



March Update to the Five-Year Financial Projection

Budget & Appropriations Committee

April 13, 2022



Agenda

- Brief overview of Joint Report from January
- Overview of March Update



January Report



Joint Report Update to the Five-Year Financial Plan

- Long-term financial planning document to forecast revenues and expenditures during the upcoming four-year period
- Utilizes a “base case” projection
- Initial projection released in January with update issued in late March
- Initial projection is basis for the Mayor’s budget instructions



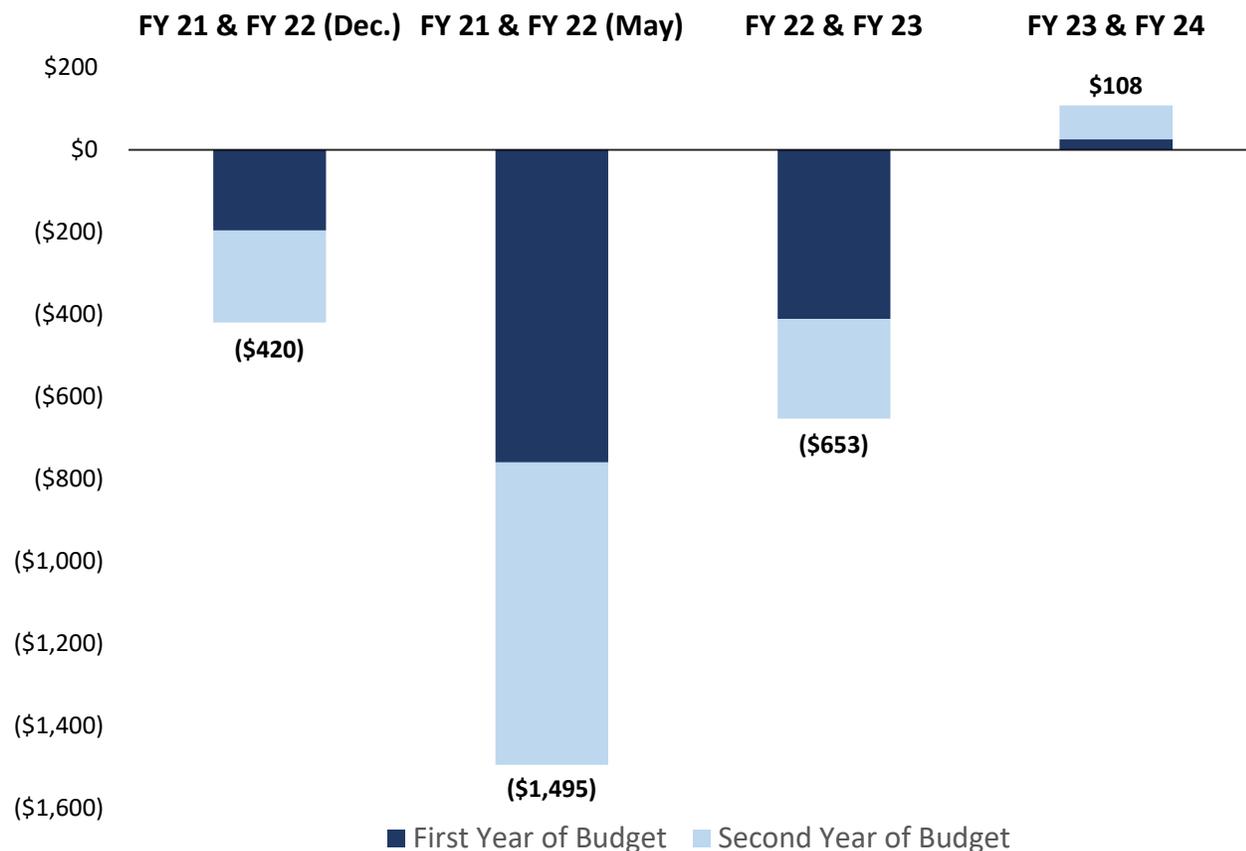
Overview: Fiscal Outlook - January 2022

Financial forecast projected a \$108.1 million **surplus** over the upcoming two budget years

Key Drivers:

- Overall growth in revenue
- Significant ongoing savings in retirement due to record returns
- Constrained ongoing cost growth

Deficit at Time of Budget Instructions (\$M)





January Joint Report Projection – Assumptions

- **Revenue:** strength in property and real transfer tax, weakness in business & other local taxes
- **Salary and Benefits:** CPI on open contracts, 7.2% rate of returns on pension investments, and accelerated paydown of SFERS and CalPERS liability
- **Citywide and Departmental Costs:** Inflation on non-personnel costs, Capital Plan funding, and other miscellaneous departmental costs



March Update



March Update

	FY 22-23	FY 23-24	FY 24-25	FY 25-26
<i>SOURCES Increase / (Decrease)</i>	111.2	365.7	549.6	743.1
Uses				
Baselines & Reserves	(160.4)	(237.6)	(324.0)	(387.5)
Salaries & Benefits	(78.5)	(106.3)	(144.4)	(262.5)
Citywide Operating Budget Costs	124.0	62.4	(59.1)	(135.4)
Department Costs	18.4	(24.4)	(66.3)	(113.9)
<i>USES (Increase) / Decrease</i>	(96.5)	(305.8)	(593.8)	(899.3)
Projected Cumulative Surplus / (Shortfall)	14.7	60.0	(44.2)	(156.2)
Two-Year Surplus	74.7			



Revenue – Local Tax Forecast

	FY2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Year-End	Original Budget	Projection	Projection	Projection	Projection
Property Taxes	\$2,344.0	\$ 2,115.6	\$ 2,379.5	\$ 2,494.9	\$ 2,605.8	\$ 2,716.4
Business Taxes	722.6	957.1	902.3	960.2	1,026.2	1,054.5
Sales Tax	146.9	145.7	182.9	193.1	203.3	213.1
Hotel Room Tax	33.2	78.5	188.9	237.5	283.7	313.7
Utility Users Tax	81.4	77.7	82.6	83.8	85.0	86.3
Parking Tax	47.6	55.9	80.2	82.6	84.9	87.4
Real Property Transfer Tax	344.7	350.1	390.5	423.3	456.2	456.2
Sugar Sweetened Beverage Tax	10.4	12.2	13.3	13.0	12.7	12.5
Stadium Admission Tax	0.2	3.6	5.4	11.3	11.3	11.3
Access Line Tax	44.8	49.6	47.1	48.6	50.0	51.6
Cannabis Tax	-	4.4	-	10.3	10.3	10.3
Executive Pay	-	-	60.0	80.0	100.0	100.0
Local Tax Revenues	3,775.6	3,850.5	4,332.6	4,638.6	4,929.5	5,113.2



Revenue – Key Changes to Local Tax Forecast

- Property Tax, stronger
 - Actual assessment appeals to-date vs assumption
 - Increased excess ERAF, partially offset by adoption of education funding changes assumed in the Governor's January budget proposal.
- Business Tax, weaker
 - Increased telecommuting assumption from 15% to 33% beginning in FY22-23
 - Increased economic growth assumption for efficiencies in use of office space
- Hotel Tax, modestly weaker
 - Assumed to recover to pre-pandemic levels during calendar year 2026, slightly slower than previously expected.
- Transfer Tax, weaker
 - Transfers of commercial real estate are expected to stagnate in FY22-23 and return to historic average by FY 204-25



Revenue – FEMA Reimbursements

		January 2022 Joint Report Update	March 2022 Joint Report Update	Variance
Actual	FY2019-20	58.5	58.5	
Actual	FY2020-21	(23.0)	(23.0)	
Estimated	FY2021-22	249.4	186.5	(62.9)
Estimated	FY2022-23	184.7	243.4	58.7
Estimated	FY2023-24	114.0	164.1	50.1
	All Years	583.6	629.5	45.9

- Report forecasts a net increase of \$45.9 million compared to the January report, mostly related to extension of eligibility of costs through June 30, 2022.



Expenditure Changes

- **Deposits to Reserves:** Increased deposits required to pay back General Reserve for current year supplementals
- **Salary and Benefits:** Increased costs of pension, modest changes to health care costs
- **Citywide Operating Budget:** Projections for Workers Compensation costs increased based on current year claim trends
- **Departmental Costs:** Changes in General Fund support for Moscone Convention Center and HSA Aid programs



Risks and Uncertainties Remain

- Labor negotiations and costs above inflation
- Market volatility and retirement contribution rate
- Ongoing pandemic and public health response
- State and federal budget impacts
- Pending or proposed new programs or legislation
- Recession risk



Conclusion

- Modest changes in March Update, driven mostly by expenditure changes
- Risks and uncertainties remain that could significantly impact this forecast in the budget years and beyond



Questions?

Thank you!