



March Update to the Five-Year Financial Plan



Budget & Appropriations Committee

April 17, 2024

March Joint Report Update

- City publishes a Five-Year Financial Plan every other year and updates the plan twice a year.
- Prepared jointly by Mayor's Budget Office, Controller's Office, and Budget and Legislative Analyst's Office.
- Long-term financial planning document to forecast revenues and expenditures during the upcoming four-year period
- Represents a status quo projection – current policy
- Initial projection released in December 2023 with update issued in late March 2024
- December 2023 projection is basis for the Mayor's budget instructions

March Update – Net Change from Prior Forecast

The March Update projects a **\$789.3 million shortfall** for the upcoming two fiscal years, or \$9.9 million less than the \$799.2 million shortfall projected in the December 2023 projection.

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Sources - Revenue, Fund Balance, and Reserves	13.5	10.4	52.6	30.2
Uses - Baselines & Reserves	3.4	9.6	4.1	7.2
Uses - Salaries & Benefits	(6.8)	(20.1)	(33.3)	(42.8)
Uses - Citywide Operating Budget Costs	0.1	2.4	(8.2)	(8.8)
Uses - Departmental Costs	(1.3)	(1.0)	2.8	2.3
Total Annual Change	8.7	1.2	18.1	(11.9)
Change in Two-Year Deficit	9.9			

Revenue Changes – Local Taxes

- **Property Tax:** Decreased throughout the forecast period due to updated assumptions about refunds triggered by reduction in value as appeals are resolved through the Assessment Appeals Board (AAB) and decreased excess Educational Revenue Augmentation Fund (ERAF) expectations.
- **Business Tax:** Increased by \$4 million in FY2023-24 with little change in future years. Underlying assumptions remain unchanged from the prior forecast.
- **Transfer Tax:** Same level as the December 2023 Joint Report. The Update does not estimate any exemptions will be granted within the plan period for March 2024 Proposition C.
- **Overpaid Executive Tax:** Improvement by \$13 million in FY 2023-24 and \$20 million increase in the other years compared to the December 2023 Joint Report. However, there are currently claims and litigation over the tax, which presents a risk to future collections.



Revenue Changes – Other Revenue



- **Federal Emergency Management Agency (FEMA):** An additional \$21.8 million is anticipated reimbursement for expenditures incurred in response to winter storm disasters in 2023. COVID-19 response costs reimbursements are assumed to stay at the same level as assumed in the December 2023 report.
- **Public Health Revenue:** The Department of Public Health (DPH) projects improvements in operating revenue driven by fee for service, supplemental, and capitation payments, and one-time revenues from prior year settlements and supplemental revenues.

Expenditure Changes



- **Salary and Benefits:** Increased health and retirement costs, primarily driven by changes in employer pension contribution rates and changes to projected costs of health benefits.
- **Citywide and Departmental Costs:** Changes due to CPI update, HSA's In-Home Supportive Services (IHSS), local entitlement programs, and Local Operating Subsidy Program (LOSP)

Reserves

	FY 2022-23	FY 2023-24			FY 2024-25			FY 2025-26		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	\$ 57.8	\$ 70.8	-	\$ 128.7	\$ 14.1	-	\$ 142.8	\$ 21.9	-	\$ 164.8
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	275.2	-	-	275.2	-	-	275.2	-	-	275.2
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	-	-	389.7
<i>Percent of General Fund Revenues</i>	<i>6.3%</i>			<i>6.2%</i>			<i>6.1%</i>			<i>5.9%</i>
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	-	54.8	-	-	54.8
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Federal and State Emergency Grant Disallowance	81.3	-	-	81.3	-	(41.3)	40.0	-	-	40.0
Fiscal Cliff Reserve	220.4	-	(90.2)	130.3	-	-	130.3	-	-	130.3
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	(29.5)	-	-	-	-
Public Health Revenue Management Reserve	130.3	-	-	130.3	-	-	130.3	-	-	130.3
Free City College Reserve	6.9	-	(6.9)	-	-	-	-	-	-	-
Mission Bay Transportation Improvement Fund	1.0	-	(1.0)	-	-	-	-	-	-	-
Hotel Tax Loss Contingency Reserve	3.5	-	(3.5)	-	-	-	-	-	-	-
Other Reserves	528.7	-	(101.5)	427.2	-	(70.8)	356.4	-	-	356.4
Litigation Reserve	-	10.8	(10.8)	-	10.8	(10.8)	-	11.0	(11.0)	-
Salary and Benefits Reserve	27.9	7.0	(34.9)	-	21.0	(21.0)	-	29.6	(29.6)	-
Annual Operating Reserves	27.9	17.8	(45.7)	-	31.8	(31.8)	-	40.6	(40.6)	-
TOTAL, General Fund Reserves	1,004.2	88.6	(147.3)	945.5	45.9	(102.6)	888.9	62.5	(40.6)	910.9

Risks and Uncertainties

- Labor negotiations
- Downward revision to local employment numbers
- Retirement contribution rate
- State budget impact
- FEMA reimbursement
- Pending policy decisions with fiscal impact



Questions?
