



# March Update to the Five-Year Financial Projection

Budget & Appropriations Committee

April 12, 2023



# Agenda

- Brief overview of Five Year Financial Plan from January
- Changes in the March Update



# January Report



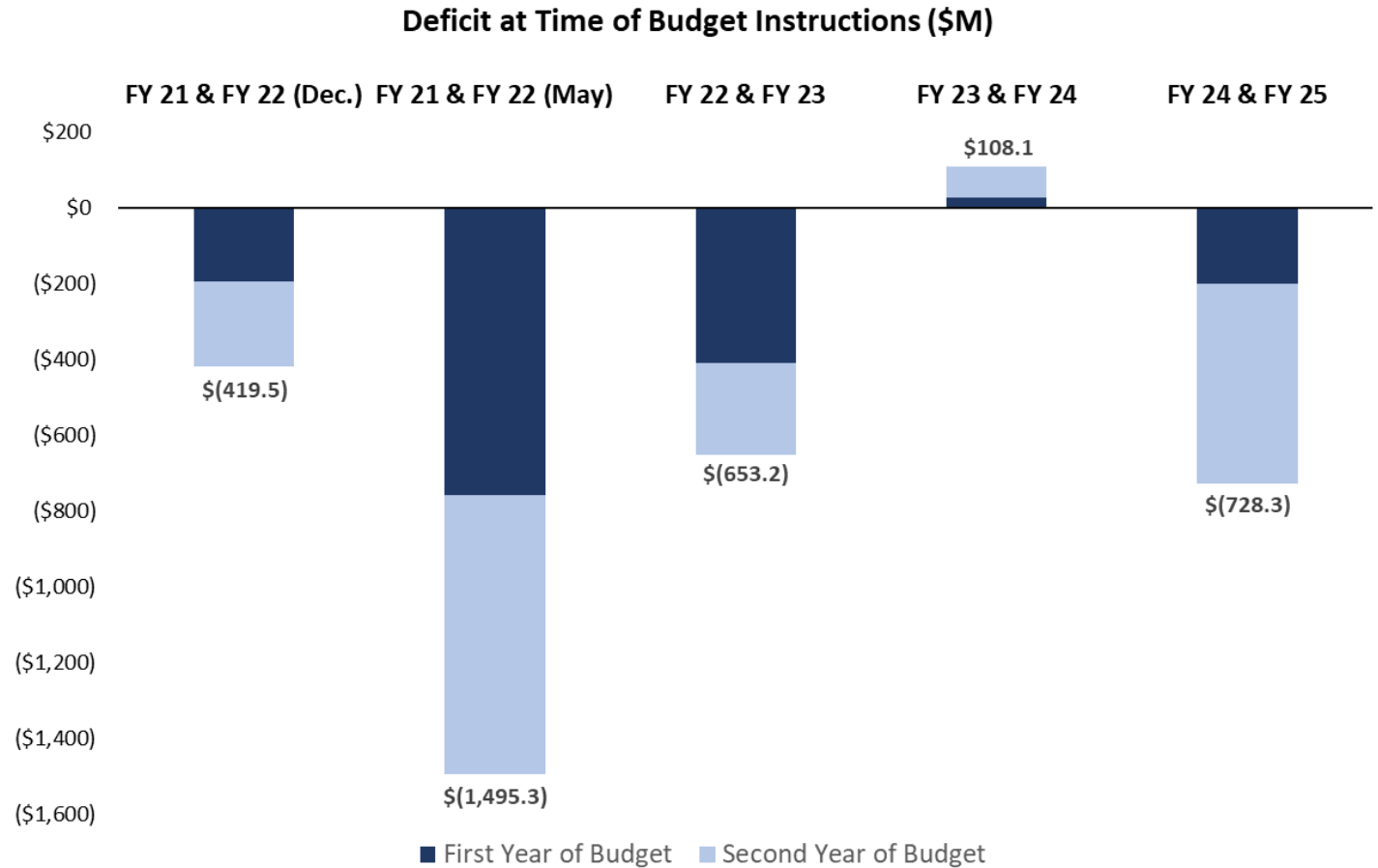
# Five-Year Financial Plan (January 2023 Report)

- 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
- Basis for the Mayor’s budget instructions



# Fiscal Outlook – January 2023

Financial forecast projected a **\$728 million deficit** over the upcoming two budget years





# Report Assumptions

- Slow or no growth in major tax revenues
- Loss of federal revenues and other one-time sources
- Incorporates 2022 Election Measures, including new set-aside for schools
- Salary & Benefits – assumes CPI growth on open contracts; 7.2% rate of return on pension investments
- Citywide & Departmental Costs – CPI on non-personnel costs and IHSS wages, full funding of Ten Year Capital Plan, and other updates



# Revenue Update in January 2023 Report

## Selected General Fund Taxes (\$m)

	<b>FY 23-24</b>	<b>FY 24-25</b>	<b>FY 25-26</b>
<b>March 2022 Forecast / Budget</b>	<b>4,366.3</b>	<b>4,575.2</b>	<b>4,753.9</b>
(-) Property tax	(69.9)	(190.8)	(316.4)
(-) Transfer tax	(178.7)	(135.0)	(91.2)
(-) Business tax	(78.5)	(100.8)	(91.2)
(+) Sales & Hotel tax	53.3	72.2	74.1
<b>Total</b>	<b>(273.8)</b>	<b>(354.4)</b>	<b>(424.7)</b>
<b>Fall 2022 5 Yr Forecast</b>	<b>4,092.6</b>	<b>4,220.8</b>	<b>4,329.2</b>



# March Update





# March Update – Overall Change

	<b>FY 23-24</b>	<b>FY 24-25</b>	<b>FY 25-26</b>	<b>FY 26-27</b>	<b>FY 27-28</b>
Sources - Revenue, Fund Balance, and Reserves	(38.6)	93.6	78.2	(3.7)	(10.0)
Uses - Baselines & Reserves	(54.0)	(10.3)	7.3	(14.4)	(5.6)
Uses - Salaries & Benefits	(10.6)	(47.2)	(67.0)	(69.0)	(84.0)
Uses - Citywide Operating Budget Costs	(5.4)	(4.7)	(4.2)	(3.5)	(2.9)
Uses - Department Costs	18.4	7.2	7.3	7.0	6.9
<b>Total Annual Change</b>	<b>(90.1)</b>	<b>38.6</b>	<b>21.7</b>	<b>(83.6)</b>	<b>(95.6)</b>
<b>Change in Two-Year Deficit</b>	<b>(51.5)</b>				



# Revenue Changes – Local Taxes

- **Property Tax** – Modestly higher primarily because secured assessment roll growth assumption for FY 2023-24 increased from 2.5% to 4.0% based upon current Assessor-Recorder's working roll values.
- **Business Tax** – Modest increases to reflect current year experience. Underlying assumptions remain unchanged from prior forecast.
- **Transfer Tax** – Decreases to several years of the forecast to reflect current year experience and expectation of further decreases and stagnation in number and sizes of taxable transfers.



# Revenue Changes – Federal & State Sources

- **Federal Emergency Management Agency (FEMA) reimbursement for COVID response costs.** Given the lack of obligations in the current fiscal year and clarification about claims criteria, projections of FEMA cost recoveries have been reduced and are projected to occur over a longer time horizon than our last projection.

The January 2023 report projected revenues of \$383.2 million during FY 2022-23 and 2023-24. In this report, a total of \$353.4 million is projected to be received during FY 2022-23, FY 2023-24, and FY 2024-25

- **Sales Tax-Based Subventions.** The City's forecast of health and welfare realignment, public safety realignment, and public safety sales tax have decreased by approximately \$30 to \$40 million in each year, based on lowered sales tax expectations in the Governor's January Proposed Budget.



# Expenditure Changes

- **Deposits to Reserves:** Increased deposits required to pay back General Reserve for current year supplementals (Police & DPW)
- **Salary and Benefits:** Increased health and retirement costs
- **Citywide & Departmental Costs:** minor updates to debt, workers' compensation and HSA Aid projections



# Pending Policy Decisions

Shortfall projections **do not** assume increased General Fund support to implement or continue the expenditures listed below. Decisions to increase or continue General Fund support of these programs are a policy matter for the current budget process.

<b>Pending or Proposed Policy Decisions</b>	<b>FY 23-24</b>	<b>FY 24-25</b>	<b>FY 25-26</b>	<b>FY 26-27</b>	<b>FY27-28</b>
Annualization of Police & Public Works Supplementals	(28.6)	(40.8)	(47.3)	(48.0)	(48.8)
Extension of Downtown Ambassador Programs	(10.7)	(28.1)	(28.1)	(28.1)	(28.1)
Maintaining Shelter Capacity	(24.0)	(39.8)	(27.0)	(27.0)	(27.0)
Tax Change Proposals (Delayed Changes & Credits)	(14.8)	(21.8)	(20.8)	(17.2)	(17.2)
<b>Total Annual Cost</b>	<b>(78.1)</b>	<b>(130.5)</b>	<b>(123.2)</b>	<b>(120.3)</b>	<b>(121.1)</b>



# Reserves

	FY 2021-22	FY 2022-23			FY 2023-24			FY 2024-25		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	\$ 43.8	64.4	(50.4)	\$ 57.8	\$ 67.0	-	\$ 124.8	\$ 21.9	-	\$ 146.7
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8	-	-	265.8
<b>Economic Stabilization Reserves</b>	<b>380.3</b>	-	-	<b>380.3</b>	-	-	<b>380.3</b>	-	-	<b>380.3</b>
<i>Percent of General Fund Revenues</i>	<i>5.9%</i>			<i>6.2%</i>			<i>6.1%</i>			<i>5.8%</i>
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Budget Stabilization Reserve - One Time Reserve	54.8	-	(54.8)	-	-	-	-	-	-	-
COVID Response and Economic Loss Reserve	14.0	-	(14.0)	-	-	-	-	-	-	-
Federal and State Emergency Grant Disallowance Reserve	81.3	-	-	81.3	-	-	81.3	-	-	81.3
Fiscal Cliff Reserve	229.8	-	(9.3)	220.4	-	(90.2)	130.3	-	-	130.3
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	-	29.5	-	-	29.5
Public Health Revenue Management Reserve	123.9	-	(14.8)	109.1	-	-	109.1	-	-	109.1
Free City College Reserve	10.9	-	(4.0)	6.9	-	-	6.9	-	-	6.9
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Hotel Tax Loss Contingency Reserve	3.5	-	(2.5)	1.0	-	-	1.0	-	-	1.0
Alternative Response Reserve	3.0	-	(3.0)	-	-	-	-	-	-	-
<b>Other Reserves</b>	<b>552.6</b>	-	<b>(102.5)</b>	<b>450.2</b>	-	<b>(90.2)</b>	<b>360.0</b>	-	-	<b>360.0</b>
Litigation Reserve	-	10.8	(10.8)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	17.9	21.7	(39.6)	-	28.1	(28.1)	-	28.8	(28.8)	-
<b>Annual Operating Reserves</b>	<b>17.9</b>	<b>32.5</b>	<b>(50.4)</b>	<b>-</b>	<b>39.1</b>	<b>(39.1)</b>	<b>-</b>	<b>39.8</b>	<b>(39.8)</b>	<b>-</b>
<b>TOTAL, General Fund Reserves</b>	<b>994.7</b>	<b>96.8</b>	<b>(203.2)</b>	<b>888.3</b>	<b>106.1</b>	<b>(129.2)</b>	<b>865.1</b>	<b>61.7</b>	<b>(39.8)</b>	<b>887.0</b>



# Recession Scenario

Projections **do not** assume a recession during the forecast period. Should a recession occur, we project that revenues would decline and, retirement contributions would increase. If economic stabilization reserves were entirely depleted (\$380M), there would be a net remaining deficit of \$339M.

	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
<b>Base Case Deficit Projection</b>	<b>(200.8)</b>	<b>(527.5)</b>	<b>(745.6)</b>	<b>(991.7)</b>	<b>(1,224.1)</b>
<b>Updated Projection - Savings/(Cost)</b>					
Reduction in base case revenue available	(203.9)	(212.7)	(216.9)	(159.6)	(82.0)
Reduction in mandatory baseline spending	31.0	34.7	39.5	33.2	17.1
Reduction in General Reserve deposits	20.7	15.1	21.3	21.7	21.4
Permissible withdrawal from reserves	154.2	127.4	98.8	-	-
Increase employer retirement contribution	-	(5.9)	(20.4)	(28.1)	(45.7)
<b>Updated Deficit Projection</b>	<b>(198.8)</b>	<b>(568.9)</b>	<b>(823.3)</b>	<b>(1,124.4)</b>	<b>(1,313.3)</b>
<b><i>Amount of New Fiscal Strategies Needed</i></b>	<b>2.0</b>	<b>(41.4)</b>	<b>(77.7)</b>	<b>(132.7)</b>	<b>(89.2)</b>



# Conclusion

- Changes in the March Update driven by changes in FEMA assumptions and additional health, retirement and reserve deposit costs.
- Significant cost pressures in addition to economic risks and uncertainties remain that could impact this forecast in the budget years and beyond.





# Questions?

Thank you!