.8)	(42.7)	(48.0)	3%
USES Increase / (Decrease)	*(262.9)*	*(612.1)*	*(897.1)*	*(1,155.8)*	*(1,408.3)*	*100%*
Projected Surplus / (Shortfall):	**(119.0)**	**(283.4)**	**(584.7)**	**(713.4)**	**(848.4)**	

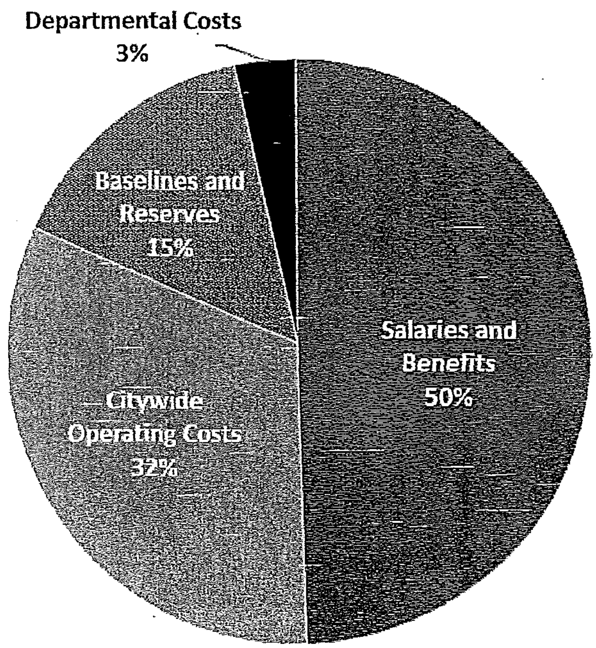
This projection demonstrates that although revenues are growing each year, they are not growing fast enough to keep pace with the increase in projected expenditures. As a result, a gap remains even with a growing economy and tax base. The City currently projects revenue growth of $559.9 million, or 11% over the five-year period of this plan, and expenditure growth of $1,408.3 million, or 29% over the same five-year period, as shown in Figure 12 below.

Figure 12: Projected Growth in General Fund Expenditures and Revenues



Total expenditure growth is shown below in Figure 13, which illustrates that salary and benefit costs represent the largest driver of the City's deficit projection with 50% of the growth over the next five years, or an increase of $698.0 million over the period. Citywide operating costs represent the second largest area of expenditure growth at 32%, or $450.1 million. The next largest drivers of expenditure growth are: Charter-mandated baseline and reserve changes of $212.3 million (15%) and other department specific cost increases of $48.0 million (3%).

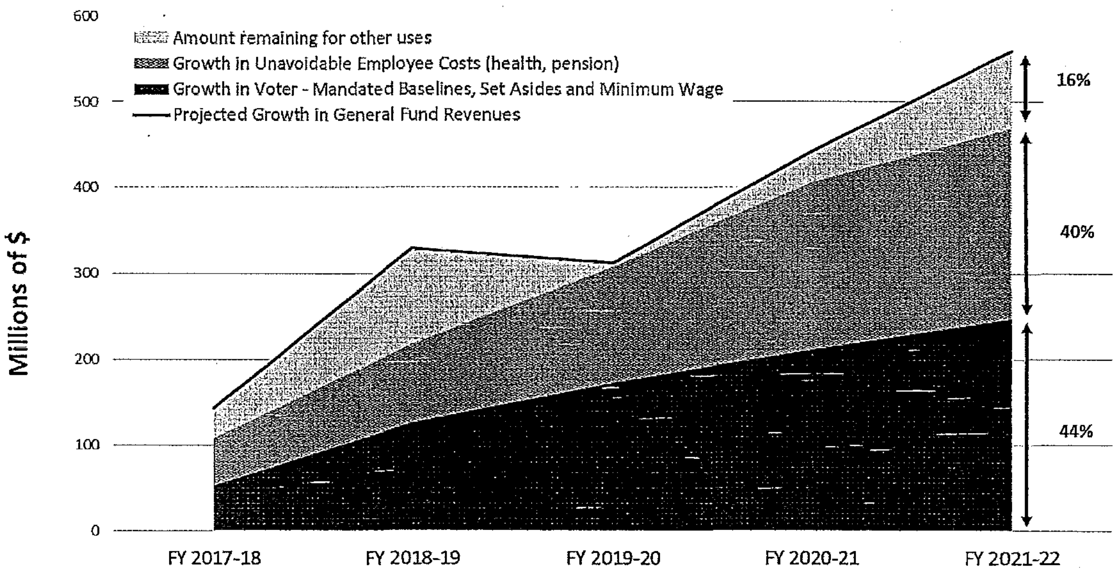
Figure 13: General Fund-Supported Expenditure Increases by Expenditure Type FY 2018-22



While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and additional revenues. 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. Together these mandated costs account will consume 84% of the City's projected revenue during the forecast period, leaving only 16% of revenues available to support all other spending demands. This is depicted graphically below in Figure 14. The top line represents the projected revenue growth over the next five years, with the amounts taken up by mandatory expenditures shown in dark grey. Only 16% remains available for other uses such as employee wage increases, cost-of-doing-business increases for nonprofit service providers, capital and technology investments, and other improvements to services to the public.

Figure 14: Projected General Fund Revenue Growth vs. Mandatory Expenditures



KEY ASSUMPTIONS AFFECTING THE FY 2017-18 THROUGH FY 2021-22 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 2016-17 and FY 2017-18 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 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 seventh year of this expansion.

- **Outcome of the November 2016 Elections:** This report recognizes the outcome of several measures from the November 2016 elections, including several that have a material impact on the City's General Fund. Notable outcomes include the failure of Proposition K, a general sales tax increase, which would have funded homelessness and transportation expenditures. Additionally, voters approved two new revenue measures in November 2016, including an increase on property transfer tax on transactions over $5 million (Proposition W) and a tax on sugar sweetened beverages (Proposition V). The revenues from Proposition W and Proposition V are assumed in this projection. This report also assumes that these news revenues will be allocated to support new expenditures, and therefore have no net impact on the budget projection. To the extent that final plans differ from this assumption, it will change these forecasts. For full details of the revenue and expenditures related to the election results, see Table 6 below.

  Other measures with an impact on the General Fund include the Recreation and Parks baseline passed by voters in June 2016; the Dignity Fund baseline (Proposition I) that provides funding for seniors and adults with disabilities passed in November 2016; and one-time costs assumed with the passage of Proposition T, also on the November 2016 ballot, which restricts gifts and campaign contributions from lobbyists.

- **Preliminary estimate of state and federal budget changes:** This report does not assume significant changes in funding at the state and federal levels, although many uncertainties exist, particularly with the change of the federal administration starting in January of 2017. Particular areas of concern include changes or repealing of the Affordable Care Act and increased need for service or reductions in funding related to the City's immigrant population and Sanctuary City status. The City will continue to monitor state and federal policy and budget processes or changes. The update to this report in March 2017 is likely to contain additional details on potential impacts related to changes at the federal level.

- **Assumes inflationary increases for most employees in line with CPI:** For police officers and firefighters, the plan assumes negotiated rates through FY 2017-18 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 2017. Therefore beginning in FY 2017-18 this projection projects negotiated 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 a 3.13% in FY 2017-18, 3.25% in FY 2018-19, 3.09% in FY 2019-20, 3.01% in FY 2020-21, and 3.06% in FY 2021-22. For Police Officers' and Firefighters' unions this report assumes negotiated rate increase of 2% for FY 2017-18, 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:** The previous Five-Year Financial Plan, released in December 2014, anticipated a decline in retirement costs after FY 2014-15. However, three main factors have led to a reversal of this downward trend including:

  - Updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected;

  - An appellate court ruling against the City which invalidated certain voter-adopted restrictions that would have placed additional conditions required to be met for retirees to receive a supplemental cost-of-living increase; and

- Lower than expected actual FY 2014-15 and FY 2015-16 investment returns.

This report assumes that retirement costs continue to increase, with slight declines in the final year of this projection. SFERS contribution rates are based on updated projections prepared by the Retirement System's Actuary incorporating amortization of unfunded actuarial accrued liability arising from the 2013 and 2014 Supplemental COLAs for Post-1996 Retirees in September 2016. The plan does not assume supplemental COLAs will be paid to employees who retired prior to 1996. The plan assumes continuation of the SFERS Board adopted long term investment return assumptions of 7.5% for FY 2016-17 onwards, and a 1.3% return in FY 2015-16 based on actuals. Projections reflect employee contributions to retirement required under Proposition C. For CalPERS members, this report includes rate increases starting in FY 2015-16 due to adjusted mortality assumptions adopted by the CalPERS Board in February 2014. Employer contribution rates in each year for both SFERS and CalPERS members are detailed later in the base case section of this report.

- **Health and dental insurance cost increases:** This projection assumes that the employer share of health and dental insurance costs for active employees will increase by approximately 7% per year. The Health Service System anticipates negotiating rates for calendar year 2018 in late spring 2017, to be adopted by July 2017. For retiree health benefits, this report assumes that the City will continue its pay-as-you-go practice of funding the amounts currently due for retirees. The growth in the retiree obligation has been estimated based on projected cost increases of approximately 9% 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, as projected by the California Department of Finance and Moody's, 3.13% for FY 2017-18, 3.25% for FY 2018-19, 3.09% for FY 2019-20, 3.01% for FY 2020-21 and 3.06% for FY 2021-22. The projection reflects the adopted FY 2017-18 budget, except for a CPI increase for community-based organization contracts in FY 2017-18 which was not included in the adopted budget but is now assumed in this projection.

- **Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment:** This projection assumes the adopted FY 2017-18 funding levels for capital, equipment, and information technology. For capital in the remaining four out years, the report assumes funding will increase based on the levels assumed in the City's FY 2015-25 Ten-Year Capital Plan, which will be released in March 2017. However, one exception to this is that the adopted Capital Plan level is now projected to be reduced by $33.4 million per year in each year of this projection due to the loss of Proposition K on the November 2016 ballot. Proposition K was a revenue measure, which was slated to fund $33.4 million of the road repaving program.

  For equipment, starting in FY 2018-19, the report assumes that the equipment budget will increase by CPI in each year from the adopted FY 2016-17 funding level. For equipment, the plan assumes the budgeted level of funding in FY 2016-17 and FY 2017-18. In the subsequent four fiscal years, the report assumes that the equipment budget will increase by CPI each year.

  The Information Technology investment projection assumes partial funding of annual projects in the City's Information and Communications Technology (ICT) Plan in FY 2017-18 in accordance with the most recent budget, full funding in accordance with the ICT Plan in FY 2018-19 and FY 2019-20, and growth of 10% per year in FY 2020-21 and FY 2021-22. This report also contains assumptions around the separate funding for major city IT investments. This report assumes full funding for Major IT projects in accordance with the ICT Plan through FY 2019-20, and growth of 10% per year in FY 2020-21 and FY 2021-22. Similar to the Ten-Year Capital Plan, the City's updated ICT Plan will come out in March 2017.

- **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% to 3% 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 seven years ago. It would be an historic anomaly to not experience a recession within the projection period of this report. Because of the difficulty of projecting the timing of a recession, this report assumes slower rates of growth, rather than declines, in revenue in the final three years of the report. However, it is important for the City to closely monitor economic conditions over the coming years.
- **Outcome of state and federal budget-balancing efforts:** At the time of report issuance, state and federal budget deliberations have not yet begun. Thus, uncertainty remains around the local effects of state and federal budget-balancing efforts. Additionally, potential policy changes and budgetary impacts under the transition of the Federal administration remain uncertain. The City is closely monitoring potential changes in particular related to the Affordable Care Act and immigration policy.
- **Collective bargaining agreement negotiations:** Other than approved wage increases in collective bargaining agreements and inflation on open contracts in FY 2017-18 through FY 2021-22, 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 may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2017-18 and FY 2018-19 budget. No increases above those budgeted in the adopted FY 2016-17 and FY 2017-18 budget are assumed in this projection.
- **Planning for growth:** The City is currently experiencing growth in both employment and population. As the City's population increases, there may be a need for additional services for the public such as more parks, transportation, first responders, health care providers, and street infrastructure improvements to accommodate more users of the public right-of-way. This report does not assume increased costs to specifically address future growth; however, this represents a risk and could increase projected deficits in the future.
- **Deficits will differ if new budget commitments made:** If voters approve additional increases to existing baselines, set-asides, or other mandatory spending increases without commensurate revenue increases from new funding sources, this will grow the projected deficits shown in this report. Additionally, the report assumes that the budget for FY 2016-17, and all five years of this report, is "rebalanced" after

the November 2016 election results. Therefore, any increase or decrease in spending aside from new revenue approved by the voters in this election would increase or decrease the deficits accordingly.

- **Public Health – Electronic Health Records (EHR):** Over the next five years the Department of Public Health (DPH) will develop and implement a new integrated electronic health record (EHR) system which will replace its existing suite of clinical, financial, and billing systems. Over the last three years, DPH has implemented initiatives to fortify its existing IT infrastructure to create a solid foundation for successful implementation and operation of this critical system. Prior consultant studies have estimated one-time implementation costs of approximately $125.0 million over five years, which does not include any ongoing operational costs. The Department is currently issuing a request for proposals (RFP) this winter. Funding for the project is anticipated to come from departmental revenues, reallocation of current expenditures, and philanthropic support.

Tables 4 and 5, below, in addition to the following narrative explain revenue and expenditure changes in the citywide deficit in detail. First, revenue changes will be discussed, then expenditures changes, including: changes to baselines and reserves; salary and benefit costs; citywide operating costs; and department specific changes.

Table 4: Base Case – Key Changes to General Fund-Supported – INCREMENTAL CHANGE Sources & Uses FY 2018-22 ($ in millions)

	2017-18	2018-19	2019-20	2020-21	2021-22
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	162.0	141.3	118.6	107.4	106.6
Change in One-Time Sources	(119.0)	76.0	(152.0)	-	-
Use of Reserves for One-time Impacts	60.0	(60.0)	-	-	-
Children's Fund Property Tax Setaside Revenue	11.8	9.9	3.4	3.2	3.4
Department of Public Health Revenues	(1.4)	7.3	6.8	14.3	2.7
OCII Tax Increment	(11.5)	0.1	0.0	0.1	0.1
November 2016 Election - Revenues (net of baselines)	32.8	5.8	(0.0)	(0.0)	-
Other General Fund Support	9.2	4.4	7.0	5.0	4.7
TOTAL CHANGES TO SOURCES	**143.9**	**184.8**	**(16.3)**	**130.0**	**117.5**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(14.1)	(20.2)	(17.0)	(16.9)	(13.3)
MTA New Central Subway	-	(10.3)	(3.4)	(0.4)	(0.4)
Children's Fund and Public Education Enrichment Fund	(17.1)	(19.2)	(10.8)	(8.7)	(9.7)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Dignity Fund	(6.0)	(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	(4.2)	(4.6)	(3.3)	(3.0)	(2.9)
Deposits to General Reserve	5.8	(0.7)	0.0	(0.3)	12.4
Other Contributions to Reserves	(5.3)	(5.5)	9.1	(0.5)	(0.5)
Subtotal Baselines & Reserves	**(46.7)**	**(69.4)**	**(34.2)**	**(38.6)**	**(23.3)**
Salaries & Benefits					
Annualization of Partial Year Positions	(20.3)	-	-	-	-
Previously Negotiated Closed Labor Agreements	(12.6)	-	-	-	-
Projected Costs of Open Labor Agreements	(66.2)	(91.1)	(92.1)	(95.3)	(95.4)
Health & Dental Benefits - Current & Retired Employees	(25.5)	(29.2)	(33.0)	(33.0)	(35.5)
Retirement Benefits - Employer Contribution Rates	(29.9)	(6.9)	(10.3)	(26.5)	8.0
Other Salaries and Benefits Savings / (Costs)	8.7	-	(19.8)	9.0	(1.1)
Subtotal Salaries & Benefits	**(145.8)**	**(127.3)**	**(155.1)**	**(145.7)**	**(124.0)**
Citywide Operating Budget Costs					
Minimum Wage	(6.7)	(10.3)	(3.2)	(0.6)	(0.6)
Capital, Equipment, & Technology	29.3	(40.4)	(10.5)	(12.7)	(23.2)
Inflation on non-personnel costs and grants to non-profits	(19.9)	(52.4)	(43.4)	(43.9)	(45.9)
Debt Service & Real Estate	(16.7)	(28.5)	(19.0)	(13.8)	(25.4)
Sewer, Water, and Power Rates	(1.9)	(4.3)	(1.5)	(1.6)	(1.5)
November 2016 Election - Expenditures	(32.8)	(5.8)	0.0	0.0	-
Other Citywide Costs	0.2	(3.7)	(3.4)	(3.0)	(3.2)
Subtotal Citywide Operating Budget Costs	**(48.5)**	**(145.3)**	**(80.9)**	**(75.5)**	**(99.9)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(13.4)	6.1	11.0	-	-
Elections - Number of Scheduled Elections	(0.8)	(0.3)	(5.1)	4.5	(0.3)
Ethics Commission - Public Financing of Elections	(1.3)	0.7	(0.7)	(0.0)	(0.0)
Golden State Warriors Event Center	0.7	(0.1)	(7.7)	(0.3)	(0.3)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(1.2)	(4.1)	(6.2)	(4.8)	(0.7)
Human Services Agency - Aid	(5.3)	(3.1)	(3.5)	(3.3)	(3.6)
Public Health - Operating and one-time costs for capital projects	(6.8)	(6.1)	0.0	8.6	0.8
All Other Departmental Savings / (Costs)	6.2	(0.4)	(2.5)	(3.5)	(1.1)
Subtotal Departmental Costs	**(21.9)**	**(7.2)**	**(14.7)**	**1.2**	**(5.3)**
TOTAL CHANGES TO USES	**(262.9)**	**(349.2)**	**(285.0)**	**(258.7)**	**(252.5)**
Projected Surplus (Shortfall) vs. Prior Year	**(119.0)**	**(164.4)**	**(301.3)**	**(128.7)**	**(135.0)**
Cumulative Projected Surplus (Shortfall)	**(119.0)**	**(283.4)**	**(584.7)**	**(713.4)**	**(848.4)**

* Results of San Francisco November 2016 election are reflected here; for election details see Table 6.

Table 5: Base Case – Key Changes to General Fund-Supported – CUMULATIVE CHANGE Sources & Uses FY 2018-22 ($ in millions)

	2017-18	2018-19	2019-20	2020-21	2021-22
SOURCES Increase / (Decrease)					
General Fund Taxes, Revenues and Transfers net of items below	162.0	303.3	421.9	529.3	635.9
Change in One-Time Sources	(119.0)	(43.0)	(195.0)	(195.0)	(195.0)
Use of Reserves for One-time Impacts	60.0	-	-	-	-
Children's Fund Property Tax Setaside Revenue	11.8	21.7	25.1	28.3	31.7
Department of Public Health Revenues	(1.4)	5.8	12.6	26.9	29.7
OCII Tax Increment	(11.5)	(11.4)	(11.3)	(11.3)	(11.1)
November 2016 Election - Revenues (net of baselines)	32.8	38.6	38.5	38.5	38.5
Other General Fund Support	9.2	13.6	20.6	25.6	30.3
TOTAL CHANGES TO SOURCES	**143.9**	**328.7**	**312.4**	**442.4**	**559.9**
USES Decrease / (Increase)					
Baselines & Reserves					
Municipal Transportation Agency (MTA) Baselines	(14.1)	(34.3)	(51.4)	(68.3)	(81.6)
MTA New Central Subway	-	(10.3)	(13.8)	(14.2)	(14.7)
Children's Fund and Public Education Enrichment Fund	(17.1)	(36.2)	(47.1)	(55.8)	(65.5)
Housing Trust Fund	(2.8)	(5.6)	(8.4)	(11.2)	(14.0)
Dignity Fund	(6.0)	(9.0)	(12.0)	(15.0)	(18.0)
Recreation and Parks Baseline	(3.0)	(6.0)	(9.0)	(12.0)	(15.0)
All Other Baselines	(4.2)	(8.8)	(12.1)	(15.1)	(18.0)
Deposits to General Reserve	5.8	5.1	5.1	4.8	17.2
Other Contributions to Reserves	(5.3)	(10.8)	(1.7)	(2.1)	(2.6)
Subtotal Baselines & Reserves	**(46.7)**	**(116.1)**	**(150.3)**	**(188.9)**	**(212.3)**
Salaries & Benefits					
Annualization of Partial Year Positions	(20.3)	(20.3)	(20.3)	(20.3)	(20.3)
Previously Negotiated Closed Labor Agreements	(12.6)	(12.6)	(12.6)	(12.6)	(12.6)
Projected Costs of Open Labor Agreements	(66.2)	(157.4)	(249.4)	(344.7)	(440.1)
Health & Dental Benefits - Current & Retired Employees	(25.5)	(54.8)	(87.7)	(120.7)	(156.1)
Retirement Benefits - Employer Contribution Rates	(29.9)	(36.8)	(47.1)	(73.7)	(65.7)
Other Salaries and Benefits Savings / (Costs)	8.7	8.7	(11.1)	(2.1)	(3.1)
Subtotal Salaries & Benefits	**(145.8)**	**(273.1)**	**(428.2)**	**(574.0)**	**(698.0)**
Citywide Operating Budget Costs					
Minimum Wage	(6.7)	(17.0)	(20.2)	(20.8)	(21.4)
Capital, Equipment, & Technology	29.3	(11.0)	(21.5)	(34.2)	(57.4)
Inflation on non-personnel costs and grants to non-profits	(19.9)	(72.3)	(115.8)	(159.7)	(205.6)
Debt Service & Real Estate	(16.7)	(45.1)	(64.2)	(77.9)	(103.3)
Sewer, Water, and Power Rates	(1.9)	(6.2)	(7.7)	(9.3)	(10.8)
November 2016 Election - Expenditures	(32.8)	(38.6)	(38.5)	(38.5)	(38.5)
Other Citywide Costs	0.2	(3.5)	(6.9)	(9.9)	(13.1)
Subtotal Citywide Operating Budget Costs	**(48.5)**	**(193.8)**	**(274.7)**	**(350.2)**	**(450.1)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(13.4)	(7.3)	3.7	3.7	3.7
Elections - Number of Scheduled Elections	(0.8)	(1.1)	(6.1)	(1.7)	(2.0)
Ethics Commission - Public Financing of Elections	(1.3)	(0.6)	(1.4)	(1.4)	(1.4)
Golden State Warriors Event Center	0.7	0.7	(7.1)	(7.4)	(7.7)
Mayor's Office of Housing - HOPE SF and Local Operating Subsidy	(1.2)	(5.3)	(11.5)	(16.3)	(17.1)
Human Services Agency - Aid	(5.3)	(8.3)	(11.9)	(15.2)	(18.8)
Public Health - Operating and one-time costs for capital projects	(6.8)	(12.9)	(12.8)	(4.2)	(3.4)
All Other Departmental Savings / (Costs)	6.2	5.8	3.3	(0.2)	(1.3)
Subtotal Departmental Costs	**(21.9)**	**(29.1)**	**(43.8)**	**(42.7)**	**(48.0)**
TOTAL CHANGES TO USES	**(262.9)**	**(612.1)**	**(897.1)**	**(1,155.8)**	**(1,408.3)**
Cumulative Projected Surplus (Shortfall)	**(119.0)**	**(283.4)**	**(584.7)**	**(713.4)**	**(848.4)**

* Results of San Francisco November 2016 election are reflected here; for election details see Table 6.

DETAIL BASE CASE PROJECTION

CITYWIDE REVENUE PROJECTIONS

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

General Fund Taxes, Revenues & Transfers

General Context Underlying Revenue Estimates

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.They 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 2015-16 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.

Additionally, this projection takes into account the passage of Propositions V (sugar sweetened beverage tax) and W (transfer tax), and the failure of Proposition K (general sales tax). Key assumptions regarding these three most local measures are outlined in Table 6.

Table 6: Summary of San Francisco November 2016 Election Cumulative ($ Millions)

	ADOPTED Budget		PROJECTED Budget	
Revenue Impact from Election	**FY 2016-17**	**FY 2017-18**	**FY 2017-18**	**FY 2018-19**
Sales Tax Increase - Prop. K	37.5	155.3	-	-
Transfer Tax - Prop. W (net of baselines)	-	-	27.0	27.0
Sugar Sweetened Beverage Tax - Prop. V (net of baselines)	-	-	5.8	11.6
Subtotal - Revenues	**37.5**	**155.3**	**32.8**	**38.6**
Expenditure Plan from Election				
Street Repaving	(8.1)	(33.4)	-	-
Transit Affordability, Muni Fleet & Facilities	(7.4)	(30.9)	-	-
Regional Transit, Complete Streets & Transit Expansion	(8.7)	(36.0)	-	-
Homelessness & Mental Health	(12.1)	(50.2)	-	-
Reserves	(1.2)	(4.8)	-	-
Election Revenue Supported Expenditures	-	-	(32.8)	(38.6)
Subtotal - Expenditures	**(37.5)**	**(155.3)**	**(32.8)**	**(38.6)**
Total - Surplus / (Shortfall)	**-**	**-**	**-**	**-**

The adopted FY 2016-17 and FY 2017-18 budget assumed increased revenues of $37.5 million in FY 2016-17, growing to $155.3 million starting in FY 2017-18 to support spending on homelessness and transportation. Both the assumed revenues and expenditures in the FY 2016-17 and FY 2017-18 adopted budget were placed on reserve pending the results of the election. The increase in sales tax (Proposition K) failed to garner enough votes to secure a majority, and as a result the Mayor cancelled the set-asides related to homelessness and transportation outlined in Proposition J. The plan updates the projections starting in FY 2017-18 by reducing both the $155.3 million in revenue and expenditures.

Voters approved two new revenue measures in November 2016, including an increase on property transfer tax on transactions over $5 million (Proposition W) and a tax on sugar sweetened beverages (Proposition V). These revenues were not assumed in the adopted FY 2016-17 and FY 2017-18 budget. The combined revenues from Proposition W and Proposition V, after accounting for baseline contributions, are expected to be $32.8 million in FY 2017-18 and growing to reach a total of $38.6 million in FY 2018-19, and are assumed in this projection. This report also assumes that these new revenues will be allocated to support new expenditures, and therefore have no net impact on projected shortfalls.

Currently, there are two supplemental appropriations pending at the Board of Supervisors; one funded through new revenue from Proposition W for a free City College program and another from the City's reserves for legal support for immigrants. This report does not expressly assume the passage of either of these supplementals, but if funded both would fit within the additional revenue projected after the election. Additionally, the Mayor published a plan to use some of the revenue generated from Proposition W and newly identified federal funding to support spending on homelessness services, Proposition E the new voter approved street tree set-aside, in addition to allocations for free City College and legal supports for immigrants. It is a policy choice for the Mayor and the Board of Supervisors on how to balance these various revenues and expenditures; this report makes no assumption regarding specific choices other than a financial assumption that they are balanced. To the extent that final plans differ from this assumption, it will change these forecasts.

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 $1,412 million in FY 2016-17 to an estimated $1,760 million in FY 2021-22. 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.

  For FY 2017-18, the change in the California CPI (measured October-to-October of the previous two years) is the maximum 2%. The California CPI is assumed to remain at 2% each fiscal year through FY 2021-22.

  For changes in ownership and new construction, it is assumed that an additional 3% of secured roll growth occurs in FY 2017-18 based upon year-to-date Assessor activity. For FY 2018-19 through FY 2021-22, at least 2% of secured roll growth is anticipated each fiscal year. Current construction projects and changes in ownership of new, large residential and commercial buildings (anticipated to add at least $20 million of assessed value per site) are expected to add $2.8 billion in FY 2017-18, $4.7 billion in FY 2018-19, $1.6 billion in FY 2019-20, and $700 million in both FY 2020-21 and FY 2021-22 to the secured assessment roll beyond the noted percentage growth assumptions.

  The state assessed board roll and the unsecured roll comprise about 7.9% of the overall taxable property values in San Francisco and both tend to change in less predictable manners. In this plan, the board roll value is assumed to remain at the FY 2016-17 value of $3.1 billion, and the unsecured roll is assumed to grow at an annual rate of 1% from the FY 2016-17 value of $13.8 billion through FY 2021-22.

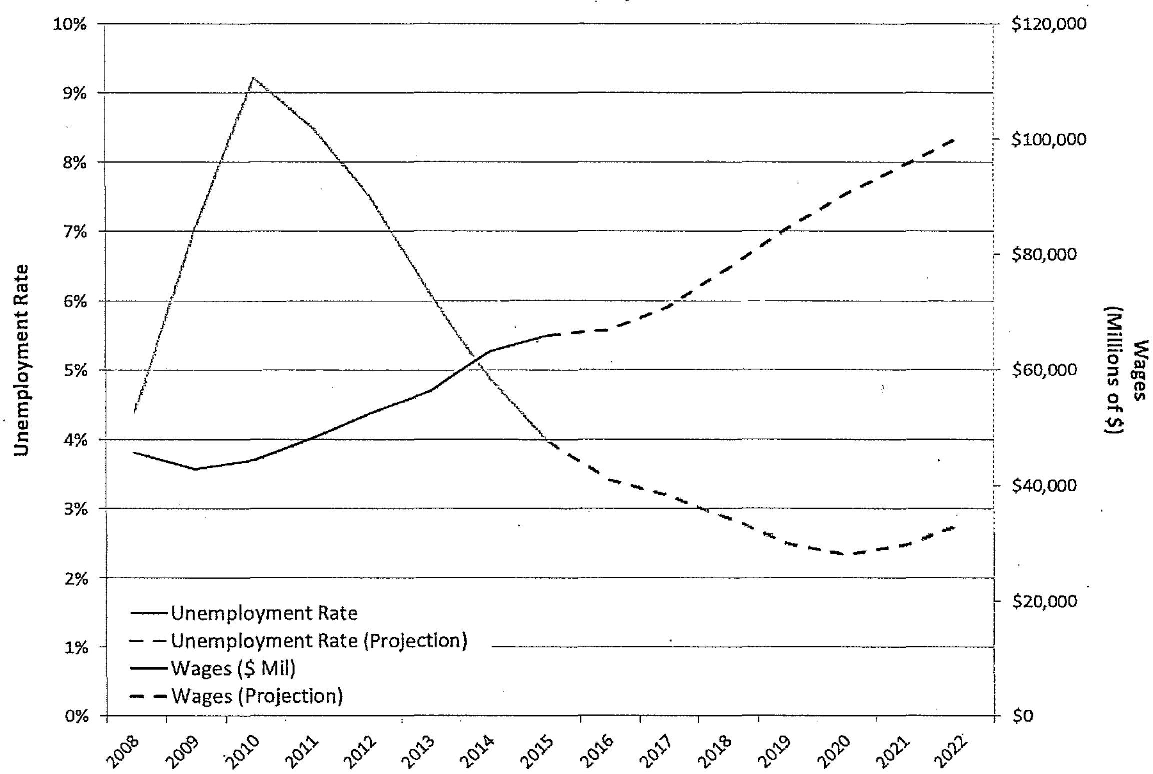
- **Supplemental and escape assessments:** Supplemental assessments capture changes in value for the portion of the tax year remaining following a trigger date that results in a change in the base year assessed value of a property. The escape assessment captures a full year's increase in assessed value up to four years after the trigger date occurred. This plan assumes supplemental and escape assessment revenue of $185 million in FY 2015-16, declining 10% per year through FY 2021-22 as the volume and magnitude of escape assessments potentially decreases. Supplemental and escape assessments have traditionally been a significant source of variance in property tax revenues.
- **Anticipated future increase in AAB reserve requirements:** General Fund property tax revenues set-aside to fund Assessment Appeals Board (AAB) decisions is assumed at $0 for FY 2017-18, but then anticipated to step up by an additional $5 million per year from $5 million deposited in FY 2018-19 to $20 million deposited in FY 2021-22. The number of open assessment appeals has declined significantly from 7,421 at the start of FY 2014-15 with $82.6 billion in assessed value at risk down to 1,727 cases as of the start of FY 2016-17 with a total of $28.5 billion in assessed value under appeal.
- **Change in San Francisco Children's Fund property tax allocation factor:** San Francisco voters approved Proposition C on November 4, 2014. Proposition C renews and increases the property tax set-aside for the San Francisco's Children and Youth Fund. The Children and Youth Fund allocation factor has already increased from $0.0300 in FY 2014-15 when Proposition C passed to $0.0350 as of FY 2016-17, and the allocation is set to increase to $0.0375 in FY 2017-18 and to $0.0400 in FY 2018-19 on each $100.00 valuation of taxable property. This reduces General Fund property taxes by the same factor.

Business Taxes

Business taxes include payroll, business registration fees, and gross receipts taxes. Revenues from business taxes and registration fees follow economic conditions in the City and grew strongly from FY 2010-11 to FY 2013-14 reflecting underlying gains in city employment and wages during the period as seen in Figure 15. Business tax revenues are sensitive to changes in the economic condition of the City. The two main factors that determine the level of revenue generated by the business tax are employment and wages. As shown in Figure 15, wages are projected to grow steadily between 2016 and 2020 while unemployment is projected to flat-line. Overall, business taxes are projected to grow over the five-year time period.

In November 2012, Proposition E was passed to replace a 1.5% payroll tax on businesses with a tax on a business' gross receipts at rates that vary by size and type of business. During this five-year period, the new tax structure is being phased-in as the payroll tax is phased out. The phase-in is designed to adjust tax rates in order to generate the same amount of revenue as the original 1.5% payroll tax. The gross receipts tax applies only to businesses with $1 million or more in gross receipts. Revenue collected from gross receipts tax will vary based on implementation factors and any policy changes. The City is beginning to implement a new and far more complex tax structure and revenues may be sensitive to the administrative burdens of the new system. The projections include an assumption of administrative and implementation risk associated with the transition to a new business tax structure, diminishing as it is implemented. A large component of the 8.2% growth from FY 2016-17 to FY 2017-18 is an assumed full phase-out of these risks; underlying growth is projected to be 5% in that year.

Figure 15: San Francisco Unemployment and Wages
2008-2022 Actuals and Projected

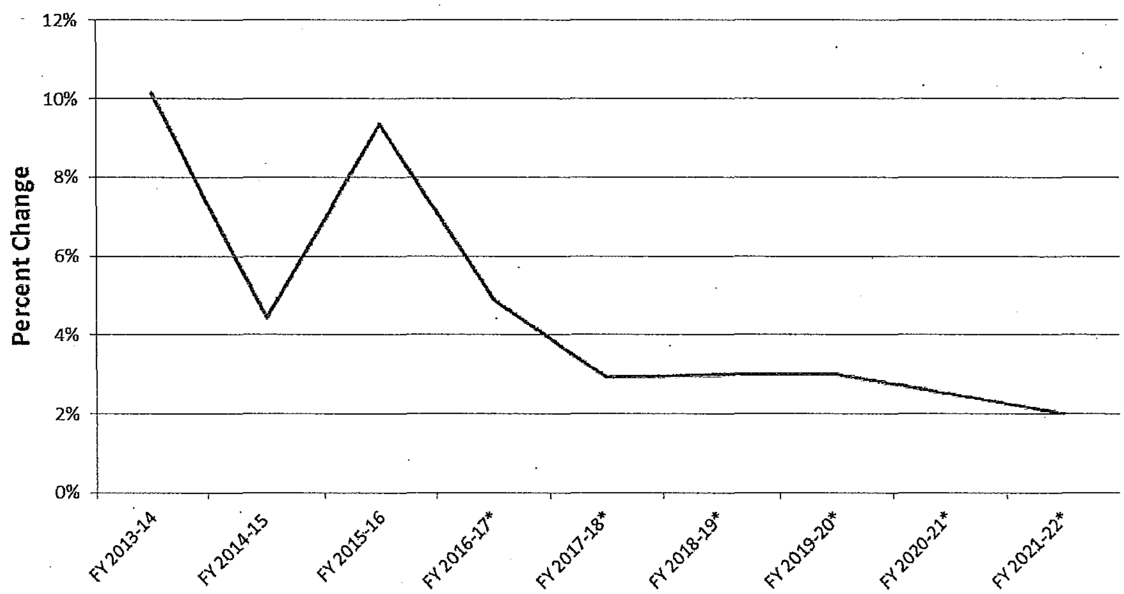


Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Moody's Analytics Forecast

Sales Tax

Sales tax is expected to grow from a budget of $200.1 million in FY 2016-17 to $223.2 million by FY 2021-22. Consistent with the failure of Proposition K on the 2016 November ballot, this projection excludes the proposed 0.75 cent general sales tax that was previously assumed in the FY 2016-17 and FY 2017-18 adopted budgets, and accounts for the $237.5 million in the FY 2016-17 adopted budget. As displayed in Figure 16, growth rates have continued to moderate as the expansion matures, from 8.9% in FY 2013-14, to 5.4% in FY 2014-15, and 3.0% in FY 2015-16. These lower growth rates of 3% and below are projected to continue due to a combination of factors including: the expectation that the job and housing markets are at near full capacity; possible negative impacts on the county pool revenues caused by increased online sales; a decline in luxury goods sales, which has historically been one of the major sources of local sales tax revenues; concerns about restaurants having reached a saturation point; and slow growth in fuel prices.

Figure 16: Changes in Local Sales Tax Revenues
FY 2013-14 through FY 2021-22



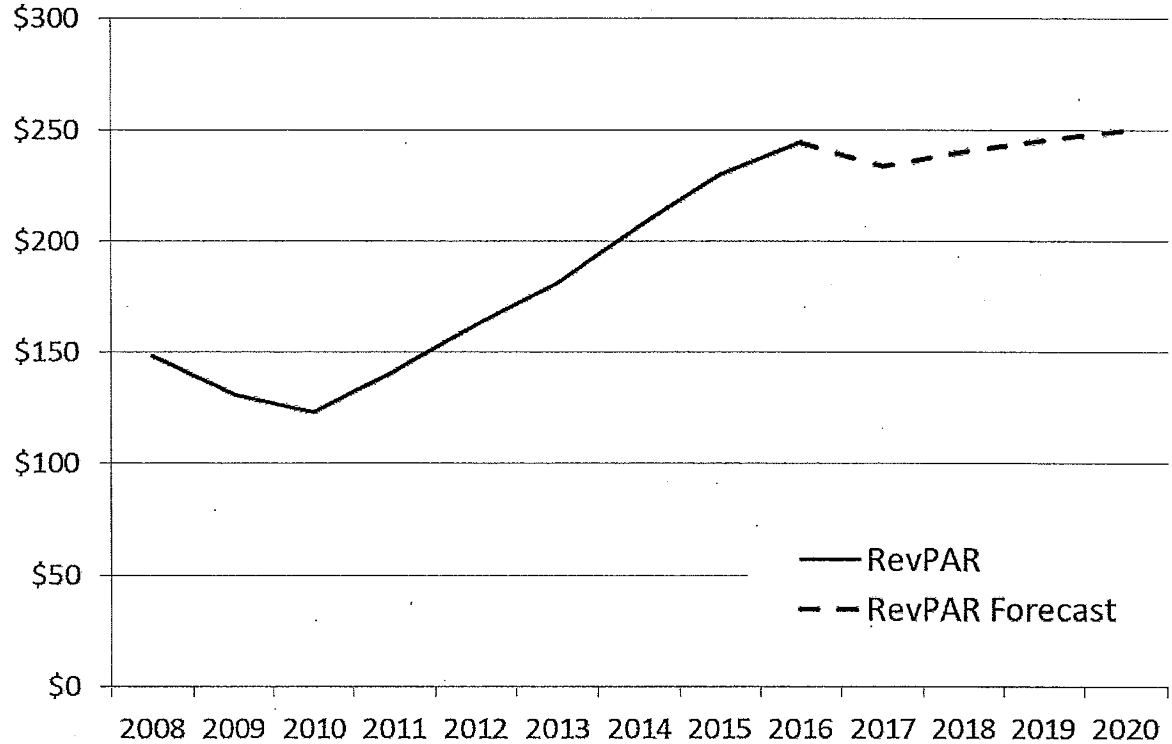
*Projected Figure

Hotel Tax

Hotel Tax is projected to grow, but at a somewhat slower pace than in prior years, from a budget of $409.3 in FY 2016-17 to $473.0 million in FY 2021-22. 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). RevPAR is projected to grow slowly compared to the past six years. Recent growth has been fueled by generally strong demand from all segments of the market (tourist, convention, and business) as a result of San Francisco's strong local economy. In addition, constrained hotel room supply has resulted in large increases in the average daily room rate, particularly at times when large events or conferences occur. In the near term, the City expects to see less convention-related business due to the Moscone Convention Center closure, which will lead to less revenue growth during this period. Figure 17 provides a recent history of RevPAR levels and projections for the five-year period.

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

Figure 17: San Francisco Revenue Per Available Room (RevPAR) Growth 2008-2020 Actual and Projected



Source: CBRE PKF Hospitality Research

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to increase from a budgeted level of $235.0 million in FY 2016-17 to $259.8 million for the following five years. This increase is due to voter approval of Proposition W in November 2016, which increased the real property transfer tax rate on properties over $5.0 million. This revenue is one of the most volatile of all revenue sources and is highly sensitive to economic cycles and interest rates. Transfer taxes are assessed at different rates according to the amount of the transaction. With Proposition W, the highest tier 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 (<1% of transactions in FY 2015-16), the proportion of total transfer tax revenue they generate is quite large (52% in FY 2015-16), contributing to the volatility of the revenue source.

Recent growth in RPTT revenue has largely been a function of the lack of more attractive alternative investment opportunities, as demonstrated by historically low U.S. Treasury Bond rates. Recent Korpacz survey results suggest a degree of uncertainty about whether or not the market has peaked. Capitalization rates continue to drop, which suggests the market is still in an expansion phase. However, investors cite a decrease in rent growth potential, which suggests the market is in a contraction phase. Adjusting for the rate effects of Proposition W, declining yields for real estate investments are projected to reduce revenue in beginning FY 2016-17 and then fall to the ten-year policy adjusted average beginning in FY 2017-18.

Table 7: Summary of General Fund Supported Operating Revenues and Transfers in FY 2016-22 ($ millions)

	FY 2015-16 Year-End Pre-Audit	FY2016-17 Original Budget	FY 2017-18 Projection	FY 2018-19 Projection	FY 2019-20 Projection	FY 2020-21 Projection	FY 2021-22 Projection
Property Taxes	$ 1,392.3	$ 1,412.0	$ 1,521.0	$ 1,589.0	$ 1,646.0	$ 1,701.0	$ 1,760.0
Business Taxes	659.1	669.5	711.2	739.5	769.1	796.0	819.9
Sales Tax	167.9	237.5	205.2	210.3	214.5	218.8	223.2
Hotel Room Tax	387.7	409.3	414.8	442.9	454.4	463.6	473.0
Utility Users Tax	98.7	94.3	98.5	99.6	100.6	101.7	102.8
Parking Tax	86.0	92.8	88.2	89.9	91.6	92.4	92.9
Real Property Transfer Tax	269.1	235.0	259.8	259.8	259.8	259.8	259.8
Sugar Sweetened Beverage Tax	-	-	7.5	15.0	15.0	15.0	15.0
Stadium Admission Tax	1.2	1.4	1.4	1.4	6.5	6.5	6.5
Access Line Tax	43.6	47.0	44.7	45.2	45.6	46.1	46.6
Subtotal - Local Tax Revenues	**3,105.5**	**3,198.7**	**3,352.3**	**3,492.6**	**3,603.2**	**3,701.0**	**3,799.7**
Licenses, Permits & Franchises	27.9	28.9	29.3	29.5	29.7	29.9	30.0
Fines, Forfeitures & Penalties	9.0	4.6	4.6	4.6	4.6	4.6	4.6
Interest & Investment Income	15.1	14.0	15.4	15.6	15.8	17.7	17.9
Rents & Concessions	18.2	16.1	15.8	15.8	15.8	15.8	15.8
Subtotal - Licenses, Fines, Interest, Rent	**70.2**	**63.6**	**65.2**	**65.5**	**65.9**	**67.9**	**68.3**
Social Service Subventions	243.6	250.6	260.7	260.7	260.7	260.7	260.7
Other Grants & Subventions	(5.8)	2.7	2.7	2.7	2.7	2.7	2.7
Subtotal - Federal Subventions	**237.8**	**253.3**	**263.4**	**263.4**	**263.4**	**263.4**	**263.4**
Social Service Subventions	204.6	218.9	226.2	229.4	232.8	236.2	239.7
Health & Welfare Realignment - Sales Tax	138.3	144.7	142.3	143.7	145.2	146.7	148.2
Health & Welfare Realignment - VLF	38.0	34.9	32.3	32.3	32.3	32.3	32.3
Health & Welfare Realignment - CalWORKs MOE	11.7	22.6	22.7	22.7	22.7	22.7	22.7
Health/Mental Health Subventions	111.2	120.4	124.0	124.0	124.0	124.0	124.0
Public Safety Sales Tax	97.0	102.0	103.8	107.8	113.0	118.1	123.2
Motor Vehicle In-Lieu (County & City)	0.6	-	-	-	-	-	-
Public Safety Realignment (AB109)	39.8	40.5	43.0	44.1	44.9	45.8	46.7
Other Grants & Subventions	24.6	16.3	16.3	16.3	16.3	16.3	16.3
Subtotal - State Subventions	**665.9**	**700.3**	**710.6**	**720.3**	**731.2**	**742.1**	**753.2**
General Government Service Charges	58.8	66.1	66.4	66.4	66.4	66.4	66.4
Public Safety Service Charges	46.9	41.8	41.7	41.7	41.7	41.7	41.7
Recreation Charges - Rec/Park	19.8	19.4	19.6	19.6	19.6	19.6	19.6
MediCal, MediCare & Health Svc. Chgs.	82.0	80.6	81.4	81.4	81.4	81.4	81.4
Other Service Charges	17.9	17.4	16.8	16.8	16.8	16.8	16.8
Subtotal - Charges for Services	**225.4**	**225.2**	**225.9**	**225.9**	**225.9**	**225.9**	**225.9**
Recovery of General Government Costs	9.7	10.9	10.9	10.9	10.9	10.9	10.9
Other General Fund Revenues	51.2	67.7	32.0	32.0	32.0	32.0	32.0
TOTAL REVENUES	**4,365.6**	**4,519.7**	**4,660.2**	**4,810.6**	**4,932.5**	**5,043.2**	**5,153.4**
Transfers in to General Fund							
Airport	42.5	43.6	44.5	45.6	49.2	50.7	51.7
Other Transfers	164.0	118.4	114.7	114.7	114.7	114.7	114.7
Total Transfers-In	**206.5**	**162.0**	**159.2**	**160.3**	**163.9**	**165.4**	**166.4**
TOTAL GF Revenues and Transfers-In	**4,572.1**	**4,681.7**	**4,819.4**	**4,970.9**	**5,096.3**	**5,208.6**	**5,319.7**

Table 8 shows the percent change in General Fund revenues projected over the next five years.

Table 8: Growth Factors for General Fund Revenue Projections FY 2018-22

	FY 2017-18 % Chg from FY 2016-17 Original Budget	FY 2018-19 % Chg from FY 2017-18 Projection	FY 2019-20 % Chg from FY 2018-19 Projection	FY 2020-21 % Chg from FY 2019-20 Projection	FY 2021-22 % Chg from FY 2020-21 Projection
Property Taxes	7.7%	4.5%	3.6%	3.3%	3.5%
Business Taxes	6.2%	4.0%	4.0%	3.5%	3.0%
Sales Tax	-13.6%	2.5%	2.0%	2.0%	2.0%
Hotel Room Tax	1.3%	6.8%	2.6%	2.0%	2.0%
Utility Users Tax	4.4%	1.1%	1.1%	1.1%	1.1%
Parking Tax	-5.0%	1.9%	1.9%	0.9%	0.5%
Real Property Transfer Tax	10.6%	0.0%	0.0%	0.0%	0.0%
Sugar Sweetened Beverage Tax	N/A	100.0%	0.0%	0.0%	0.0%
Stadium Admission Tax	0.0%	-0.3%	378.9%	0.0%	0.0%
Access Line Tax	-4.7%	1.0%	1.0%	1.0%	1.0%
Subtotal - Tax Revenues	**4.8%**	**4.2%**	**3.2%**	**2.7%**	**2.7%**
Licenses, Permits & Franchises	1.6%	0.6%	0.6%	0.6%	0.6%
Fines, Forfeitures & Penalties	0.0%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	10.5%	1.2%	1.2%	11.9%	1.0%
Rents & Concessions	-1.9%	0.0%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**2.5%**	**0.5%**	**0.5%**	**3.1%**	**0.5%**
Social Service Subventions	4.0%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**4.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	3.3%	1.4%	1.5%	1.5%	1.5%
Health & Welfare Realignment - Sales Tax	-1.6%	1.0%	1.0%	1.0%	1.0%
Health & Welfare Realignment - VLF	-7.4%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - CalWORKs MOE	0.2%	0.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	3.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	1.7%	3.9%	4.8%	4.6%	4.4%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Realignment (AB109)	6.1%	2.5%	2.0%	2.0%	2.0%
Other Grants & Subventions	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**1.5%**	**1.4%**	**1.5%**	**1.5%**	**1.5%**
General Government Service Charges	0.3%	0.0%	0.0%	0.0%	0.0%
Public Safety Service Charges	-0.2%	0.0%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	1.2%	0.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	1.1%	0.0%	0.0%	0.0%	0.0%
Other Service Charges	-3.2%	0.0%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**0.3%**	**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	**-52.7%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**3.1%**	**3.2%**	**2.5%**	**2.2%**	**2.2%**
Transfers in to General Fund					
Airport	2.2%	2.5%	7.8%	3.0%	2.0%
Other Transfers	-3.2%	0.0%	0.0%	0.0%	0.0%
Total Transfers In	**-1.7%**	**0.7%**	**2.2%**	**0.9%**	**0.6%**
TOTAL GF Revenues and Transfers-In	**2.9%**	**3.1%**	**2.5%**	**2.2%**	**2.1%**

Change In Use Of One-Time Sources

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

Change in Starting Fund Balances

This plan assumes available fund balance of $228.1 million, including $191.2 million previously appropriated in FY 2017-18 by the FY 2016-17 and FY 2017-18 adopted budget and anticipated surpluses from FY 2015-16 and FY 2016-17 of $11.9 million and $25.2 million, respectively. The report assumes one third of this fund balance will be used in FY 2017-18 and two thirds will be used in FY 2018-19 as a one-time source. This results in a year over year reduction in starting fund balances of $96.1 million in FY 2017-18, an increase of $76.0 million in FY 2018-19, and a loss of $152.0 million in FY 2019-20.

Changes in Use of Reserves

The net change to use of one-time reserves is estimated to be a loss of $0.3 million in FY 2017-18. No uses are projected in any of the following years in the base case. Please see Table 10 below for detail on reserve balances. Reserve uses assumed in this plan are:

- **Budget Savings Incentive Fund:** The citywide Budget Savings Incentive Fund receives 25% of year-end departmental expenditure savings to be available for one-time expenditures. This report assumes withdrawals of $0.3 million in FY 2017-18 and no withdrawals in the following 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 no withdrawals or deposits.

- **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 in this report.

- **Recreation & Park Budget Savings Incentive Reserve:** The Recreation and Park Savings Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings by the Recreation and Park Department and must be dedicated to one-time expenditures. No withdrawals or deposits are projected in this report.

Use of Reserves for One-Time Impacts

In the FY 2017-18 adopted budget, the City reserved $60.0 million to be used as a reserve for one-time impacts related to employee wages increases and nonprofit cost of doing business increase. This is a one-time source available for FY 2017-18, and this projection assumes that the entire amount is used in FY 2017-18.

Department of Public Health Revenues

The Department of Public Health (DPH) projects a slight revenue decrease of $1.4 million in FY 2017-18, increasing by $7.3 million in FY 2018-19, $6.8 million in FY 2019-20, $14.3 million in FY 2020-21, and $2.7 million in FY 2021-22. The decrease in revenue in FY 2017-18 is 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 and rate increases for skilled nursing at Laguna Honda Hospital. 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. However, the State implemented a planned 29% reduction the capitation rate for the Medi-Cal expansion population, reducing forecasted growth in capitated revenues. Fee for service payments are assumed to increase by an average of 2.5% each year.

Office of Community Investment and Infrastructure Tax Increment

The City and OCII will continue to work collaboratively to implement development in Transbay, Mission Bay, Hunters Point Shipyard, and Candlestick Point, and to deliver affordable housing and infrastructure. Construction of affordable housing and infrastructure to support affordable and market rate housing results in an incremental General Fund cost of $11.5 million in FY 2017-18, savings of $0.1 million in FY 2018-19, no cost in FY 2019-20, and $0.1 million in each of FY 2020-21 and FY 2021-22. The 5-year projection assumes that OCII issues debt to finance affordable housing obligations and Transbay related infrastructure using SB 107 authority (State Law enacted in 2015 granting OCII authority to issue debt to fulfill contractual obligations related to fund affordable housing obligations in Transbay, Mission Bay, and Hunters Point Shipyard and Candlestick Point and infrastructure improvements in Transbay), to issue debt to reimburse infrastructure costs in accordance with the Mission Bay Tax Allocation Pledge Agreements, and to reduce or balance existing debt service costs.

Revenues November 2016 Election (net of baselines)

Voters approved two new revenue measures in November 2016, including an increase on property transfer tax on transactions over $5.0 million (Proposition W) and a tax on sugar sweetened beverages (Proposition V). The revenues from Proposition W and Proposition V are assumed in this projection and combined are expected to increase by $32.8 million in FY 2017-18, and grow by $5.8 million in FY 2018-19, decrease marginally in FY 2019-20 and FY 2020-21, and remain flat in FY 2021-22. As with other new General Fund revenue, these two new revenue measures will contribute to voter approved baselines, and the projected numbers accounted for here, assume the revenues less contributions to baselines.

- **Sugar Sweetened Beverages Tax:** Proposition V, an initiative to tax sugar sweetened beverages by one cent per ounce, is expected to generate approximately $7.5 million in FY 2017-18 (a half year of implementation) and a total $15.0 million thereafter, before baseline contributions.
- **Real Property Transfer Tax:** Proposition W is anticipated to generate $34.8 million in FY 2017-18 and the remaining years of the plan, before baseline contributions.

This report also assumes that these news revenues will be fully spent on new expenditures, and that the budget will be rebalanced to reflect the loss of sales tax revenue and new revenues offset with matching expenditures. For full details of the revenue and expenditures related to election results, see Table 6.

Other General Fund-Supported Revenues

Other General Fund supported revenues are projected to increase by $9.2 million in FY 2017-18, $4.4 million in FY 2018-19, $7.0 million in FY 2019-20, $5.0 million by FY 2020-21, and $4.7 million in FY 2021-22. 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 additional salaries and fringe benefit costs. The Department estimates they will draw revenues for approximately 37.8% of salary and benefit costs in each year, resulting in incremental revenue increases of $8.3 million in FY 2017-18, $3.3 million in FY 2018-19, $3.5 million in FY 2019-20, $3.5 million in FY 2020-21, and $3.6 million in FY 2021-22.

- **Airport Revenues:** The General Fund receives a portion of Airport concessions revenue annually. For FY 2017-18 through FY 2021-22, the Airport projects these revenues to increase by $1.0 million, $1.1 million, $3.6 million, $1.5 million, and $1.0 million, respectively.

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 $47.2 million, $63.2 million, $43.4 million, $37.9 million, and $35.2 million in FY 2017-18, FY 2018-19, FY 2019-20 , FY 2020-21, and FY 2021-22, respectively. Changes to a selection of baseline contributions and spending requirements are summarized below and in Table 9. Please note that Table 9 is not a comprehensive list of all revenue allocation and spending requirements.

Table 9: Selected Baselines and Mandated Expenditures FY 2018-22 ($ in millions)

Total Contribution	FY 16-17 Budget	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
MTA Baselines (Including Prop B)	403.8	417.9	448.5	468.9	486.3	500.1
Public Education Enrichment Fund	101.5	106.9	112.0	115.6	118.8	122.0
Children's Fund (Property Tax Set Aside)	72.6	84.4	94.3	97.7	100.9	104.3
Children's Baseline	161.1	161.2	168.9	174.4	179.3	184.1
Library Preservation Fund (Baseline)	72.5	76.3	80.0	82.5	84.8	87.1
Recreation and Parks Baseline	67.0	70.0	73.0	76.0	79.0	82.0
Dignity Fund	38.0	44.0	47.0	50.0	53.0	56.0
Housing Trust Fund	28.4	31.2	34.0	36.8	39.6	42.4
Controller- City Services Auditor	16.3	16.6	17.4	17.9	18.5	19.0
Municipal Symphony Baseline	2.6	2.8	3.0	3.1	3.2	3.4
	963.8	**1,011.2**	**1,077.9**	**1,123.0**	**1,163.4**	**1,200.3**

Note: Does not include Transitional Aged Youth baseline or Street Tree Maintenance baseline, or property tax allocations to Open Space or Library

Change from Prior Year	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
MTA Baselines (Including Prop B)	14.1	30.6	20.5	17.4	13.8
Public Education Enrichment Fund	5.3	5.1	3.6	3.2	3.2
Children's Fund (Property Tax Set Aside)	11.8	9.9	3.4	3.2	3.4
Children's Baseline	-	4.1	3.8	2.3	3.1
Library Preservation Fund (Baseline)	3.8	3.7	2.6	2.3	2.3
Recreation and Parks Baseline	3.0	3.0	3.0	3.0	3.0
Dignity Fund	6.0	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	0.3	0.8	0.6	0.5	0.5
Municipal Symphony Baseline	0.2	0.2	0.1	0.1	0.1
	47.2	**63.2**	**43.4**	**37.9**	**35.2**

- **MTA Baselines (including Prop B):** Charter section 8A.105 establishes a minimum level of funding for the Municipal Transportation Agency (MTA) and the Parking and Traffic Commission within the MTA. 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 base line revenue each year over the next five years of $14.1 million, $30.6 million, $20.5 million, $17.4 million, and $13.8 million.

- **Public Education Enrichment Fund Annual Contribution:** Proposition C, passed by the voters in November 2014, extended the Public Education Enrichment Fund Annual Contribution (PEEF) for 26 years, until June 30, 2041, eliminated a provision that allowed the City to defer up to a quarter of the contribution to PEEF in any year the City had a budget shortfall of $100.0 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 $5.3 million, $5.1 million, $3.6 million, $3.2 million, and $3.2 million in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, 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 overall value of the Children and Youth Fund will increase from $72.6 million in FY 2016-17 to $84.4 million in FY 2017-18, $94.3 million in FY 2018-19, $97.7 million in FY 2019-20, $100.9 million in FY 2020-21, and $104.3 million in FY 2021-22. These are year over year increases of $11.8 million, $9.9 million, $3.4 million, $3.2 million, and $3.4 million in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22 respectively.

- **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 $4.1 million in FY 2018-19, $3.8 million in FY 2019-20, $2.3 million in FY 2020-21, $3.1 million in FY 2021-22.

- **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 those appropriations by $3.0 million annually for the next ten years, 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 beginning in FY 2017–18 in which a General Fund deficit of $200.0 million or more was forecast. This report does not assume suspension of required increases in any years.

- **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 requires 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 beginning in FY 2017–18 in which a General Fund deficit of $200.0 million or is projected. This report assumes an additional $6.0 million of funding in FY 2017-18, and $3.0 million in subsequent years, and does not assume suspension of required increases in any years.
- **Housing Trust Fund:** This report assumes that the Housing Trust Fund will continue to grow by $2.8 million in each year, as prescribed by Charter.
- **Other Baseline and Mandate Requirements:** In addition to those listed above the Charter specifies baseline-funding levels for various programs or functions, including the Public Library, 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 10 outlines the projected uses, deposits, and balances of select reserves.

Table 10: Projected Uses, Deposits & Balances of Reserves FY 2018-22 ($ in millions)

	FY 17-18 (Deposit)/ Use	FY 18-19 (Deposit)/ Use	FY 19-20 (Deposit)/ Use	FY 20-21 (Deposit)/ Use	FY 21-22 (Deposit)/ Use
General Reserve	(14.6)	(15.4)	(15.4)	(15.7)	(3.3)
Budget Savings Incentive Fund	-	-	-	-	-
Recreation & Parks Budget Savings Incentive Reserve	-	-	-	-	-
Rainy Day Economic Stablilization Reserve	-	-	-	-	-
Rainy Day One-Time Reserve	-	-	-	-	-
Budget Stabilization Reserve	-	-	-	-	-
Salary and Benefits Reserve*	(19.3)	(24.8)	(15.6)	(16.1)	(16.6)
Litigation Reserve*	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL	**(44.9)**	**(51.2)**	**(42.0)**	**(42.8)**	**(30.9)**

	FY 16-17 Ending Balance	FY 17-18 Ending Balance	FY 18-19 Ending Balance	FY 19-20 Ending Balance	FY 20-21 Ending Balance	FY 21-22 Ending Balance
General Reserve	90.2	104.9	120.3	135.6	151.3	154.6
Budget Savings Incentive Fund	58.6	58.6	58.6	58.6	58.6	58.6
Recreation & Parks Budget Savings Incentive Reserve	3.6	3.6	3.6	3.6	3.6	3.6
Rainy Day Economic Stablilization Reserve	75.0	75.0	75.0	75.0	75.0	75.0
Rainy Day One-Time Reserve	45.1	45.1	45.1	45.1	45.1	45.1
Budget Stabilization Reserve	178.4	178.4	178.4	178.4	178.4	178.4
Salary and Benefits Reserve*	-	-	-	-	-	-
Litigation Reserve*	-	-	-	-	-	-
TOTAL	**451.0**	**465.6**	**481.0**	**496.4**	**512.1**	**515.4**

** 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 2.25% of regular General Fund revenues in FY 2017-18 to 2.5% in FY 2018-19, 2.75% in FY 2019-20, and 3% in FY 2021-21 and after.

  Projected deposits to the General Reserve total $14.6 million, $15.4 million, $15.4 million, $15.7 million, and $3.3 million in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, respectively. This report also assumes $215,000 in Reserve uses in FY 2016-17 ($100,000 for earthquake victims in Italy and $115,000 to fund Ethics Commission expenses as required by Proposition T on the November 2016 ballot), and no withdrawals in subsequent 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 no deposits to or withdrawals from this reserve.

- **Rainy Day One-Time Reserve:** Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25% of revenue growth over 5%, which can be used towards one-time expenses. This report assumes no withdrawals from this reserve.

- **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 $14.0 million level appropriated in FY 2015-16 to support costs related to labor agreements not budgeted in individual departments, and assumes the entire reserve will be fully spent each year. The projected reserve need increases by $2.7 million in FY 2017-18 and $5.5 million in FY 2018-19 to cover the costs to staff 24/7 operations on weekend days at the end of each fiscal year (i.e. June 30, 2018, and June 29 and 30, 2019). Future year reserve needs are assumed to grow by CPI.

- **Litigation Reserve:** This reserve supports annual city liabilities related to claims, settlements, and judgments. This plan assumes $11.0 million in FY 2017-18, as previously appropriated, and continues at that level in all subsequent years.

Uses – Salaries & Benefits

This report projects General Fund supported salaries and fringe benefits to increase by $145.8 million in FY 2017-18, $127.3 million in FY 2018-19, $155.1 million in FY 2019-20, $145.7 million in FY 2020-21, and $124.0 million in FY 2021-22. 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 2017-18, the City is projected to incur $20.3 million in additional costs to annualize positions funded for only a partial year in the FY 2017-18 budget.

Previously Negotiated Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be $12.6 million for FY 2017-18. Police and Firefighters' unions are the only bargaining units that have closed Memorandum of Understandings (MOU), with a negotiated rate increase of 2% for FY 2017-18. All other employees' unions have open contracts and will enter negotiations for Memoranda of Understanding (MOUs) with the City in the spring of 2017.

Projected Costs of Open Labor Agreements: With the exception of Police and Firefighters, most labor unions have open contracts and will enter negotiations for Memoranda of Understanding (MOUs) with the City in the spring of 2017. Therefore, beginning in FY 2017-18, this projection assumes that they 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 3.13% for FY 2017-18, 3.25% for FY 2018-19, 3.09% for FY 2019-20, 3.01% for FY 2020-21, and 3.06% for FY 2021-22. For Police Officers' and Firefighters' unions this report assumes their negotiated rate increase of 2% for FY 2017-18, and increases of CPI (as above) thereafter.

The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be $66.2 million in FY 2017-18, $91.1 million in FY 2018-19, $92.1 million in FY 2019-20, $95.3 million in FY 2020-21 and $95.4 million in FY 2021-22. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in FY 2016-17 for most employees and FY 2017-18 for police officers and firefighters.

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

In order to ensure competition between health plans by minimizing migration, the Health Service Board has used one-time and ongoing strategies to reduce the price gap between plan rates. In order to continue this trend, the health plans will also need to be more efficient and reduce their costs.

Industry predictions anticipate that the medical and pharmacy inflation rates will increase at a rate which is greater than the Health Service Board negotiated trends. Therefore projections in this report assume average increases of approximately 7% 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 $13.7 million in FY 2017-18, $16.1 million in FY 2018-19, $19.9 million in FY 2019-20, $21.2 million in FY 2020-21 and $22.7 million in FY 2021-22.

The key uncertainty at this time is related to changes in leadership at the federal level and what the new administration will do with stated plans to repeal and replace of the Affordable Care Act. This could have major impact on health care costs and plan administration which are unknown at this time. The other uncertainty is the impact of the increasing cost of pharmaceuticals.

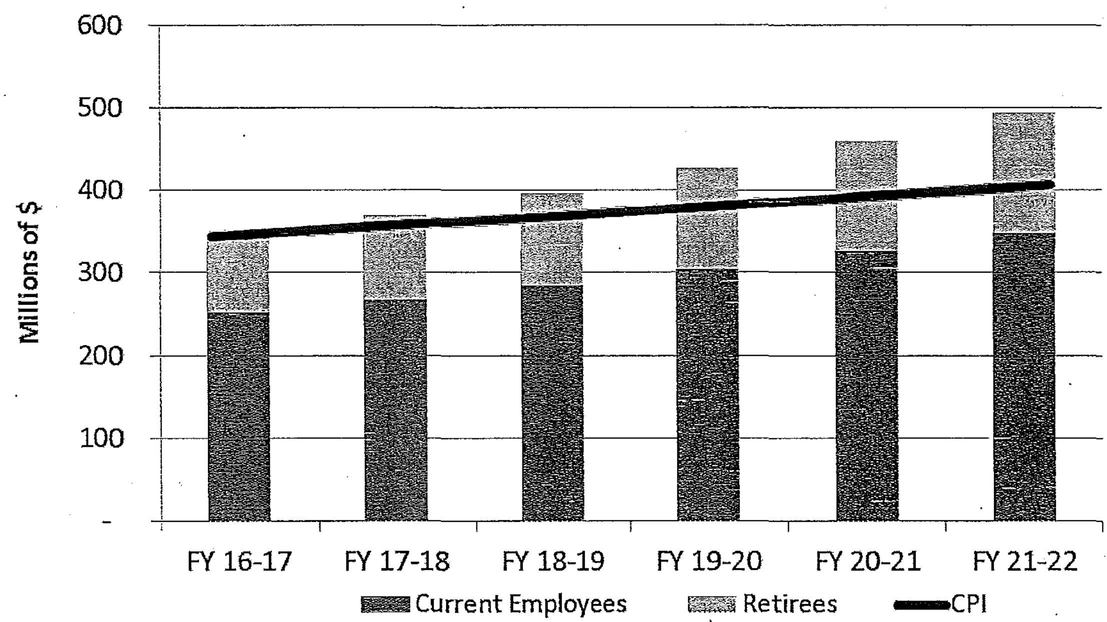
The percentage-based contribution cost sharing model negotiated between the City and the unions took effect in January of 2015, and has had a small effect on migration among plans; however, due to demographic changes plan design utilization and other factors, premium changes remain uncertain.

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 9% per year over the next five years. Therefore, General Fund support for retiree health costs increases by $7.3 million in FY 2017-18, $9.2 million in FY 2018-19, $10.0 million in FY 2019-20, $10.9 million in FY 2020-21, and $11.9 million in FY 2021-22. 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 will begin contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% of each subsequent year, up to a maximum of 1%, and the City will match the contribution commensurately. As a result, this report also assumes General Fund contribution to the Retiree Health Care Trust Fund will grow $4.5 million in FY 2017-18, $3.9 million in FY 2018-19, $3.0 million in FY 2019-20, $0.7 million in FY 2020-21 and $0.7 million in FY 2021-22.

The key uncertainties for retiree health are the impact of the increasing cost of pharmaceuticals as well as whether the federal government will move forward with plans to voucherize Medicare. If this happens, it will likely greatly increase the cost of retiree healthcare for the City.

Figure 18a below shows that Active and Retiree Health costs are expected to increase significantly faster than CPI over the 5 year projection period.

Figure 18a: 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 remains at 7.5% for most employees when the city contribution rate is 11% of payroll. When the city contribution rate is above 11%, employees pay an additional amount based on the salary band in which their wages fit.

The Five-Year Financial Plan last issued in December 2014, anticipated a decline in retirement costs after FY 2014-15, as asset losses during the 2008 financial crisis were fully recognized and subsequent asset gains 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:

- Actual FY 2014-15 investment earnings of just under 4% and actual FY 2015-16 investment earnings of 1.3% (compared to the actuarially assumed rate of return of 7.5% per year) have been incorporated and will be smoothed over the next five years. It is important to note that while the Retirement System's actuary did not recommend a reduction to the discount rate of 7.5%, it did present materials at the November 18, 2015 board meeting showing that the number of large public retirement plans assuming rates under 7.5% has increased significantly since 2009, and many investment consultants project future returns to be lower than they have in the past 10 to 20 years. Should the Retirement System's actuary adjust the investment return assumptions to be under 7.5%, the projected employer contribution rates will then get adjusted higher accordingly.
- Updated demographic assumptions were adopted by the Retirement Board on November 18, 2015. Every five years, the Retirement System conducts a demographic study to determine whether actuarial assumptions are aligned with the most current data on how long retirees are collecting pensions after

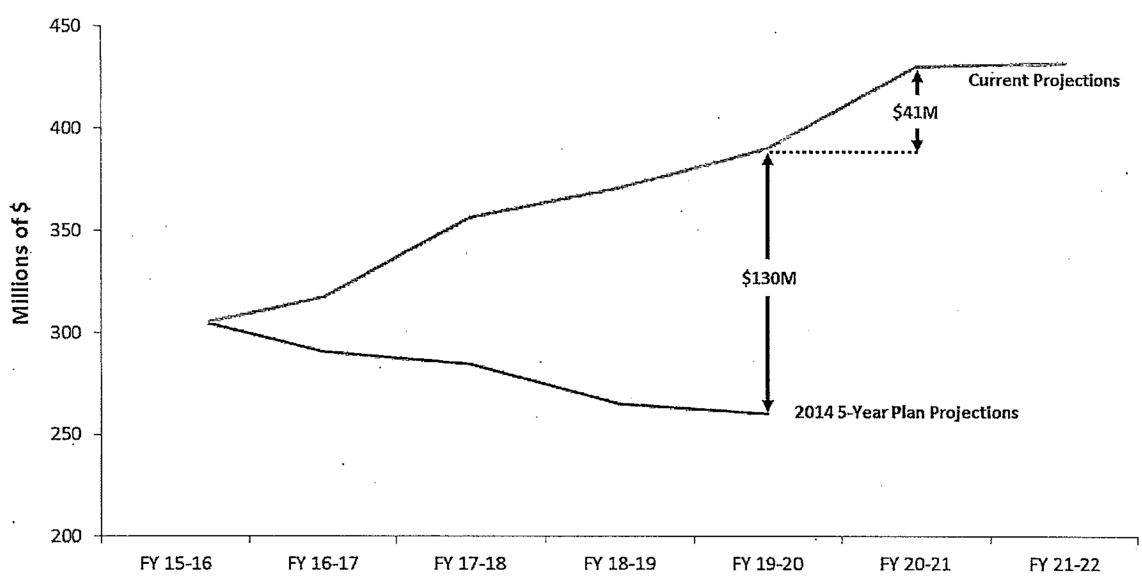
they retire. The study showed that retirees are living longer and collecting pensions longer than expected, which will require increased contributions in order to cover the additional pension payments.

- 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 COLAs is included in the estimated contribution rates and costs below. Of note, the rates do not yet 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 by the City and employees alike. This report assumes that retirement costs continue to increase, with slight declines in SFERS rates in FY 2021-22, the final year of this projection.

Figure 18b below shows that the December 2014 Spring update to Five-Year Financial Plan projected General Fund SFERS pension contribution costs declining from $308.7 million in FY 2015-16 to $260.3 million in FY 2019-20. Given the factors above, however, current projections are for costs to increase in FY 2017-18 to $356.4 million and to continue to increase through FY 2021-22 to $431.8 million.[1] This is a significant driver of the recent increase to the City's structural deficit.

Figure 18b: Projected Employer Pension Contribution Cost Increases from Prior Projections



[1] Note that these figures are for SFERS employer contributions only. In addition, these figures include General Fund contributions for employees of the Recreation and Parks Department, which are included in the Recreation and Parks baseline in Table 4.

SFERS contribution rates are based on projections prepared by the Retirement System's Actuary in September 2016. They assume continuation of the SFERS Board adopted long term investment return assumptions of 7.5% for FY 2016-17 onwards. Projections reflect employee contributions to retirement required under Proposition C.

The maximum employer contribution rate for non-safety employees in salary band 2 is 18.23% in the current fiscal year. This rate is projected to increase to 19.77%, 19.96%, 20.35%, 21.80% and 21.22% in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, respectively. Rates for police and fire safety employees vary based on date of hire. This report assumes the weighted average employer contribution rate for FY 2016-17 for police officers and fire fighters was 17.48%; increasing to 19.02%, 19.21%, 19.60%, 21.05%, and 20.47% over the next five years.

For CalPERS members, the rate in the current year is 25.02% and is projected to increase to 28.13%, 31.37%, 34.69%, 36.28% and 38.02% in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, respectively.

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 $29.9 million, $6.9 million, $10.3 million, and $26.5 million in FY 2017-18, FY 2018-19, FY 2019-20, and FY 2020-21, with a decrease of $8.0 million projected in and FY 2021-22.

Table 11 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion.

Table 11: Estimated Employer Contribution Rates for the Retirement System

San Francisco Employees Retirement System (SFERS)

	FY 2017-18	FY 2018-19	FY 2019-20	FY2020-21	FY2021-22
Estimated Total Contribution Rates	31.5%	31.7%	32.1%	33.6%	33.0%
Non-Safety					
Employee Contribution (1)					
Band 1, < $26.66/hour	7.5%	7.5%	7.5%	7.5%	7.5%
Band 2, < $53.32/hour	11.0%	11.0%	11.0%	11.0%	11.0%
Band 3, >$53.32/hour	11.5%	11.5%	11.5%	11.5%	11.5%
Additional rate factors					
Band 1, < $26.66/hour	0.9%	0.9%	0.9%	0.9%	0.9%
Band 2, < $53.32/hour	0.7%	0.7%	0.7%	0.8%	0.8%
Band 3, >$53.32/hour	0.7%	0.7%	0.7%	0.8%	0.8%
Estimated Net Employer Contribution (1)					
Band 1, < $26.66/hour	23.1%	23.3%	23.7%	25.2%	24.6%
Band 2, < $53.32/hour	19.8%	20.0%	20.4%	21.8%	21.2%
Band 3, >$53.32/hour	19.3%	19.5%	19.9%	21.3%	20.7%
Police and Fire Safety Employees (2)					
Estimated Total Contribution Rates	31.9%	32.1%	32.5%	34.0%	33.4%
Employee Contribution & additional rate factors	12.8%	12.8%	12.9%	12.9%	12.9%
Estimated Net Employer Contribution	19.0%	19.2%	19.6%	21.0%	20.5%

California Public Employees Retirement System (CalPERS)

	FY 2017-18	FY 2018-19	FY 2019-20	FY2020-21	FY2021-22
Total Estimated Contribution Rate	29.8%	33.1%	36.4%	38.0%	39.7%
Employee Contribution & additional rate factors	1.7%	1.7%	1.7%	1.7%	1.7%
Net Employer Contribution	28.1%	31.4%	34.7%	36.3%	38.0%

(1) Employees are divided into three bands based on wages. The wages shown are based on the FY 2016-17 wage floors.
(2) Employee base contribution rates vary depending on hire date.

Other Salaries and Fringe Benefits Costs: Other salary and benefit cost changes are expected to be modest, with the biggest changes occurring due to the changing number of work days in a given fiscal year. Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations.

FY 2016-17 has 261 work days; however, FY 2017-18 and FY 2018-19 have 260 work days for regularly scheduled shifts, therefore the City incurs year over year savings of $8.7 million in FY 2017-18. FY 2019-20 is a leap year and contains 366 days for 24/7 operations and 262 workdays for regularly scheduled shifts; therefore, the City incurs additional General Fund costs of $19.6 million in that year. FY 2020-21 and FY 2021-22 have 261 work days; therefore, the City incurs savings of $9.4 million in FY 2020-21 compared to the prior year.

Other salary and benefit changes include health service administrative costs, and life insurance and have minimal projected changes.

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 $48.5 million, $145.3 million, $80.9 million, $75.5 million, and $99.9 million in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, respectively. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Minimum Wage: In November 2014, voters adopted a Charter amendment increasing the local minimum wage from $11.05 to $15.00 per hour by 2018. After reaching $15.00, the wage will increase by CPI on July 1 of every subsequent year.

Table 12: Schedule of Minimum Wage Increases Pursuant to Proposition J

				Based on projected CPI	*Based on projected CPI*	*Based on projected CPI*
	FY 16-17	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
(start date)	(July 1, 2016)	(July 1, 2017)	(July 1, 2018)	(July 1, 2019)	(July 1, 2020)	(July 1, 2021)
New Wage	$13.00	$14.00	$15.00	$15.46	$15.93	$16.42

There are a limited number of city employees whose wages are affected by the Minimum Wage legislation, as well as several city contracts with service providers which directly pay for staff who will benefit from Minimum Wage increases.

Overall, these changes to the City's minimum wage result in an increase in General Fund support of $6.7 million in FY 2017-18, an additional $ 10.3 million in FY 2018-19, $3.2 million in FY 2019-20, $0.6 million in FY 2020-21, and $0.6 million in FY 2021-22. Increases are lower in the final two years of the plan as the minimum wage increases are fully ramped up and then grow by CPI.

Citywide – Capital, Equipment & Technology

Changes in funding for capital, equipment, and technology will result in General Fund savings of $29.3 million in FY 2017-18, and increasing costs by $40.4 million in FY 2018-19, $10.5 million in FY 2019-20, $12.7 million in FY 2020-21, and $23.2 million in FY 2021-22.

Table 13: Capital, Equipment, & Technology (Millions $)

	Projected Levels - One-time Costs					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Capital Plan Budget	120.2	85.1	113.5	123.8	134.8	146.5
Capital FF&E, Move Costs	0.7	2.0	18.4	6.1	1.0	7.6
Equipment	15.2	10.0	16.3	16.8	17.3	17.8
Information & Communications Technology Budget	7.9	2.7	12.8	14.1	15.5	17.1
Major IT Investments (including F$P and DPH E.H.R)	17.5	50.2	20.5	22.5	24.8	27.2
Total One-time Costs	**161.5**	**150.0**	**181.4**	**183.2**	**193.3**	**216.3**

	Incremental Change - One-time & On-going Costs				
	2017-18	2018-19	2019-20	2020-21	2021-22
Capital Plan Budget	35.1	(28.4)	(10.3)	(11.0)	(11.8)
Capital FF&E, Move Costs	(1.3)	(16.4)	12.3	5.1	(6.6)
Equipment	5.3	(6.3)	(0.5)	(0.5)	(0.6)
Information & Communications Technology Budget	16.7	(17.1)	(8.2)	(2.2)	0.0
Major IT Investments (including F$P)	(32.6)	29.6	(2.0)	(2.3)	(2.5)
Capital One-Time Bond Reimbursements*	7.2	-	-	-	-
Department of Technology Rates	(1.0)	(1.8)	(1.8)	(1.8)	(1.9)
Incremental Change	**29.3**	**(40.4)**	**(10.5)**	**(12.7)**	**(23.2)**

This projection assumes the adopted FY 2017-18 funding levels for capital, equipment, and information technology (IT). For capital in the remaining four out 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 2017. One large change to the Capital Plan recommended funding levels; the adopted Capital Plan level is now projected to be reduced by $33.4 million per year in each year of this projection due to the loss of Proposition K on the November 2016 ballot. Proposition K was the sales tax revenue measure, which was slated to fund $33.4 million of the road repaving program. Combined, this reflects a reduced cost of $35.1 million in FY 2017-18, and increasing General Fund support by $28.4 million in FY 2018-19, $10.3 million in FY 2019-20, $11.0 million in FY 2020-21, and $11.8 million in FY 2021-22.

Additionally, the City will incur costs to furnish and equip new and upgraded city facilities. These costs will increase by $1.3 million in FY 2017-18 and $16.4 million in FY 2018-19, decrease by $12.3 million in FY 2019-20 and $5.1 million in FY 2020-21, and subsequently increase by $6.6 million in FY 2021-22. These costs are related to projects such as the ESER 1 and 2 bonds (for the Police Department, the Medical Examiner's Office, and the Fire Department); the Animal Care and Control replacement facility; city proposal to consolidate permitting staff and one-stop permit shop from various leased and city-owned properties into one building; new Central Shops facility, and other large Certificates of Participation and General Obligation bond capital projects.

Citywide equipment costs are projected to decrease by $5.3 million in FY 2017-18, as reflected in the previously adopted FY 2017-18 budget. To reach previous levels of investment as well as projected need, equipment costs are projected to increase by $6.3 million in FY 2018-19. Increased cost assumptions based on CPI result in annual $0.5 million increases in FY 2019-20 and FY 2020-21, and a $0.6 million increase in FY 2021-22. 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 information technology and communications costs for annual technology projects are projected to decrease by $16.7 million in FY 2017-18, as reflected in the previously adopted FY 2017-18 budget. Technology costs are projected to increase by $17.1 million in FY 2018-19, $8.2 million in FY 2019-20, $2.2 million in FY 2020-21, and remain nearly flat in FY 2021-22, consistent with the City's Information and Communication Technology (ICT) Plan for FY 2015-16 through FY 2019-20. Additional costs reflected in this projection include on-going costs associated with the operation of Emergency Radio upgrades and some costs associated with of the Department of Public Health's (DPH) Electronic Health Records (EHR).

This report also assumes an overall increase in funding for Major Information Technology investments in the amount of $32.6 million starting in FY 2017-18, decreasing by $29.6 million in FY 2018-19, $2.0 million in FY 2019-20, $2.3 million in FY 2020-21, and $2.5 million in FY 2021-22. Major Information Technology Investments is inclusive of the City's Financial System Project (FSP) and other major IT projects. This report assumes an increase of $10.8 million in FY 2017-18 for other major IT projects due to the continued replacement of the public safety radio system and the City's property tax database – as discussed in the ICT Plan for FY 2015-16 through FY 2019-20. This increase is offset by a decrease in one-time funding for FSP in the amount of $9.6 million in FY 2017-18, and $0.5 million in FY 2018-19, with no further one-time funding projected through FY 2021-22. An additional major information technology investment reflected in the projection includes one-time cost of $31.4 million that was included in the adopted FY 2017-18 budget for DPH's EHR systems. The FY 2017-18 investment is fully supported by Departmental prior year fund balances from project close outs and one-time unappropriated revenues. In order to support this important and significant investment DPH is employing a variety of strategies to fund the implementation of an EHR without seeking additional General Fund COIT funding. An integrated EHR is a top departmental priority and so DPH is optimizing and finding internal efficiencies to support funding this investment that will improve service delivery.

This report also assumes a savings due to the one-time seeding of the Capital Planning Revolving Fund of $7.2 million from a reimbursement of a past Department of Public Health General Obligation bond payment in FY 2016-17 that does not reoccur in FY 2017-18.

Finally, the Department of Technology's rates are projected to increase by $1.0 million in FY 2017-18 as reflected in the adopted budget. Rates are projected to increase by $1.8 million in FY 2018-19, $1.8 million in FY 2019-20, $1.8 million in FY 2020-21, and $1.9 million in FY 2021-22 due to inflationary increases on salaries and benefits.

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 rate, as projected by the California Department of Finance and Moody's at a rate of 3.13% for FY 2017-18, 3.25% for FY 2018-19, 3.09% for FY 2019-20, 3.01% for FY 2020-21, and 3.06% for FY 2021-22. The projection reflects the adopted FY 2017-18 budget, except for a CPI increase for community-based organization contracts in FY 2017-18 which was not included in the adopted budget, but is now assumed in this projection. This generates a total increase in costs to the City of $19.9 million, $52.4 million, $43.4 million, $43.9 million, and $45.9 million in FY 2017-18, FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, respectively.

Citywide – Debt Service & Real Estate

Over the next five years, total debt service and real estate costs are projected to increase by $16.7 million in FY 2017-18, $28.5 million in FY 2018-19, $19.0 million in FY 2019-20, $13.8 million in FY 2020-21, and $25.4 million in FY 2021-22. 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 Justice Facilities Improvement Project (JFIP), the replacement Animal Care and Control facility, the new city office building at 1500 Mission, the replacement of the Department of Public Health office building, and debt service payments on other large capital facilities. This section will be updated in the March 2017 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. Sewer and water rates have been adopted by the PUC Commission through FY 2017-18 to fund the 24/7 operations and maintenance and planned capital improvement projects, including the Water System Improvement and the Sewer System Improvement Programs. For the remaining four years the projected sewer and water rates, which have not been adopted, are from the Wastewater and Water Ten Year Financial Plans. For FY 2017-18 and beyond, the power rate increases are from Power's Ten Year Financial Plan which assumes a half-cent per kilowatt hour (kWh) in FY 2017-18 through FY 2021-22. Additionally, the Power Enterprise bills and pays the cost of natural gas provided by Pacific Gas & Electric and the Department of General Services (DGS) to city departments. The increases in gas rates are 15% and 35% respectively, and reflect increases in transportation costs, delivery of gas, and use of the pipelines. If these increases are implemented, the total General Fund impact resulting from the proposed increased sewer, water, and power rates is a cost of $1.9 million, $4.3 million, $1.5 million, $1.6 million, and $1.5 million each year over the next five years.

Other Citywide Costs

This category includes assumed costs of real estate transactions for the City's General Fund departments; increases in the City's workers' compensation costs; the expiration of one-time costs from the prior year budget; and other minor changes. These items together result in General Fund savings of $0.2 million in FY 2017-18, and then increased costs of $3.7 million, $3.4 million, $3.0 million, and $3.2 million in the remaining four years of the report.

Uses – Departmental Costs

This section provides a high-level overview of significant departmental costs over the next five years. Table 4 displays departmental cost increases of $21.9 million in FY 2017-18, $7.2 million in FY 2018-19, $14.7 million in FY 2019-20, savings of $1.2 million in FY 2020-21, and returning to costs increases of $5.3 million in FY 2021-2022.

City Administrator's Office – Convention Facilities Subsidy

This plan assumes the Convention Facilities Fund General Fund subsidy will increase of $13.4 million in FY 2017-18, then decrease by $6.1 million in FY 2018-19, decrease by an additional $11.0 million in FY 2019-20, and remain flat for the last two years of the plan. The cost increases in FY 2017-18 are due to expected lower operating revenue at the facilities due to its partial closure during planned expansions and loss of one-time prior year fund balance. The subsequent cost decreases are due to operating revenues increasing once the facility is fully operational after its expansion and declining debt service payments.

Elections – Number of Scheduled Elections

The number of elections and the associated costs for holding elections vary annually. Currently, projections show one Gubernatorial Primary Election in FY 2017-18, one Gubernatorial General Election in FY 2018-19, two elections (a Municipal Election and a June Presidential Primary) in FY 2019-20, one Presidential Election in FY 2020-21, and one Gubernatorial Primary Election in FY 2021-22. This schedule results in the following annual incremental cost of $0.8 million in FY 2017-18, $0.3 million in FY 2018-19, $5.1 million in FY 2019-20, a savings of approximately $4.5 million in FY 2020-21, and a cost of approximately $0.3 million in FY 2021-22. 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 14: Number of Scheduled Elections FY 2017-18 through FY 2021-22

Fiscal Year	Date	Type
2017-18	June 2018	Consolidated Gubernatorial Primary Election
2018-19	November 2018	Consolidated Gubernatorial General Election
2019-20	November 2019	Municipal Election
2019-20	June 2020	Consolidated Presidential Primary Election
2020-21	November 2020	Consolidated Presidential Election
2021-22	June 2022	Consolidated Gubernatorial Primary Election

Ethics Commission – Public Financing of Elections

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

The following projection assumes: General Fund deposits in all five years of the forecast; eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals; and that Mayoral elections will be held in FY 2019-20. Under these assumptions, General Fund costs will increase by $1.3 million in FY 2017-18, decline by $0.7 million in FY 2018-19, and then increase by $0.7 million in FY 2019-20, with no additional costs in the remaining two years of the plan. These costs are highly sensitive to the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Golden State Warriors Event Center

The Golden State Warriors plan to construct a multipurpose event center and 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 to pay for public infrastructure improvements, equipment and public services to address the community's transportation and other needs in connection with events at the center. In FY 2017-18, the cost will be $0.7 million less than in FY 2016-17 because of the impact of the property transfer tax from the initial land sale of the project site. However, from FY 2018-19 through FY 2021-22, this report projects estimated annual incremental project costs of $0.1 million, $7.7 million, $0.3 million, and $0.3 million. These costs will be funded entirely with revenue generated from the project through increased property, business, sales, hotel, utility user, and stadium admission taxes.

Mayor's Office of Housing and Community Development - HOPE SF and the Local Operating Subsidy Program

Over the next five years, costs related to HOPE SF and the Local Operating Subsidy Program will require an increase in General Fund support of $1.2 million in FY 2017-18, $4.1 million in FY 2018-19, $6.2 million in FY 2019-20, $4.8 million in FY 2020-21, and $0.7 million in FY 2021-22.

Human Services Agency – Aid

The Human Services Agency projects that aid payments (including programs such as IHSS, CalWORKS, Care Not Cash, and others) will require increases in General Fund support of $5.3 million in FY 2017-18, an additional $3.1 million in FY 2018-19, $3.5 million in FY 2019-20, $3.3 million in FY 2020-21, and $3.6 million in FY 2021-22. These changes are primarily due to projected changes in caseloads.

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

In June 2016 voters approved $311.0 million for a Public Health and Safety Bond. The bond supports Department of Public Health (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 the expiration of one-time expenditures for furniture, fixtures, and equipment (FF&E) and new ongoing operating funds to support additional staff and expanded services in the new health center. Additionally, the Department 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. Together these operating and one-time costs are projected to increase by $6.8 million in FY 2017-18, $6.1 million FY 2018-19, remain flat in FY 2019-20, decrease by $8.6 million in FY 2020-21, and further decrease by $0.8 million in FY 2021-22.

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.

Fiscal Strategies

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Responsible Stewardship in Uncertain Times

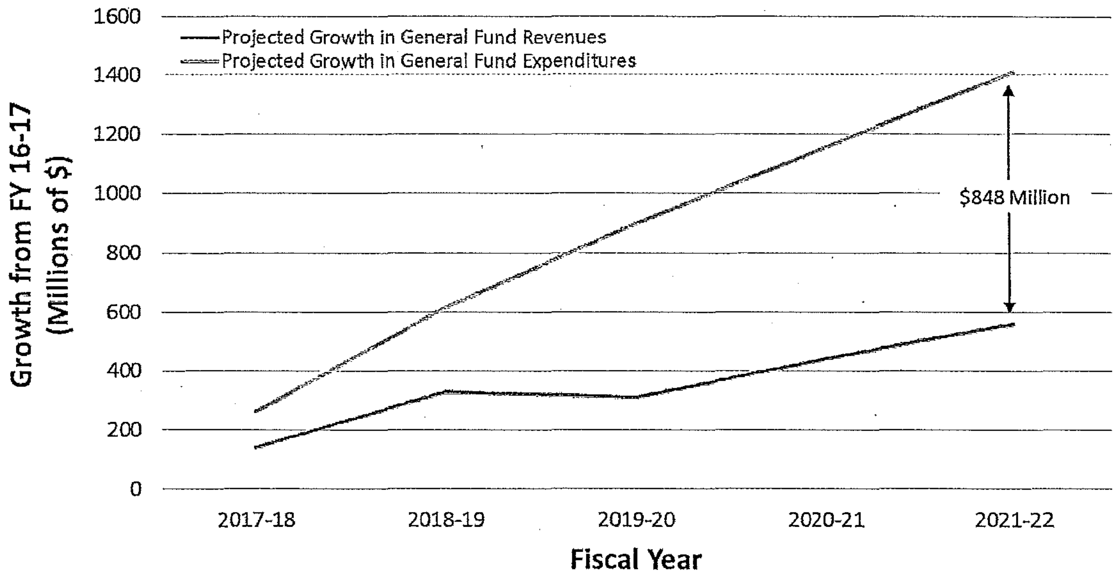
When Mayor Lee first came into office in 2011, the City's financial outlook was very different than it is today. The unemployment rate was 9.4%, revenues were mostly stagnant, and the City faced a two-year budget deficit of nearly $830 million. Many hard decisions were made during those challenging economic times to balance the City's budget, and as a result, the City's financial condition has greatly improved. Over the last six years, continued economic expansion has allowed the City to expand and improve services – for instance expanding MUNI services by 10%, increasing public protection staffing in line with the Public Safety Hiring Plan, and improving the availability and quality of human services for the City's most needy.

However, despite significant efforts and policy changes in the past six years to address the City's long term structural deficit, the current five-year deficit projection is back up to 2011 levels. As explained in the Base Case section above, this is largely due to rising pension and health costs for employees and retirees, as well as the effect of several voter mandated baselines and set-asides. In addition, revenue growth is expected to at least slow, but an economic recession during the five-year period is likely, and there is uncertainty about how future federal policy change might also affect the City.

A disciplined approach to future growth and responsible fiscal choices will ensure continued fiscal sustainability, and allow the City to maintain current service levels for the public. Staying disciplined today will ensure that the City is resilient with 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 19 demonstrates that expenditure growth is projected to outpace revenue growth almost threefold. Projected revenue growth is 11% and expenditure growth is 29% 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 19: 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, sustain 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 City has historically not experienced more than nine consecutive years of expansion and the current Unites States economic expansion began over seven years ago, rendering the likelihood of a slowdown or a decline in revenue growth likely during the period that this plan addresses. Additionally, it does seem very likely that there will be an impact to the City's budget from the recent change in administration 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 budgets 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 15 below.

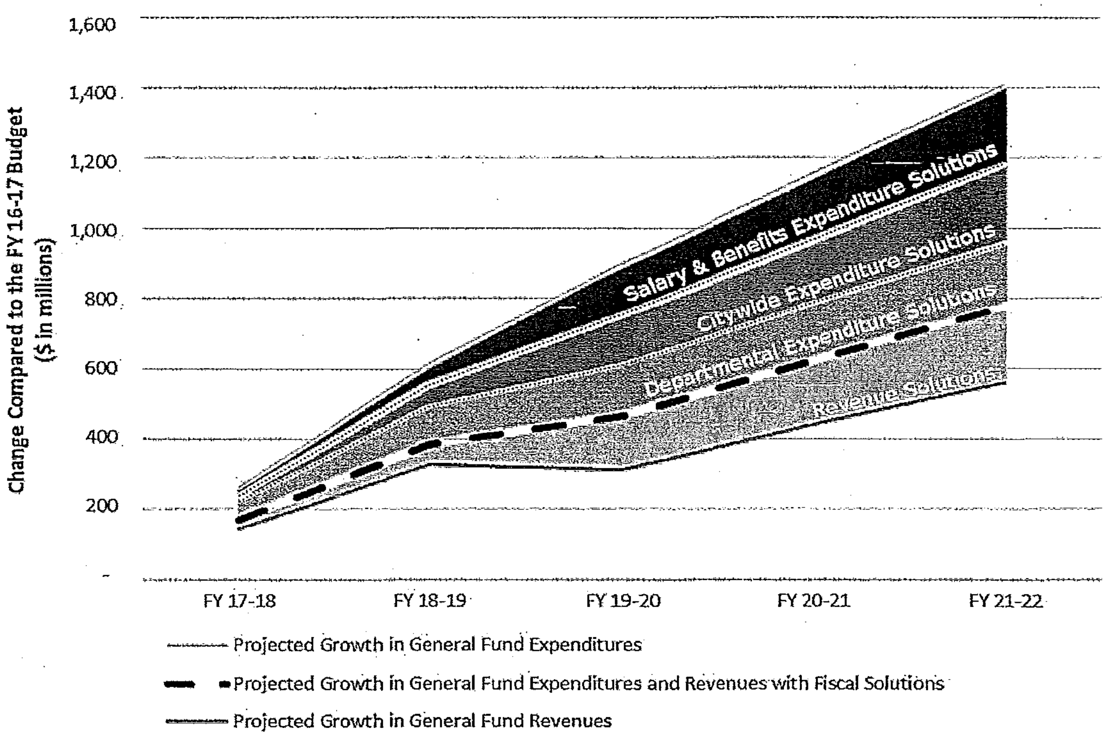
Table 15: Fiscal Strategies ($ in millions)

Base Case Outlook ($ millions)	**FY 17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**	**FY 21-22**
Cumulative Projected Surplus / (Shortfall)	(119)	(283)	(585)	(713)	(848)
Proposed Fiscal Strategies - Sources Growth faster and Expenditure Growth slower than Base Case					
Sources - Taxes, Fees & Other Revenues	26	53	152	181	216
Salaries and Benefits - Manage Employee Costs	25	60	145	190	225
Citywide - Limit Non-Personnel Inflation, Capital, Debt Service and Real Estate	14	62	144	180	227
Departmental - On-Going Revenues & Savings Initiatives	54	108	144	162	180
Adjusted Outlook	**0**	**0**	**0**	**0**	**0**

If the strategies outlined in Table 15 are implemented, the City will be able to maintain current service levels and expenditure growth will increase by $776 million as opposed to the $1,408 million assumed in the base case. The proposed solutions to the City's structural imbalance assume more 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 city government to grow by 16% over the next five years as opposed to the currently projected growth of 29%.

Figure 20 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 budget is today, but moderated to a sustainable level.

Figure 20: 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 $560 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 slower pace. This moderation in revenue growth is an important reason that 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 November 2016, three key tax revenue measures were on the local ballot: an increase in transfer tax for high value real estate, a tax on sugar sweetened beverages, and an increase to the local sales tax. The transfer tax and sugar sweetened beverage taxes both passed with voter majorities, but the sales tax measure failed. The effect of these tax changes to revenues has been incorporated into the base case projection. 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 it 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 50% 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, management of health benefit costs, and implementation of a well-being plan for city employees.

- **Labor Costs:** The majority of city employees are covered by labor contracts that expire at the end of FY 2016-17 and the remainder (police officers and fire fighters) by contracts that expire at the end of FY 2017-18. The base case assumes the implementation of previously negotiated closed labor agreements, which include cost-of-living adjustments through FY 2017-18 for police officers and fire fighters.

  The base case outlook also assumes additional cost-of-living adjustments in line with projected CPI commencing in FY 2017-18 for most employees (excluding police officers and fire fighters), and for all employees for FY 2018-19 through FY 2021-22. However, given the gap between revenue and expenditure growth, it is unlikely the City can afford these increases without service 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 $21.0 million in General Fund savings in FY 2017-18.

- **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 updated in December 2014, anticipated a decline in retirement costs after FY 2014-15, as asset losses during the 2008 financial crisis were fully recognized and subsequent asset gains 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 which have been covered in detail in the base case section of this plan. In the last year of this plan, rates are projected to level off as the effects of these increases are fully recognized. If the economy continues to grow, it is anticipated that mandatory employer contribution rates will decline in the longer-term but not over the five-year time horizon of this plan.

- **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 promote competition between plans by reducing the gap between premium rates, thereby reducing costs while maintaining quality care. Strategies have included: the development of accountable care organizations to decrease unnecessary utilization; conversion of Blue Shield to a flex funded plan; and recently negotiated changes to employee contribution levels.
- **Employee Well-being:** Starting in FY 2012-13, the City began to explore ways to control rising health care costs by focusing on employee health. The Strategic Wellness Plan developed by the Controller's Office, HSS, the Department of Human Resources, the Mayor's Office, and labor leaders was released in 2014. The plan addresses key health risk factors that can be modified through behavior change and is intended to support choices that improve the health, well-being, and morale of city employees, dependents, and retirees. Over the next five years HSS will continue to create a culture of well-being through the departments and individual Well-being Champions, and continue to promote individual services available to employees through the health plans and HSS. These initiatives seek to increase awareness, facilitate access to well-being services, support interpersonal connections, build environments conducive to well-being, and implement policies to support well-being with the ultimate goal of decreasing chronic illness and injuries while improving productivity.

General Fund savings resulting from these strategies are estimated to generate approximately $25 million in FY 2017-18, growing to $225 million by FY 2021-22. 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 Spending:** Since its inception in 2007, the City's Capital Plan has called for an annual 10% increase in the level of General Fund cash investment in city-owned infrastructure; however, two years ago this level was lowered to 7% to match the Fiscal Strategies section of the Five-Year Financial Plan and to bring down projected costs over the projection period. This new 7% rate of growth is included in the plan's base case projected costs, with the exception of the first year of the plan, which assumes a lower level of investment consistent with the adopted FY 2016-17 budget. However, the FY 2015-16 budget did include full funding for the City's Capital Plan recommended finding level, and it was the third year in a row that the Mayor fully funded the General Fund capital budget.

  Some ways that savings could be found related to the Capital Plan:

  - Further reduce spending below the 7% recommended growth each year;
  - Assume the Capital Plan General Fund support level grows at CPI rather than 7% a year;
  - Fully fund the Capital Plan in the first year, but underfund capital in the second year of the budget; or
  - Identify an on-going, sustainable funding source for the City's road repaving program.

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

- **Managing the City's Debt 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 Program (COP) debt program to 3.25% of aggregate discretionary revenue, and each year the City's Capital Plan assumes that the City fully expends this program and uses all available capacity. However, this does not mean that the City must fund projects using debt.
- **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.

  The assumption that increased non-personnel costs will be absorbed within the existing budget allocations excludes inflation on the cost of services provided by non-profit community-based. It is assumed that contracts with community-based organizations will grow moderately in line with labor costs, as discussed above. Non-profit organizations provide many direct community-based health and support services to residents.

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, resources are used strategically, and any redundancies are eliminated. The Mayor's budget instructions issued on December 8, 2016 instructed departments to reduce ongoing General Fund support by 3% per year over FY 2017-18 and FY 2018-19, and to propose no additional positions in departmental budget submissions. These savings are assumed in this section. In addition, further departmental reductions, at lower rates, are assumed beyond FY 2018-19. This strategy will generate savings of $54 million starting in FY 2017-18 and increasing to $180 million by FY 2021-22.

This is significantly more modest than department target 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

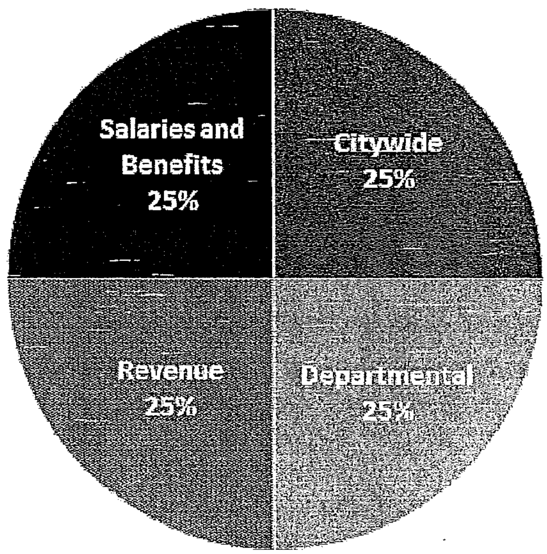
As noted earlier in the base case projection, uncertainties exist regarding key factors that could affect the City's financial condition, for example, changes to the economic cycle or impacts from state and federal policy changes.

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 provide excellent services for the public into the future.

Figure 21: Fiscal Strategies – Each Strategy as a Percent of Total Solution



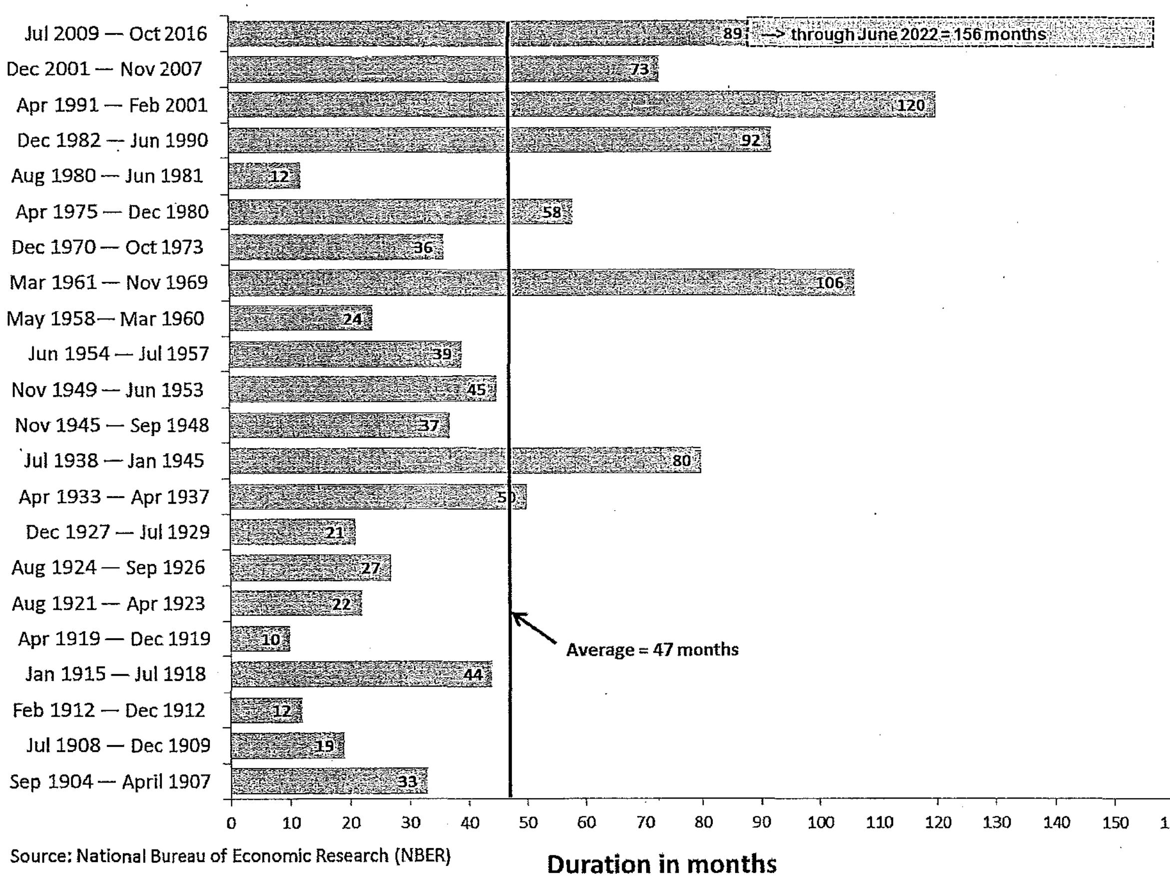
The revenue forecasts in this plan project that the City can grow by approximately 16% over the next five years; however, this is slower than the expenditure growth rate of 29% currently projected in the base case. The fiscal strategies are equally split between revenue solutions (25%), reductions in 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 22 shows, since 1900, the average length of time between recessions in the United States has been 47 months. The current economic expansion has lasted over 89 months. At no time during the forecast period are revenues projected to decline. If there is indeed no recession through FY 2021-22, as the projection assumes, it will mark the longest economic expansion since 1900.

Figure 22: Number of Months Between Recessions in the U.S. (1904 to 2016)



Source: National Bureau of Economic Research (NBER)

Based on the historical length of economic expansions as discussed above, it is likely that a significant economic slowdown or recession will occur prior to FY 2021-22.

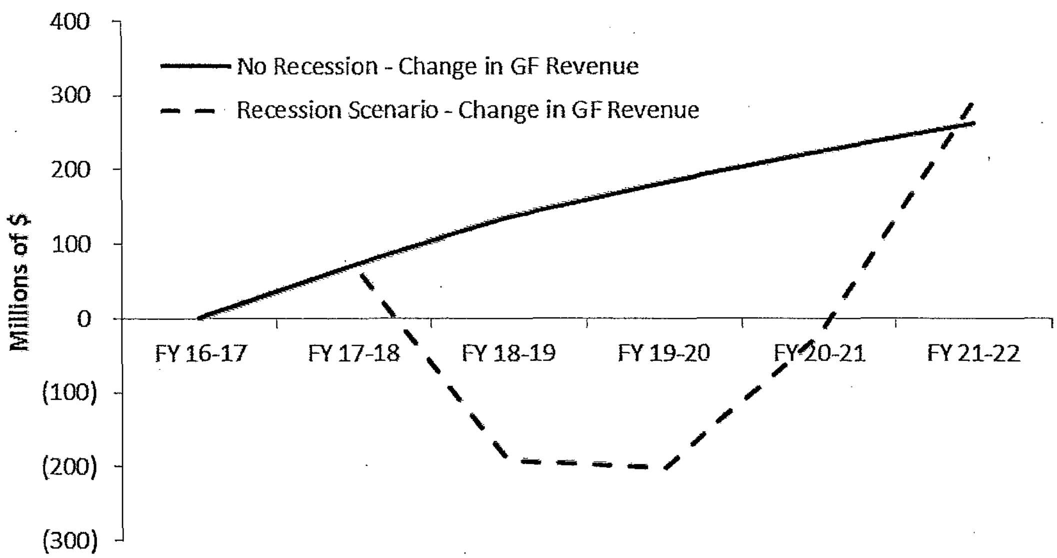
The biggest impact on the City's budget deficits in a time of recession come from reduced revenue and increased employer contribution rates for employee retirement benefits. The City's revenues are affected by the overall business cycle; the international, national, and regional economies; consumer confidence 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 2018-19.

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 MTA, 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 2018-19 would be approximately $960.0 million over the four final years of the forecast period compared to the base case described in this plan. Figure 23 shows the difference between base case and recession scenario revenue projections.

Figure 23: Comparison of Revenue in Base Case and Recession Scenarios
Cumulative Change in Selected Local Taxes



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

Recession Scenario – Impacts on Pension Contributions: An economic recession will also likely result in a significant increase in the employer share of retirement contribution rates. The recession scenario therefore assumes a shock to the Retirement System's (SFERS) assets during FY 2018-19 equivalent to the loss experienced during the 2008 global financial crisis and aftermath, which would affect contribution rates in FY 2020-21 as the valuation at July 1, 2019 determines the contribution rates for the fiscal year beginning July 1, 2020. The FY 2018-19 asset losses is then smoothed into the July 1, 2018 actuarial value of assets and employer contribution rates would increase over a five-year period beginning in FY 2020-21. In this scenario, employer contribution rates would rise by 3.5% in FY 2020-21 and by 7.3% in FY 2021-22. 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 2018-19, it would increase the City's projected deficits by $130 million, $243 million, $223 million, and $53 million in FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22 respectively.

Table 16: Projected General Fund Shortfall in Recession Scenario

Recession Scenario - Five Year Forecast	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Base Case Deficit Projection	**(128)**	**(281)**	**(564)**	**(713)**	**(863)**
Updated Projection - Savings/(Cost)					
Reduction in base case revenue available	-	(328)	(385)	(248)	29
Reduction in mandatory baseline spending	-	48	56	36	(4)
Max Permissible Withdraw from Reserves	-	150	85	57	-
Increase employer share cost of retirement rates	-	-	-	(68)	(78)
Updated Deficit Projection	**(128)**	**(411)**	**(807)**	**(936)**	**(916)**
Amount of New Fiscal Strategies Needed:	-	***(130)***	***(243)***	***(223)***	***(53)***

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 out years would increase from $713 and $848 million to over $900 million. If this were to happen, the fiscal strategies offered earlier in this report would not be sufficient to close the projected gaps between revenues and expenditures and additional expenditure reductions would be required to balance.

At a high level, the recession scenario would necessitate much larger reductions in expenditures than the base case fiscal strategies section of the report. As it is not possible to predict an economic slowdown or exactly what will happen with the change in administration at the federal level, the recession scenario detailed in this plan is hypothetical. However, it is wise to consider the implications of this scenario, as it would be an historical anomaly not to experience a slowdown in the economy over the next five years and we do believe there are potential funding cuts that could be sustained over the upcoming four years.

The recession scenario detailed in this plan was modeled after the City's financial experience during the last two recessions; future economic slowdowns or reductions from the federal government could be less or more severe than the scenario developed for this hypothetical exercise. No matter how large or small the next change in the economic cycle, continuing to improve reserve balances and investment in critical one-time capital, equipment, and IT needs during good economic times will help the City better weather the next economic downturn.

Conclusion

Financial stability is central to the City's ability to provide excellent services to the public. The City is currently experiencing a stable economic climate, and this plan assumes continued, but slowing, growth even in light of much more uncertainty from the change in administration at the federal level. It is important that the City continue to be responsible stewards of public resources. The projections in this plan illustrate the significant value of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. This plan suggests strategies to bring expenses and revenues into alignment that balance the need for responsible growth with fiscal prudence and accountability to the citizens of San Francisco.

Citywide Strategic Plan

Values
Vision
Goals

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EXTENDING OUR COMMITMENT TO LONG RANGE PLANNING

San Francisco has demonstrated a commitment to long-term planning to ensure responsible and sustainable stewardship of public dollars. In conjunction with the Five-Year Financial Plan, the City also publishes the Ten Year Capital and Five-Year Information Technology Plans in order to identify near- and long-term capital and IT needs. Collectively, these documents represent the City's progression toward long term, strategic planning. To build on these efforts, the Mayor's Office requested Five-Year Departmental Strategic Plans from all departments in December of 2015.

Through the review of these plans, working with departments, and incorporating staff feedback, a set of shared values and a vision for our city's future emerged. These values and vision were validated in our first citywide strategic planning retreat with city department heads in September of 2016.

This section presents those values and vision. Also included in this section are featured initiatives that will help make our vision a reality in a manner that reflects our values. Collectively, this represents our first Citywide Strategic Initiatives Framework section of the Five-Year Financial Plan. The issues highlighted below are examples of goals, initiatives, and projects to make our values a reality and implement and accomplish the Mayor's vision over the coming five years.

This Citywide Strategic Initiatives section is a first step towards creating a citywide strategic plan to improve the City's long range organizational planning and alignment. The expectation is that this section will strengthen and grow over time.

Our Values

Our city values define what we stand for and reflect our deeply held convictions and priorities. These values shape our attitudes and behaviors and guide how we operate and conduct our service to the public.

1. Equity. Our services reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city.
2. Collaboration. We are stronger when we work together. We serve through consensus building and cooperation across all sectors.
3. Community. The needs of an engaged and empowered community drive our service and we support participation and democracy for all.
4. Compassion. Our service is grounded in respect, dignity, embracing diversity, care, empathy and inclusion.
5. Service Excellence. We work to continuously improve services that are high quality, innovative and informed by what works.
6. Responsibility & Integrity. We are stewards of the public's dollars. We make responsible decisions to ensure the long term success for our city and residents.
7. Accountability and Transparency. We hold ourselves accountable based on outcomes and believe that transparency fosters public trust.

Our Vision

The vision below represents our desired future for San Francisco. Our vision unifies our diverse work and is a call to action for departments to ensure there is clear direction of the City we want to be and the services we want to provide to the public:

1. Residents and families that thrive
2. Clean, safe and livable communities
3. A diverse, equitable and inclusive city
4. Excellent city services
5. A city and region prepared for the future

FEATURED INITIATIVES THAT HELP ADVANCE OUR VALUES AND VISION

Stating our values and our vision help the City make progress by focusing our work. As a city, we realize that there are places where we are doing well, and other places where we need to do more in order to reach our goals. This section features just a few of the initiatives that support our citywide vision. We expect this section to evolve and grow as our citywide strategic planning processes and product matures.

Vision Area 1: Residents and Families That Thrive

A strong city is one in which all residents and families thrive. San Francisco residents and families should have access to high quality education, job opportunities, and health care in order to thrive in our city.

'Our Children, Our Families' Council

The Our Children, Our Families Council (OCOF) was a created from the successful passage of Proposition C in November 2014. Proposition C jointly approved the extension of the Children's Fund for 25 years and the Public Education Enrichment Fund for the next 26 years. Each fund provides much needed services and programming for children and families across San Francisco, as well as support for service providers, Preschool for All, and direct funding to schools for Sports, Libraries, Art and Music (SLAM). The measure also established a new council, the Our Children Our Families Council to create a plan to improve the condition of children and families in the City, as well as assess city policies and programs, and make general recommendations every five years.

The Mayor and the Superintendent of the San Francisco Unified School District (SFUSD) serve as co-chairs of OCOF. Other members of OCOF include leadership from city and SFUSD departments that provide services to children, youth, and families, as well as members of the stakeholder community. OCOF will focus on providing consistent data, dedicated tools, and collaborative support to leverage an agenda for children, youth, and families across the City. OCOF has identified five goals to address barriers and improve outcomes, and will track success in meeting those goals using 19 performance measures.

Through the efforts of working groups, the OCOF provide centralized inventories of city services and activities for children, youth, and families, which will include an online "one stop shop" for all citywide services. OCOF will also work to standardize data collection and analysis, establish systematic data sharing between the City and SFUSD, and build capacity for training and programming for children, youth, and families, and those who serve them. These efforts will enable better access to information that will help improve the lives of all children, youth, and families San Francisco.

Employment

Investments in workforce development programs allow all San Franciscans to share in the City's prosperity by ensuring that local residents are well trained and well qualified for the fastest growing jobs. The Office of Economic and Workforce Development (OEWD) is working to ensure that San Francisco attracts, retains, and expands industries through a qualified local workforce and opportunities for all businesses, particularly small businesses and thriving local manufacturing.

To support this effort, the City is committed to developing direct training models to help the hardest-to-employ populations develop the skills needed for occupations that provide economic self-sufficiency and upward mobility. The City will also expand programs such as SF BizConnect, Shop and Dine in the 49, and the Small Business Acceleration Program, to support local small businesses.

Health and Wellness

To ensure the health and wellbeing of all residents, the City provides a full spectrum of health care services, maintains robust systems to protect the public's health, and administers a variety of public assistance benefits to residents of all ages and abilities.

- **Affordable Care Act.** Under the Affordable Care Act (ACA), more than 145,000 San Franciscans have gained insurance through Medi-Cal and Covered California. Nearly one in four San Franciscans is now covered by Medi-Cal, and the overall rate of uninsurance in the City dropped from 11% in 2013 to 7% in 2015. A large part of this success is attributable to Healthy San Francisco, which enabled a smooth transition to insurance for nearly thousands of previously uninsured residents. Healthy San Francisco remains in place as a key component of the City's safety net, serving residents not covered by ACA insurance options, regardless of immigration status.

- **San Francisco Health Network.** As the largest Medi-Cal provider in the City, the Department of Public Health (DPH) operates the San Francisco Health Network (SFHN), the City's complete system of care, comprising two state of the art hospitals, numerous community-based clinics, and nonprofit partners. Over the next three years, DPH will implement an enterprise-wide Electronic Health Record system to facilitate care coordination, care planning, and compliance. Additionally, the successful rebuild of Zuckerberg San Francisco General Hospital has doubled the hospital's emergency room capacity, and the June 2016 passage of Proposition A will ensure seismic safety for the hospital's psychiatric emergency services. Lastly, plans for maintaining and enhancing SFHN's behavioral health services to meet the needs of homeless and justice involved populations include opening a behavioral health respite center, and increasing the number of subacute psychiatric and residential treatment beds.

- **Population Health.** DPH is also charged with protecting and promoting the health of all San Franciscans through core public health functions, including infectious disease surveillance, emergency preparedness, and disease control and prevention. A strong public health system ensures that San Francisco is ready for health emergencies and continues to be a worldwide leader in the fight against HIV/AIDS. Since FY 2012-13, the City has backfilled $14.9 million worth of reductions to HIV/AIDS prevention programs and health services, and led the way with the use of PrEP as a preventive measure. Through a successful cross-sectoral partnership, San Francisco is well on its way to meeting the goals of its Getting to Zero initiative, which seeks to reduce HIV transmissions and HIV related deaths by 90% by 2020.

- **Whole Person Care.** To better serve our most vulnerable, the City is implementing the Whole Person Care pilot over the next four years. Authorized under California's 1115 Medicaid Waiver, Whole Person Care is a collaborative effort across DPH, the Department of Homelessness and Supportive Housing, and the Human Services Agency. Through enhanced data sharing and coordinated planning for care and public benefits, the pilot will provide true wrap-around support for homeless persons who are clients of all three departments. With a strong emphasis on enhanced mental health and substance use services, the goal is to improve health outcomes and support success along the housing ladder.

- **Seniors and Persons with Disabilities.** Through the Department of Adult and Aging Services (DAAS), the City provides services to help residents age in place and to facilitate daily living for people with disabilities. In November 2016, the voters passed Proposition I to create a General Fund commitment toward community based services for seniors and persons with disabilities through the Dignity Fund. The Fund ensures baseline spending and provides new investments to expand the capacity of existing programs, and to support the development of new and innovative programming for older adults and adults with disabilities. DAAS is also convening a task force to create an Aging and Disability Friendly plan for the City, in accordance with World Health Organization guidelines.

Vision Area 2: Clean, Safe, and Livable Communities

San Francisco should be a city that is clean, safe and livable for residents, businesses and visitors. The City should encourage community engagement and local pride, ensuring that neighborhoods have clean air and water and healthy ecosystems, as well as well-maintained roadways and physical infrastructure.

Improving Quality of Life in Neighborhoods & Fix-It Teams

In May 2016, Mayor Lee issued an Executive Directive to launch the Safe and Clean Neighborhoods Promise, an initiative to improve the quality of life in all of San Francisco's neighborhoods. The Executive Directive directed Department Heads that are responsible for neighborhood quality of life issues to prioritize and focus on programs and services so that all residents feel safe in their homes and neighborhoods, and that all resident have access to clean, well-maintained public spaces and facilities, such as parks, public transportation, sidewalks, and streets. To address growing concerns over the condition and cleanliness of neighborhoods, the new neighborhood-based Fix-It Teams empower city workers with the "See it – Fix it" strategy. The pilot phase of the Fix-It Teams are informed by neighborhood and community meetings. In addition, Fix-It holds community meetings attended by Department Heads and managers, to identify the unique challenges facing each neighborhood. Priorities are set from this feedback, and interdepartmental teams of 6-10 field staff are deployed, based on what the top priorities for safety and livability. Some examples of common issues that may be addressed with Fix-It Teams include painting out graffiti on public property, removing illegal postings, finding housing or shelter placements for homeless individuals, curb re-painting, filling potholes, or steam cleaning bus shelters. Fix-It aims to serve one neighborhood a month with this targeted approach.

Invest in Neighborhoods

While the Fix-It Teams address resident concerns, the Invest in Neighborhoods (IIN) Initiative, which started in 2012, leverages city services to strengthen neighborhoods by helping small businesses thrive through improved physical conditions, enhanced quality of life, and stronger community capacity. The 25 participating neighborhood commercial districts have received an initial corridor assessment, an assigned staff person at City Hall, an opportunity to apply for small project grants, and access to a range of other services aimed at strengthening neighborhood commercial corridors.

Over the next five years, IIN will continue to accomplish measurable economic outcomes related to job creation, increased tax revenues, increased private investment, and lower vacancy rates through its various programs. The program will continue to build relationships among community members, cultivate local leaders, and create stronger connections between city staff and the programs and communities they serve.

Over the next three years, Fix-It plans to cover 30 different neighborhoods consisting of 10 to 15 block segments, providing detailed quality of life assessments and actions plans to ensure that residents feel safe and neighborhoods are clean. The Fix-It Team is also working with Harvard Business School Community Partners program to discover the root causes of some quality of life issues that are common in neighborhoods throughout the City.

Vision Zero

Every year, about 30 people lose their lives and over 200 are seriously injured while traveling on San Francisco's streets. In 2014, the City adopted Vision Zero, a policy to eliminate all traffic deaths in San Francisco by 2024. Vision Zero commits the City to building better and safer streets, educating the public on traffic safety, enforcing traffic laws, and adopting lifesaving policy changes.

The City is using various publically available metrics to track engineering, education, and enforcement progress on tactics identified as best practice in moving San Francisco towards zero traffic deaths. To ensure that city staff and the community are aware of the program's progress, San Francisco has established a monthly fatality reporting process that allows for tracking on the Vision Zero website. The Municipal Transportation Agency (MTA), the Department of Public Health (DPH) and the San Francisco Police Department (SFPD) are also tracking key indicators, including miles of the high-injury network where safety treatments have been installed, awareness of Vision Zero, and citations for the five violations that most frequently result in severe and fatal collisions (a policy known as Focus on the Five).

In 2015 approximately 1,600 safety treatments were installed on over 30 miles of roadways across the City, 20 of which were on the high-injury network. This exceeded the program's annual target of 13 miles worth of treatments. Other recent achievements of Vision Zero include launching the Safe Speeds campaign, a strategic education and enforcement effort, and Safe Streets for Seniors, an education campaign geared at raising driver awareness around pedestrian right of way issues.

In addition to the steps described above, city departments responsible for Vision Zero implementation will continue to take measurable steps to achieve Vision Zero's goal of "Safe Streets, Safe People, and Safe Vehicles" over the next five years. These steps include: evidence-based safety treatments on high injury network streets, expanding "Safe Routes Programming" for schoolchildren, seniors and the disability community, researching effective culture change communication and education best practices, advancing automated speed enforcement to encourage people to drive at a safe speeds, investigating the feasibility of policy initiatives, implementing electronic citations and use data, and continuing to require that all city employees driving city vehicles, taxis, and city-contracted vendors complete the Vision Zero driver-training course.

Culture and Recreation

Access to parks, libraries, and museums is an important part of what makes San Francisco a pleasant, fulfilling, and culturally vibrant place to live, work, and visit. This is why the Mayor's budgets in recent years have included significant new investments in the departments that provide these cultural and recreational services to communities across San Francisco.

In June of 2016, the voters passed a General Fund baseline for the Recreation and Parks Department, guaranteeing stable funding for our parks system. This stability will allow the Department to increase park maintenance and programming and build on the success that it has achieved over recent years. This success is demonstrated by the fact that more that 96%of San Francisco parks are rated at higher than 80%.

In addition to providing additional funds for recreation, the Mayor's FY 2016-17 budget contained additional funding for the Public Library that would allow for 70 additional weekly hours of operation at 14 neighborhood branch libraries, a 5% increase in hours system wide. With these additional hours, the Public Library will be able to serve more people, allowing residents and visitors to study, to learn, to access the internet, and to have a quiet place for reading and contemplation. Similarly, in recent years the Mayor has increased funding for the Asian Art Museum, the Academy of Sciences, the Arts Commission, and the Fine Arts Museums with the goal of increasing accessibility of cultural experiences for all San Franciscans and investing in the facilities that house the City's collections of art.

Vision Area 3: A Diverse, Equitable, and Inclusive City

San Francisco remains committed to lifting up all in our diverse city and creating access and opportunity for everyone to share in the prosperity. The City must develop strategies to address the problems of poverty and homelessness while at the same time acknowledging the impact of the intersection of gender, gender identity, race, and national origin. All neighborhoods should receive high-quality benefits and services.

Affordable Housing

In 2014, Mayor Lee pledged to construct 30,000 new and rehabilitated homes throughout the City by 2020, with half available to low, working and middle income San Franciscans. San Francisco is well on track towards those goals. From January 2014 through September 2016, over 13,800 units have been built or completely rehabilitated, with over 5,700 of those units permanently affordable to low income San Franciscans.

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

In FY 2014-15, FY 2015-16, and FY 2016-17, the Mayor asked the Mayor's Office of Housing and Community Development (MOHCD) to spend more funding now by bonding for a total additional amount of $75 million over three years with the debt service paid through the HTF. The Mayor and the Board approved these increases to address the current affordability crisis and to support the Mayor's 30,000 goal. This funding is being used to speed up the development of new multifamily affordable housing developments currently in the City's pipeline. Other large funding sources for affordable housing include $310 million from voter-approved Proposition A General Obligation Bond for Affordable Housing in November 2015, and a state law authored by Senator Mark Leno that provides $500 million of funding to accelerate the development of 3,300 affordable housing units in the City's former redevelopment areas.

Public Housing Re-Envisioning and HOPE SF

The Mayor, who grew up in public housing, is extremely passionate about addressing the City's Public Housing stock and has made this a signature policy area of focus during his term. Many of the City's Public Housing sites are in poor physical condition, are isolated from transportation and jobs, and do not constitute a safe place to raise a family in San Francisco. Thus, rebuilding and improving the physical assets while providing robust social services is a key step in ensuring that families living in Public Housing have the same opportunities as all San Franciscans. Over the past several years under the Mayor's leadership, the City has worked closely with the San Francisco Housing Authority (SFHA) on two major undertakings: to rehabilitate and ensure the long-term financial stability of public housing stock throughout the City as well as continued implementation of HOPE SF, a signature initiative to replace four of the City's most distressed public housing developments with mixed-income developments.

The City continues to make progress in implementing HOPE SF. Combining public housing replacement units and new affordable units, the City has a total of 284 new units complete or under construction at Hunters View, with another 306 under construction at Alice Griffith. Over the next five years, the City will implement the funding plan for the two remaining sites and begin construction.

Through HUD's Rental Assistance Demonstration program, the City has partnered with SFHA to rehab nearly 3,500 units of public housing. Construction is underway at all 29 sites, with construction completion dates currently estimated from November 2016 through October 2018.

Homelessness

In his inaugural address on January 8, 2015, Mayor Lee announced the creation of a new Department of Homelessness and Supportive Housing (DHSH), which officially launched in August 2016. The department combines key homeless serving programs, staff and contracts from the Department of Public Health (DPH), the Human Services Agency (HSA), the Mayor's Office of Housing and Community Development (MOHCD), the Department of Children Youth and Their Families (DCYF) and the former office of Housing Opportunities Partnerships and Engagement (HOPE). This consolidated department has a singular focus on preventing and ending homelessness for people in San Francisco.

Homeless Outreach. In August 2016, DHSH created the Encampment Resolution Team (ERT) to address large tent encampments in the City. The Department plans to expand on this successful program in 2017. The Homeless Outreach Team (SFHOT) is an ongoing city program to provide outreach and services to individuals living on the street. In partnership with the Controller's Office, HSH is working on a plan to redesign SFHOT to better meet community needs. This is part of a larger effort to improve the City's response to street homelessness in partnership with multiple departments. This includes working with 311 and 911 to improve communications and responsiveness to the public.

Navigation Centers. The City has approximately 1,500 temporary housing options (shelters, transitional housing and navigation centers). To meet the demand for temporary housing options, the City has opened two Navigation Centers in the Mission District and the Civic Center/Mid-Market area. After a successful first year in which over 450 client were served, the City and HSH will open a new Navigation Center in February 2017 and another in October 2017.The Navigation Center model adds additional beds while also engaging homeless individuals with barriers to utilizing the traditional shelter system. The Navigation Center brings together services and staff from multiple city agencies and non-profit partners to streamline the processes by which homeless individuals connect to benefits and exit into stable housing. The Center is a 24-hour low threshold facility which allows clients to enter with their partners, possessions and pets.

Supportive Housing. The City's portfolio of permanent, supportive housing units totaled nearly 6,300 as of FY 2015-16. In FY 2016-17, the Department will add over 300 new units of permanent supportive housing to the City's portfolio. These 300 units will leverage federal funding sources to housing the longest term homeless individuals and homeless veterans. The Department is also expanding other exits from homelessness including the Homeward Bound program, temporary rent subsidies and long-term rent subsidies. As part of the strategic planning process, the department will create a long term plan for developing the housing and other exits needed to achieve its goals.

Coordinated Entry. Following direction from HUD, the City has started implementing a coordinated entry and placement process. The goals of coordinated entry are for assistance to be allocated as effectively as possible and for each individual to be matched with the services and support that are best matched to their needs-regardless of their point of entry into the homeless services system. The process prioritizes people who are the most vulnerable or have the most severe service needs, shortens wait times for services, and applies best practices for standardized assessment. The City is developing a single data system to facilitate the coordinated entry and placement process.

Family Homelessness. In November of 2015, the Mayor announced a Family Homelessness working group to bring together city departments, the San Francisco Unified School District, homeless service providers, and business and philanthropic partners to create a plan to ensure that families with elementary school children never have to spend a night on the street due to lack of available shelter or housing. DHSH will implement the recommendations of working group, remove the backlog for shelter, and return the homeless services system for families to an emergency-only system. This plan will reduce the average length of family homelessness to less than 90 days by 2020. In December 2016, Mayor Lee announced the creation of the Heading Home Campaign, a public-private partnership between the City, the San Francisco Unified School District, and Hamilton Families, with the goal of dramatically reducing family homelessness. The Heading Home Campaign will raise $30 million from the philanthropic community, non-profits, and the City to provide rapid re-housing and rental subsidies to homeless families. Rapid re-housing through rental assistance is an intervention designed to help individuals and families quickly exit homelessness and return to permanent housing. The Campaign's goal is to reduce the amount of time families experience homelessness from the current average of 414 days to a maximum of 90 days through rapid re-housing.

In November 2016, the Mayor also announced that San Francisco will end chronic homelessness among veterans by November 2017. DHSH is working closely with the Veterans Administration, the San Francisco Housing Authority, private landlords and non-profit service providers to achieve this goal.

Sanctuary City Policies and Human Rights

San Francisco has long been a leader in championing human rights, leading the nation in its support of same sex marriage, and its commitment to sanctuary policies that protect all residents. Over the next five years, the City will continue to demonstrate the values of inclusiveness, tolerance, and compassion for one another, be a city dedicated to progress, and a leader on issues that have changed the landscape of our country for the better.

Led by the Human Rights Commission and the Office of Civic Engagement and Immigrant Affairs, the City will strengthen its commitment to enforce the Sanctuary City Ordinance. In December 2016, Mayor Lee will release an Executive Directive clarifying and reaffirming San Francisco's commitment to its robust sanctuary city protections. By ensuring that all residents, regardless of immigration status, enjoy equal dignity, respect, and due process under the law, all San Franciscans are made safer, healthier, and more prosperous. The City will continue to document and investigate allegations of any violation of the Sanctuary City Ordinance from members of the public, and will also increase outreach and develop partnerships with local immigrant advocacy groups in order to conduct "know your rights" trainings on the Ordinance.

In addition to reinforcing sanctuary policies, the City will also leverage the Human Rights Commission to develop a shared framework for city departments focused on equity. This framework will include best practices, trainings and toolkits, and guidelines on how to make city services more equitable and inclusive for residents.

Police Reforms and Violence Prevention

Police Reforms. In early 2016, Mayor Lee announced a comprehensive package of police reforms to increase public safety, build greater trust between police officers and the community, and make the Department more responsive, transparent and accountable. These efforts to fundamentally re-engineer the way that police officers use force are wide-ranging, and include the creation of a new Bureau of Professional Standards and Principled Policing, major expansions to the Crisis Intervention Team network, new prohibitions on the use of firearms in specific circumstances, and a new Community Safety Initiative to recruit young people from San Francisco neighborhoods most impacted by violence to work with the Department to improve community trust.

- **Accountability and Leadership:** The Department's first Bureau of Professional Standards and Principled Policing (PSPP) is responsible for the formulation, review, and implementation of reform efforts recommended both internally and externally by key stakeholders. The new Bureau will work closely with the Chief of Police, Police Commission and Mayor's Office to assure the successfully implementation of 92 findings and 272 recommendations outlined by the Department of Justice Collaborative Reform Initiative. The department will also look to partnering with renowned institutions and reputable evaluators to assess any additional needs necessary in supporting police reform efforts.

- **Reengineering the Use of Force:** The Police Department will continue to revise the Department General Order's Use of Force policy to prioritize the sanctity of life, de-escalation and proportionality. Training and equipment will complement the institutional changes necessary to preserve the sanctity of life.
- **Training:** The Department is deploying number of new and improved trainings, such as the Crisis Intervention Training program, initiation of a department wide Implicit Bias training, developing and teaching cultural competency, and fostering internal cultural change. Key training programs, Blue Courage and Procedural Justice, will offer a series of courses designed to cultivate an internal culture change within the Department by emphasizing community trust and honor of law enforcement officers.
- **Equipment:** Over the next two years the Department will deploy tools and training to fundamentally re-engineer the way police officers use force. Funding to enhance de-escalation techniques utilized by frontline law enforcement officers was included in the FY 2016-17 budget. Equipment includes piloting defensive shields, net guns, beanbag guns, and equipping all patrol vehicles with automatic defibrillators.

  Additionally, the Police Department is working to implement the body worn camera program across the department, equipping every patrol officer with a body worn camera over the next two years. The use of body worn cameras seeks to promote transparency and accountability with the Department, and increase the public's trust in law enforcement. A comprehensive body worn camera policy was developed with input from members of the community, Police Officers Association, the Department of Police Accountability (formerly Office the Citizen Complaints), and the Police Commission.
- **Diversity and Recruitment:** The Department will continue to strive to comply with charter mandated staffing by hiring 1,971 officers. The recruitment strategy will work closely with community based agencies, local institutions, and city departments to recruit a multi-ethnic, culturally aware and culturally competent workforce reflective of San Francisco's rich diversity. The Department will also strive to build their language access capabilities.
- **Community Policing:** The Department will continue working with multiple community-based agencies, various neighborhoods, and residents to continue serving the residents of San Francisco. The Police Department's Youth Engagement Unit will work closely with the Bureau of PSPP to build various community engagement strategies such as supporting local schools, organizing community events like gun buy back events, and promoting employment and recreation opportunities for youth and young adults. The Department will also continue organizing Community Police Advisory Boards (CPABs) per district station and general advisory groups in order to provide a regular forum where residents can engage intentionally to support policing efforts and build trust with the community.
- **Data and Technology:** The Department will reassess uses and business practices, such as citations and rebuilding data systems to reflect a 21st century department. Enhancing the ability to accurately collect data, in real time, through the Crime Data Warehouse (CDW) and e-citation software/hardware to fulfill legislative mandates and assure transparency.

Violence Prevention Programs. Over the next five years, the City and County of San Francisco will continue to coordinate services and assure access to the most vulnerable populations in San Francisco. The vast investment in various programs will continue to be culturally competent and address various levels of the continuum of violence-primary and secondary prevention, early and high risk intervention, enforcement, and reentry. These strategies will be administered by various criminal justice agencies and social service departments.

The Street Violence Response Team (SVRT), a coordinating body led by the Mayor's Office, will continue as a key centralizing forum to develop comprehensive responses to incidents of street violence. City and community stakeholders will develop service activation plans and leverage resources for each incident of street violence. The SVRT will rely on investments such as the Department of Public Health's Crisis Response Team, Street Violence Intervention Program (SVIP), Interrupt, Predict, Organize (or, IPO) employment program, Roadmap to Peace and African American Violence Prevention Collaborative -Black to the Future - to effectively service and reach populations mostly impacted by violence.

Vision Area 4: Excellent City Services

Excellent city services are central to helping us achieve our full vision. Our services must be well managed, embrace modern tools and technology, and be delivered by engaged and committed employees.

Improving City Performance and Management

The City delivers an array of services, from healthcare to paving streets to managing parks. Ensuring excellent performance and management across this diverse portfolio is an ongoing challenge. This strategic framework is a key step in aligning this work behind a common vision for San Francisco, to coordinate, cooperate and communicate in order to provide excellent customer service. To that end, the City is using Living Cities' *Equipt to Innovate* framework to improve how the City does business. This framework focuses on improving city performance and management through ensuring excellence in 7 areas:

- **Dynamically planned.** A clear long-term vision for the City, broad strategic goals, and an overall plan exist, and transparent systems for facilitating material progress toward that vision and plan are in place.
- **Broadly Partnered.** Government collaborates internally and externally and freely partners to achieve better results for residents.
- **Resident involved.** Local government effectively engages a broad spectrum of the community, especially harder-to-engage and underrepresented populations (such as youth, low-income residents, people of color, and new immigrants) in making policy, improving service delivery and solving complex problems.
- **Race Informed.** The City is intentional about addressing racial disparities through policy and practice, and effectively adapting to changing population demographics.
- **Smartly Resourced.** Local government resources are strategically deployed toward the best, biggest outcomes.
- **Employee engaged.** All city employees, from elected and appointed officials to frontline staff, are engaged at a high level, and contribute to the City's goals as drivers of innovation and continuous improvement.
- **Data Driven.** Data and modern technologies are appropriately utilized for better performance, innovation and engagement.

While we have more work to do across the board, a few examples of our work are highlighted below.

Digital Services Strategy

More than ever before, residents now expect services to be available online. The development of new digital services is an opportunity to rethink how we deliver services to ensure every resident and visitor has the access they need. San Francisco's Digital Services Strategy promotes the development of new digital services to help improve the customer experience. Through comprehensive service redesign, the City seeks to streamline the customer service experience and make all services accessible and easy to use for everyone. To do so, the City is launching a new team – the Digital Services Team, which was just started in FY 2016-17, will be tasked with rethinking the City's digital services strategy and customer experience. Over the next several years, the Digital Services Team will work to improve services to be more accessible and intuitive for everyone by putting residents first, delivering services digitally whenever possible, integrating digital services into the City's core businesses, building a team with expertise and modern skills, and collaborating across the City. This team will build on some of the successes highlighted below:

The San Francisco Business Portal. The San Francisco Business Portal is a customer-centric online portal for San Franciscan and entrepreneurs to easily start a business in San Francisco and be in compliance with local regulations. Since its launch, the Business Portal has averaged 17,479 page views per month, with more than 13 times as many users on a daily basis as the City's previous online business solution. The Business Portal has received national and international recognition for its user centered design and ease of use. The White House rewarded the Business Portal with a $50,000 grant in its "Startup in a Day" competition to further develop new features in the Portal. In its second phase, the Portal launched online permit application submission, customizable checklists, and personalized user accounts.

The San Francisco Housing Portal (DAHLIA). The San Francisco Housing Portal launched in September 2016. A collaboration of the Mayor's Office of Housing and Community Development, the Department of Technology, and the Mayor's Office of Innovation, the San Francisco Housing Portal is a central online portal for San Franciscans to view below-market rent units available in the City, submit rental applications, and view lottery results. Going forward, the housing portal will grow to include multifamily listings and additional lottery functionality.

DataSF

The DataSF program has two broad mandates 1) unleash innovation through open data and 2) support smart use of data in the City. Through SF OpenData, DataSF publishes freely distributable data sets so anyone can creatively use information to improve the lives of residents and offer new services. This also provides a shared data repository for city departments, who otherwise have to rely on relationships to access data across departments. Data Academy, a partnership with the Controller, educates analysts citywide to explore, refine, and enhance their skills in data analysis and visualization. ShareSF works to ensure that city departments thoughtfully share and integrate data to improve service and care coordination for our most vulnerable residents. Lastly, novel data analysis, such as detecting anomalous eviction patterns, helps city departments identify new ways of improving their programs and services. Overall, better use of data will help improve city services and operations which will ultimately increase the quality of life and work for San Francisco residents, employers, employees and visitors.

Well-Being and Employee Engagement

The Well-Being Program is designed to educate, inspire, and support employee well-being. Improved employee well-being leads to better quality of life, improved morale, better service to the public, reduced work injuries and absenteeism, and lower health care costs. City departments have champions that support citywide and department-specific activities and engaged employees in participation. Housed in the Health Service System (HSS) which administers the City's health benefits, Well-Being works closely to promote existing health plan resources that support well-being as well as quality and affordable health care.

An early activity of the program is the Well-being Assessment. The Well-being Assessment surveys city employees and raises awareness on personal and department-wide well-being. The results of the latest survey will be used by city departments to develop and implement programs, offer services, and address policies that will enhance areas that have been identified in the department's Well-Being Assessment. To support departments in future years, a combination of resources and recognition will be provided. The resources strive to eliminate financial barriers associated with bringing well-being to the workplace. The recognition opportunities organize strategic efforts around well-being, inspire departments, and provide successful examples which can be leveraged in the future by other departments.

The Well-Being Program targets three areas: organizational commitment, healthy behaviors, and emotional well-being. Two major components of organizational commitment are leadership engagement and champion engagement. Healthy behaviors and emotional well-being are addressed through raising awareness, programs that promote behavior change, and social, environmental, and policy supports. Campaigns rotate annually to address a variety of topics and targeted programs are offered to address specific needs or groups.

Through the employee well-being program, we have identified the need for a broader employee engagement approach that incorporates wellness and will be expanding our work in this area.

Vision Area 5: A City and Region Prepared for the Future

San Francisco must prepare for coming changes and challenges over multiple time horizons to ensure that the City is resilient environmentally, economically, and educationally now and for future generations.

Combating Climate Change

Issues around the environment and global climate change will be at the forefront of the local agenda over the next five years, especially in light of the recent change at the federal administration. To combat the challenges of global climate change, San Francisco has adopted ambitious climate action goals. San Francisco's climate action strategy – 0-50-100-Roots– means sending zero waste to landfill, making 50% of all trips outside of personal vehicles, choosing 100% renewable energy, and protecting and growing our urban forest.

San Francisco is also continuing its leadership on climate change by focusing on the immediate and long-term threats of sea level rise and associated coastal flooding. In March of 2015, the Mayor convened an interagency task force of twelve city departments to work together to develop a Sea Level Rise Action Plan for San Francisco. The Action Plan, published in March 2016, is the first step towards the development of the Citywide Sea Level Rise Adaptation Plan, expected to be completed by summer 2018. The Adaptation Plan will incorporate the adaptation strategies identified in the Action Plan, set a planning framework to prioritize investments, identify funding sources, and guide implementation of policy, governance and regulatory reforms to ensure that San Francisco is prepared to adapt to the impacts of sea level rise.

In November 2016, the Mayor's National Climate Action Agenda, which includes forty-two mayors from across the country, including San Francisco, joined together to make a public commitment to reducing greenhouse gas emissions and setting ambitious climate action goals. The group implored the federal government to support this work through policies at the federal level, but also committed to forge ahead in the absence of federal support.

Improving our Transportation System

The San Francisco Municipal Transit Agency (SFMTA) and the San Francisco County Transportation Authority (SFCTA) are currently working to plan and implement significant infrastructure projects that will transform transportation in San Francisco.

Central Subway. The Central Subway Project will construct a modern, efficient light-rail line that will improve public transportation in San Francisco. This new 1.7-mile extension of Muni's T Third Line will provide direct connections to major retail, sporting and cultural venues while efficiently transporting people to jobs, educational opportunities and other amenities throughout the City. The Central Subway will provide a clean, pollution-free transit alternative that will reduce the environmental impact of transportation in the City, save natural resources, reduce traffic congestion, and improve transportation options for an underserved area of San Francisco.

Muni Forward. Muni Forward aims to enhance safety for pedestrians, create a Rapid Network, and improve Muni reliability. These goals will be achieved through service changes and transit priority projects. Increasing service and changing route alignments will reduce crowding, as well as improve system-wide neighborhood connectivity and access to regional transit. Street design changes will address transit delay, improve reliability and increase the safety and comfort of customers along our most heavily used routes.

Transbay Transit Center. The Transbay Transit Center/Caltrain Downtown Extension project will transform downtown San Francisco and regional transportation. The project consists of replacing the outmoded terminal with a modern one, extending Caltrain 1.3 miles from Fourth and King Streets to the new terminal at First and Mission streets, and creating a transit-friendly neighborhood with new housing and mixed-use commercial development. Bus Operations in the new Transbay Transit Center are scheduled to start at the end of 2017.

Neighborhoods of the Future and Major Development Areas

The Office of Economic and Workforce Development (OEWD) Joint Development Team negotiates with private partners to leverage private investment for public good. These efforts maximize the provision of housing for new and existing residents, as well as transportation and infrastructure improvements, open space amenities, new utilities, job opportunities, and other community benefits. Each project creates new construction and professional services jobs, and new mixed-use commercial spaces create retail, office, and production, distribution, and repair jobs.

Over the next ten years, projects in the Southern Bayfront will create 20,000 units of new housing, 6,700 of which will be affordable, retail and commercial space, and hundreds of acres of open space. Additional projects with large housing components include the former Schlage Lock site, where the transformation of a vacant industrial site will create 1,679 new units of housing, 46,700 square feet of retail space, and over two acres of public space. Additionally, the 5M Project in SoMa will create 688 units of housing, 241 of which will be affordable, and 600,000 square feet of commercial space.

Long Range Planning

San Francisco has made significant progress in fortifying and renewing its physical infrastructure to be resilient for the future, as well as bolstering the City's financial position through sound fiscal policies.

Seawall Resiliency Program. The Seawall – constructed more than a century ago – is the foundation of over 3 miles of San Francisco waterfront stretching from Fisherman's Wharf and Telegraph Hill to South Beach and Mission Creek. A recent vulnerability study found that the soils below the Seawall are weak and expected to liquefy during strong ground shaking, causing the entire waterfront to settle and move bayward, putting lives, property, and infrastructure at risk and increasing regional earthquake recovery costs. In addition, sea level rise is now beginning to impact the waterfront by increasing the frequency of nuisance flooding and expanding the floodplain. As a result, the Seawall requires significant improvements to survive the next major earthquake and to address increasing flood risk from sea level rise and climate change. In the upcoming two years, the Mayor made a major step forward towards addressing our seawall by funding $8 million in planning for this project and asking the Capital Planning Program to consider this project for additional funding through the upcoming Capital Plan. In the next five years, the Mayor's Office will work with the Port of San Francisco to scope and assess needed Seawall improvements and secure funding sources in order to meet seismic and flooding challenges and create a resilient waterfront.

Economic Resiliency Plan. The Office of Economic and Workforce Development (OEWD) is leading the development of the City's first Economic Resiliency Plan. The plan, which kicked off in June 2016, will provide a framework and recommendations for the City on how to prepare for a future economic downturn and specifically for residents and businesses rather than government operations. At the height of the most recent economic downturn in 2009-2010, San Francisco experienced a nearly double digit unemployment rate (9.4%) that left thousands of San Franciscans unemployed and resulted in impacts to city businesses and families. Through the development of this plan, the City will take proactive steps in preparation for an economic downturn in order to protect the City's economy and residents.

Financial, Capital and Information Technology Long Range Planning. In addition to the Five-Year Financial Plan, the City engages in longer term planning for infrastructure and information technology (IT) needs. Managed by the City's Administrator, the City has completed comprehensive assessments of the City's near- and long-term capital and IT needs through the creation of the Ten-Year Capital Plan and the Information and Communications Technology plan, each of which is issued biennially, in conjunction with the Five-Year Financial Plan. All of these documents, started within the last 5-10 years, enable the City to better see trends and problems before they arise and to proactively plan for multi-year solutions. They also help policymakers prioritize limited city funds and stay disciplined to planning processes, while also allowing for changes as needed to address emergencies that arise.

Conclusion and Next Steps

Planning over the long term enables city government to perform better day-to-day as issues arise. Long range planning is now part of the San Francisco culture; the City has a Ten Year Capital Planning process that is over ten years old. This year will mark the 4th edition of the Five-Year Financial Plan and Five-Year Information, Communication and Technology Plan. However, there is always more to be done, and this Citywide Strategic Plan section seeks to provide a first step towards better alignment and coordination on a citywide basis for projects and goals to reach a larger vision and live our values.

Moving forward, the Mayor's Office will request Departmental Strategic plans and update this Citywide Strategic Plan section as part of the Five-Year Financial Plan process.

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.

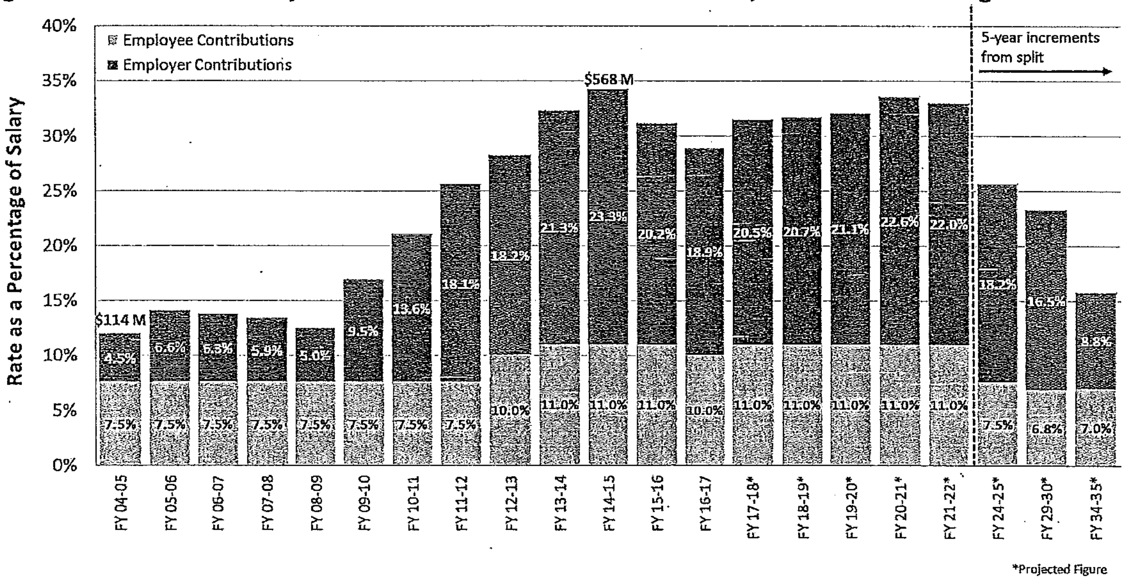
Pension Liability

Retirement contribution rates have changed significantly over the past decade, particularly the employer portion, which increased from a low of 4.5% of payroll in FY 2004-05 to a high of 23.3% in FY 2014-15, representing employer contributions of $114 million and $568 million, respectively. The December 2014 Five-Year Financial Plan anticipated contribution rates to peak in FY 2014-15, after which rates would decline as investment losses incurred during the global financial crisis were fully smoothed in, the cost of prior pension enhancements fully amortized, and the impacts of voted-adopted pension changes began to be realized.

For reasons discussed above, while these benefits have been realized, they have been eroded by several key setbacks. As of June 30, 2016, for financial reporting purposes, the City's net pension liability for the San Francisco Employees' Retirement System was $2.16 billion. This was updated to $5.48 billion in November, 2016. The increase, similar to the projected cost increases on employer contributions discussed earlier in this report, is due to investment returns less than projected, the City's loss of the supplemental COLA lawsuit, and the impact of revised demographic assumptions which reflect the longer lifespans of retirees.

Employer contribution rates are therefore likely to decline over a longer horizon, given these facts, declining gradually by half over a 20 year horizon, as illustrated below. 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 24: Actual and Projected Retirement Contribution Rates, FY 2004-05 through FY 2034-35



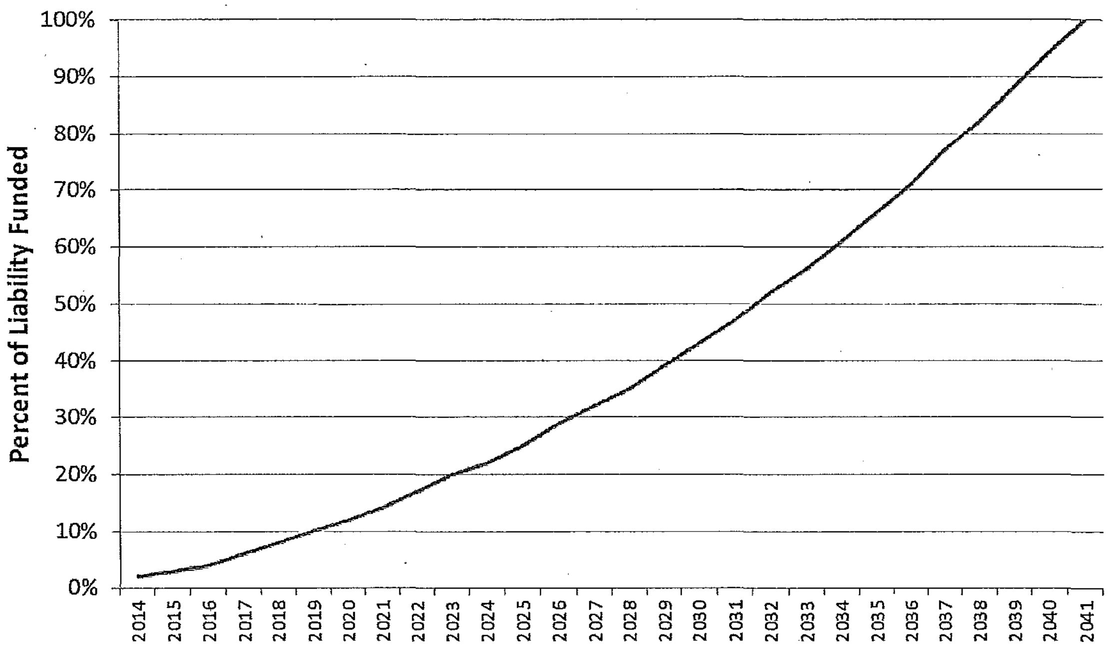
Other Post-Employment Benefits (OPEB) Liability

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 was calculated at $4.4 billion, $4.0 billion, and $4.3 billion as of July 1 2010, 2012, and 2014, respectively.

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 17% by the end of this plan's forecast period, reaching full funding by 2041, as shown in Figure 25. This will require employer contributions of 7.3% of payroll in FY 2017-18 increasing to 9.2% of payroll in FY 2026-27, and remaining above 9% through FY 2031-32.

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 25: OPEB Projected to be Fully Funded in 2041



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 most recent Ten-Year Capital Plan (for FY 2015-16 through FY 2024-25, approved in April 2015) deferred $1.3 billion in identified renewal needs for General Fund departments, and did not fully fund annual state-of-good-repair needs until FY 2024-25.

Current projections for the next Ten Year Capital Plan (for FY 2017-18 through FY 2026-27, to be approved in April 2017) estimate a backlog of routine repair and renewal needs of $681 million at the end of FY 2016-17. As shown in Figure 26, below, at currently proposed funding levels, this backlog is expected to grow to $1.5 billion by FY 2026-27.

Figure 26: Pay-as-you-go Program Impact of Funding Level on Backlog

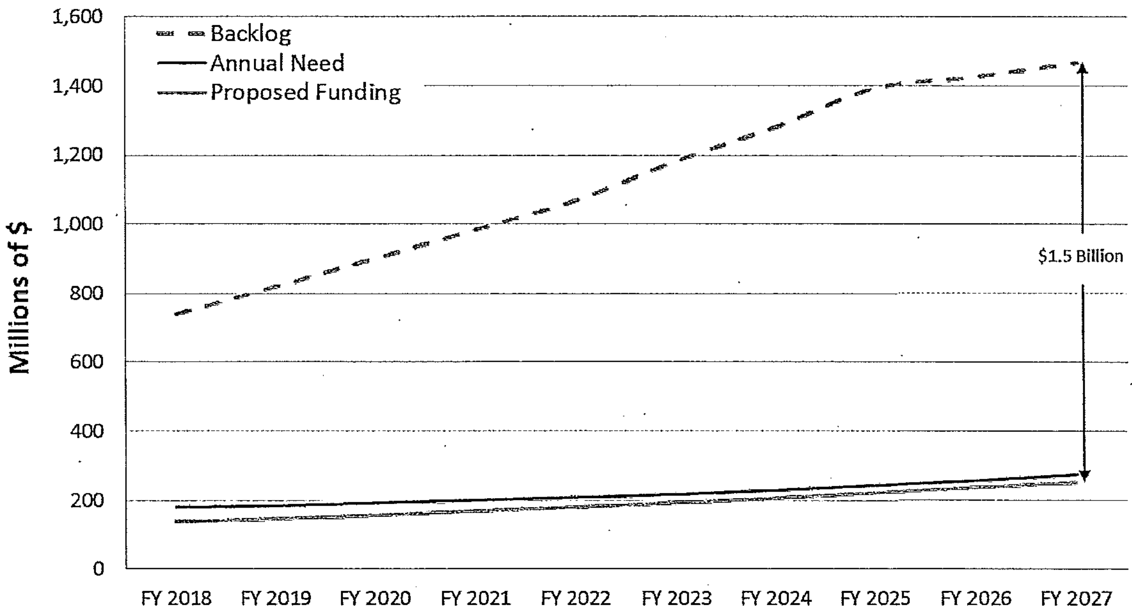
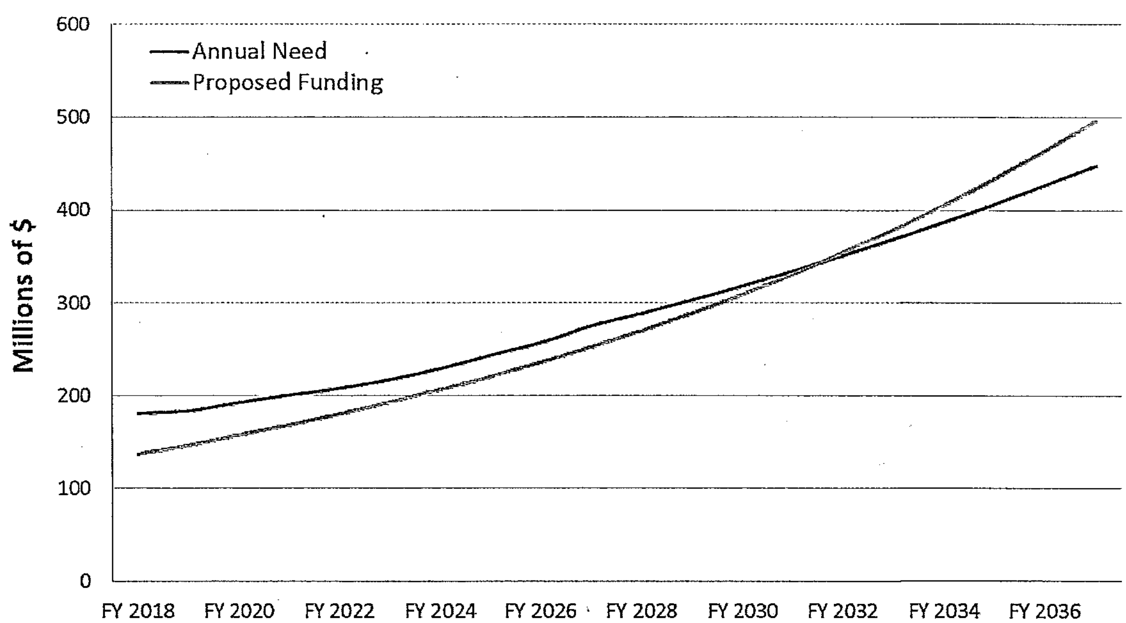


Figure 27 compares the currently proposed funding level with the projected annual need, and shows that the projected annual need is expected to be fully funded from FY 2031-32 onwards.

Figure 27: 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 2017, will cover fiscal years 2017-18 to 2026-27.

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

- **General Fund Pay-As-You-Go program**: Projects funded through this program are supported through the annual budget process with General Fund cash. It is used to fund on-going maintenance, American Disabilities Act (ADA) improvements, critical project development, right-of-way infrastructure investments, facility renewals, and critical enhancement projects. Currently, the funds available in this program are escalated each year by 7%. In the past three years, FY 2014-15 – FY 2016-17, 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 close to $3.49 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 2017-18 through FY 2021-22 and is expected to be adopted by the Committee on Information Technology (COIT) in the spring of 2017.

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

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

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

COIT prioritizes funding towards proposed IT projects that support the City's strategic IT goals. COIT has recommended replacing three Major IT Projects in the next five years:

- The City's financial information system ($70 million);
- Public safety radio replacement project ($74 million); and
- The Assessor-Recorder's property tax systems ($53 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

- Become the world's leading institution for sustainability education;
- Make critical capital investments in order to keep the Steinhart Aquarium in excellent working order and ensure a safe environment for staff, visitors, and live animals; and
- Work to narrow the achievement gap in science education by providing STEM learning opportunities to San Francisco youth.

Adult Probation

- Implement innovative approaches that break the cycle of crime, are effective in achieving behavior change, and prevent reoffending and victimization;
- 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.

Airport

- Ensure Terminal 1 is rated as the best terminal in the world by Skytrax and ASQ Surveys;
- Maintain the airport's infrastructure to the highest standard of excellence;
- Increase international carrier service by 25% and ensure maintenance of 24% low-cost carriers;
- Have the highest per-passenger spend rate for combined food and beverage, retail, and duty free in the U.S.; and
- Ensure that employers meet safety, security, and employee benefit standards to be the employer of choice with high employee satisfaction.

Arts Commission

- Invest in a vibrant and equitable arts community to ensure affordability and sustainability for individual artists and non-profit organizations;
- Enrich 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;
- Raise the visibility of San Francisco's arts community by convening local, national, and international arts and culture stakeholders and collaborating with city partners to shape innovative cultural policy.

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

- Modernize the City's property assessment and tax systems by replacing legacy IT systems in order to improve business processes and better manage nearly $200 billion in assessed value for real and business personal property; and
- Restructure workflows within the department in order to meet increased workload demands and clear existing backlogs.

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

- Facilitate the public's access to government data and information;
- Enhance the Legislative Research Center, the City's access point for all legislative information;
- Upgrade the current Agenda Management System to increase efficiency by eliminating manual processes while allow for increased quality control by including tracking, report, and audit functionalities; and
- Meet the critical needs of the Board through replacement of the Crestron audiovisual touch control panels in the Legislative Chamber.

Building Inspection

- Continue to strengthen seismic safety through code enforcement and outreach to ensure resident preparation and safety;
- Work with city departments and community based organizations to increase available housing and ensure construction complies with applicable codes in order to safeguard life safety and fire safety;
- Meet and exceed targets for inspections per day and turnaround response time for construction inspections, drawings, and permit applications; and
- Improve customer service, accountability, and transparency by applying the best available technology and administrative practices.

Child Support Services

- Increase reliability of child support payments and ensure families and children receive the support they need;

- Increase percentage of documents e-filed with the County to over 40%;
- Develop and strengthen collaborative partnerships among city departments, service providers, and families;
- Lower the number of days between answer from County and hearing date to under 73 days; and
- Improve service delivery through innovation, technology, and accessibility of programs.

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 that 100% of programs receiving city-funded Early Care and Education subsidies participate in the Quality Rating and Improvement System;
- 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 five.

Children, Youth, and their Families

- Complete Services Allocation Plan using the Results Based Accountability framework to ensure that funding allocations are closely tied to the results we seek to achieve and that progress can be tracked over time;
- Issue Request for Proposals for five-year grant funding cycle, beginning in FY 2018-19, that ensures an equitable distribution of resources for children, youth and families that furthers progress towards our results;
- Build the programmatic, fiscal, administrative, and general capacity of community-based service providers through increased targeted resources and training; and
- Strengthen partnerships with other city departments, SFUSD and institutions of higher learning, to establish collaborative efforts that contribute toward our results and ensure better coordination of systems.

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; and support post-disaster recovery with interim housing, drinking water, and sanitation plans;
- Reduce risk and promote safe, efficient, and effective use of the City's fleet through full implementation of telematics and vehicle reservation systems;
- Improve city procurement through business process changes enabled by the Financial System Project and development of a new purchaser internship program; and
- Provide state of the art, efficient, and safe facilities through the construction of replacement buildings for Animal Care and Control, Medical Examiner, and Fleet Management.

City Attorney

- Retain and recruit quality employees by developing strategies for succession planning, as well as professional development and leadership training;

- Coordinate with relevant city agencies to investigate complaints of public nuisances and, when necessary, pursue actions against lawbreakers to enforce the law; and
- Continue affirmative litigation efforts, with a focus on matters related to the City's most economically vulnerable.

City Planning

- Address high demand for permits and review through new strategies and streamlined processes;
- Approach neighborhood planning and development from a community-based perspective to ensure equity and maintain socioeconomic diversity;
- Create a resilient waterfront capable of accommodating planned growth through the implementation of sea level rise adaptation and mitigation strategies;
- Work with the City and regional transportation partners to plan for regional transportation improvement that benefit the City and region; and
- Collaborate with our regional partners to address is regional important, with special emphases on affordable housing, transportation, open space, and resiliency.

Civil Service Commission

- Meet increased demand for public records and inspection services; and
- Implement the Department's strategic plan to meet the demand for greater transparency and improve efficiency in responding to stakeholders' requests.

Controller

- Successfully complete the Financial System Project and transition city financial data to the new financial system, set to go-live in July 2017;
- Support implementation of citywide cybersecurity policy and other citywide technology projects through an enhanced Technology and Cybersecurity Audit Team; and
- Establish a new Strategic Sourcing Team that will work closely with the Controller, Office of Contract Administration, and city departments to transform processes related to procurement citywide.

District Attorney

- Support the development of the new Independent Investigation Bureau to conduct independent investigations of potential crimes committed by sworn personnel;
- Continue to support the transition to a fully paperless system throughout the Department through an upgrade of the case management system to a web-based interface, vital in capturing case- and process-related data; 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 Department 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;

- Restructure city funding to ensure a seamless system for children, families and providers with the intent of fully utilizing federal and state resources while maximizing control over local investments; and
- Restructure OECE staffing to adequately support the Department's mission and develop an early childhood professional development system that addresses the professional development and compensation needs of the workforce in all early care and education settings.

Economic and Workforce Development

- Attract and retain businesses, including assistance and information to help small businesses succeed;
- Provide strategic coordination of the City's workforce development programs and implement well-targeted job training programs in high demand industries;
- Deliver technical assistance and resources to secure stable office space for arts, childcare, and social service non-profits;
- Revitalize commercial corridors and provide technical assistance and oversight to community-based efforts through the Invest in Neighborhoods Division; and
- Increase international business opportunities in the City through direct international business attraction efforts and partnerships with international government and non-governmental organizations.

Elections

- Determine an appropriate replacement for the Department's end-of-life voting system, and explore the possibility of developing a new voting system based on open source software;
- Identify the resources and processes necessary to expand voter registration, and work to implement non-citizen voting in school board elections as adopted by the voters in November 2016; and
- Relocate the Department's warehouse operations from Pier 48 to Pier 31, while improving warehouse process logistics to more efficiently make use of reduced space and continue the improvement of elections services to voters.

Emergency Management

- Improve the City's resiliency and ability to recover from an emergency event or natural disaster;
- Improve performance of the 9-1-1 call center for both call-taking and dispatch services to public safety partners as well as the residents and visitors to San Francisco;
- Upgrade and replace the Citywide Radio Communications System for public safety departments by FY 2020-21;
- Develop comprehensive city-wide special events management process; and
- Fully staff the 9-1-1 call center and the newly created 24/7 Watch Center.

Environment

- Continue to work toward the goals outlined in San Francisco's climate action plan, which include sending zero waste to landfill, making 50% of all trips outside of personal vehicles, and choosing 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

- Pursue increased transparency and accountability in government by strengthening investigative, audit, and enforcement capacity; and
- 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.

Fine Arts Museums

- Continue to serve residents and visitors to the City through special exhibitions;
- Promote education and public programming through the Schools to Families program, a partnership with San Francisco public schools; and
- Develop infrastructure and technology investments that will enable the Museums to offer expanded and innovative digital tools for audiences, as well as ensure a safe environment for staff, visitors, and art storage.

Fire Department

- Evaluate and adjust current operational models to ensure that the SFFD 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, equipment, and apparatus;
- 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

- Maintain compliance with continually changing state and federal regulations governing commercial insurance;
- Continue to innovate directly with providers to improve quality and reduce cost;
- Improve operational excellence in customer service through HSS employee training, and the use of online member education and online benefit selection;
- Establish, promote, expand, and maintain a culture of well-being throughout city departments by implementing programs and services based on data; and
- Enhance use of All Payer Claims Data Base to improve decisions about vendor contracts and to identify interventions to reduce costs.

Homelessness and Supportive Housing

- Manage the City's permanent supportive housing portfolio, which includes new units to house the longest term homeless individuals and homeless veterans;
- Implement a citywide coordinated entry process, with the goal of allocating assistance in the most effective way possible, allowing each individual to be matched with the services and support that best meet their needs; and
- Address family homelessness through expansion in rapid rehousing vouchers.

Human Resources

- Retain top talent while shaping the future workforce;
- Utilize technology to coordinate and improve service delivery and accessibility;
- Champion diversity, fairness, and equity, and improve opportunities for employee well-being; and
- Design and implement enhanced, user-friendly hiring processes and partner with others to identify and solve problems.

Human Rights Commission

- Continue to investigate and mediate discrimination complaints across the City, and promote equality and inclusion throughout San Francisco;
- Coordinate African American community empowerment initiatives to increase access to services in the areas of education, workforce development, family support, health/wellness, and violence prevention; and
- Develop an "Engineering for Equity" program that advises city departments on how to make their services more equitable for residents, and ensure community involvement in the full range of department decisions.

Human Services Agency

- Help low-income San Franciscans enroll in and maintain all of the public benefits for which they are eligible;
- 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;
- Enhance services to promote healthy, community-based aging, food security, and economic well-being for seniors and adults with disabilities; and
- Improve use of data to guide departmental operations, management and budgeting; and
- Modernize business processes, technology, and facilities to improve service delivery.

Juvenile Probation

- Implement a new case management system that will allow the Department to capture key measures related to the delivery of probation, detention and ranch services to youth and families;
- Build organizational capacity to conduct research, analysis, and evaluation of programs and services delivered;
- Strengthen reentry infrastructure for youths returning to the community from group homes, residential treatment facilities, and Log Cabin Ranch; and
- Expand the utilization of standardized risk assessment tools across programs, agencies, and service providers.

Law Library

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

Mayor's Office of Housing and Community Development

- Support the Mayor's pledge to construct 30,000 new and rehabilitated homes throughout the City by 2020;

- Continue to manage the Housing Trust Fund, and direct funds toward a variety of housing-related uses, such as the financing of new multifamily affordable housing developments, down payment assistance, foreclosure and eviction prevention services, and a site acquisition and rehabilitation program; and
- Continue to make progress in implementing HOPE SF, a signature initiative to replace four of the City's most distressed public housing developments with mix-income developments.

Municipal Transportation Agency

- Create a safer transportation experience for everyone;
- Make transit, walking, bicycling, taxi, ridesharing and carsharing the preferred means of travel;
- Improve the environment and quality of life in San Francisco; and
- Create a workplace that delivers outstanding service.

Police

- Build safer communities by fostering trust and collaborative partnerships through clear and open communication, community engaged policing, and neighborhood centered responses to reduce property and violent crime;
- Invest in existing and emerging technological tools and business intelligence to provide accurate, timely and reliable data for analysis and accountability;
- Support a formal educational and career development plan for all civilian and sworn employees, and prepare them for active roles that deliver service with compassion, fairness, diversity, respect for human rights and justice;
- Serve as a model for best practice by implementing the U.S. Department of Justice Collaborative Reform Initiative recommendations in a thoughtful and sustained manner; and
- Ensure streets and sidewalks are safe for pedestrians, cyclists, public transit, and vehicular traffic through education, enforcement, and MTA partnerships to achieve the goal of Vision Zero.

Port

- Attract and retain maritime and non-maritime commerce, address the backlog of deferred maintenance, and manage all Port waterfront assets to ensure financial stability;
- Work with the City and community partners to ensure that the Port continues to advance a diverse, equitable, and inclusive city;
- 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;
- Employ strong environmental stewardship principles through implementation of Port-wide practices that protect the environment, promote ecological balance, and limit climate change; and
- 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;
- Develop and implement best practices when referring to Body Worn Camera evidence for use in both pre-trial and trial processes; and

- Respond to increases in appeal, case review, and Brady mandate focused work to ensure fair and transparent treatment of all cases.

Public Health

- Continue to support the San Francisco Health Network through increasing enrollment and working towards becoming a provider of choice for San Franciscans;
- Develop and implement a robust Electronic Health Record system throughout the San Francisco Health Network, which will improve service delivery across the Department; and
- Support expanded behavioral health services for mental health and substance abuse programs.

Public Library

- Develop a patron-focused service model to position SFPL as the premier public library in the nation;
- Provide accessible and welcoming library facilities to meet the needs of all San Franciscans;
- Provide expanded hours of operation at fourteen neighborhood branch libraries, resulting in an increase of 85 additional weekly hours of operation across 15 branches;
- Provide robust collections, services and programs that support and promote reading and address changing 21st Century Literacy; and
- Engage youth in learning, workforce and personal growth opportunities.

Public Utilities Commission

- Move forward with a plan to upgrade, replace, and seismically retrofit the City's sewer system;
- Attract, retain, and develop an effective workforce to perform as an organization focused on efficiency, effectiveness, and accountability; and
- Assure financial integrity and sustainability while maintaining operating and capital investments and managing risk and long-term affordability.

Public Works

- Ensure safe, clean, sustainable, and inviting public spaces, through the expansion of resources in the Bureau of Street Environmental Services and programs such as the Pit Stop program;
- Invest in street resurfacing, with the goal of raising the City's Pavement Condition Index score to 70;
- Be the service provider of choice for design, construction, maintenance, and management; and
- Foster a culture of opportunity, continuous improvement, and excellence to deliver world-class customer service.

Recreation and Parks

- Keep parks safe, clean and fun; promote our parks' historic and cultural heritage;
- Promote active living, well-being, and community for the City's diverse and growing population;
- Protect and enhance the City's natural resources through conservation, education, and sustainable land/facility management practices; and
- Encourage innovation and cultivate a connected, engaged, and aligned workforce to deliver outstanding citizen services.

Rent Arbitration Board

- Increase operational efficiencies and use additional resources to reduce backlog and process more petitions;
- Customize website to ensure it is informative, up-to-date, and easy to navigate;
- Improve translations across documents to improve access to non-English speakers; and
- Increase collaboration and data sharing with other departments across the City in a streamlined and standardized way.

Retirement System

- Enhance retirement readiness by educating employees on the importance of the supplemental deferred compensation plan to reach their desired retirement income;
- Enhance customer experience by making improvements to the Department's website to include 24/7 self-service modules for active and retired members; and
- Continue to bring investment expertise in-house, rather than rely on outside consultants.

Sheriff

- Permanently close the seismically unsafe Hall of Justice jails (800 beds) while maintaining public safety and continuing the exploration of alternatives to incarceration;
- Implement evidence-based decision making by building a robust information technology infrastructure, in full partnership with the JUSTIS community, to greatly improve data collection, reporting capability, and transparency;
- Create a multi-disciplinary business process model, for coordination of criminal justice, public safety and public health to build a coordinated and effective continuum of services with input from the community; 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

- Expand gender equity in the City's budgets, workplaces, policies and programs while also promoting gender equality in private sector workplaces;
- Accelerate ending family violence in San Francisco by supporting progress on the Family Violence Council's 5-Year Strategic Plan;
- Strengthen the City's response to Human Trafficking by continuing to coordinate the Mayor's Task Force on Anti-Human Trafficking; and
- Maintain and enhance a comprehensive safety net for women survivors of violence through the administration of the Violence Against Women Prevention and Intervention (VAW) Grants Program.

Technology

- Accelerate expansion of citywide connectivity through connecting city buildings, Dig Once, #SFWiFi and expanding broadband choices in public housing and at home;
- Leverage digital assets to modernize civic service delivery and offer expanded online/mobile services;
- Modernize internal infrastructure architectures and adopt a customer-centric approach to service delivery;
- Recruit, retain, and develop high-caliber tech talent and make the City an employer of choice; and
- Develop a citywide approach to information security policy, operations, and cybersecurity.

Treasurer-Tax Collector

- Design and deploy tax and fee solutions to implement state and local measures that are passed in manner that is agile and taxpayer-centric;
- Leverage online initiatives, which include the New Business Registration Online and Online Account Update, by developing data-sharing agreements with other departments to ease taxpayer confusion and increase compliance;
- Launch the Financial Justice Project making San Francisco the first city in the nation to assess and reform how fees and fines impact our cities' most vulnerable residents;
- Continue to partner with other city departments to promote financial empowerment efforts, such as the Smart Money Coaching program, Summer Jobs program, and Kindergarten 2 College.

War Memorial

- Maintain, upgrade, and preserve important and historic facilities for the future;
- Make sound decisions about safety and security of patrons, visitors, performers, and staff;
- Increase partnerships and collaborations to complete capital projects and programs; and
- Provide the highest level of service to all those who enter the Performing Arts Center, including facilities' licensees, patrons, guests and visitors.

OFFICE OF THE MAYOR
SAN FRANCISCO

EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors

FROM: For Mayor Edwin M. Lee

RE: Adopting the Five-Year Financial Plan – FYs 2017-2018 through 2021-2022

DATE: March 21, 2017

Attached for introduction to the Board of Supervisors is a resolution adopting the City's Five-Year Financial Plan for Fiscal Years 2017-2018 through 2021-2021 pursuant to Charter Section 9.119.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

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