

File # 150199  
Received in Committee  
4/15/15  
J.V.

# Six-Month Budget Status Report and Five Year Financial Plan Update FY 2015-16 through FY 2019-20

Joint Report by the Controller's Office, Mayor's  
Budget Office, & Board of Supervisors' Budget  
Analyst

Board of Supervisors  
Budget & Finance Committee  
April 15, 2015



## Six-Month Report: General Fund Overview

- Projected ending balance of \$256.5M at close of current year – an improvement of approximately \$21.6 million versus the assumptions contained in the Five Year Financial Plan and Mayor’s Budget Instructions.
- Improvement versus budget driven largely by tax revenue improvement and savings in health & human services departments.
- Projected revenue growth results in a \$35.8 million deposit to the Budget Stabilization Reserve, an increase of \$16.7 million over the deposit anticipated in the budget.



# Six-Month Report: General Fund Variances

\$ Millions

<b>A. FY 2014-15 Starting Balance</b>	
FY 2013-14 Ending Fund Balance	\$ 294.6
Appropriation in the FY 2014-15 Budget	<u>(135.9)</u>
<b>Subtotal Starting Balance</b>	<b>158.7</b>
<b>B. Current Year Revenues and Expenditures</b>	
Citywide Revenue Surplus	96.9
Baseline Contributions	(10.3)
Departmental Operations	34.2
Approved & Projected Supplemental Appropriations	(20.3)
Projected Use of General Reserve	20.3
<b>Subtotal Current Year Revenues and Expenditures</b>	<b>120.8</b>
<b>C. Withdrawals from / (Deposits) to Reserves</b>	<b>(23.0)</b>
<hr/>	
<b>D. FY 2014-15 Projected Ending Balance</b>	<b>256.5</b>
Previous Projected Ending Balance	217.0
Use of General Reserve not Previously Projected	(17.9)
<b>E. Improvement versus Last Projection</b>	<b>21.6</b>



## Six-Month Report: Closing

- Projection uncertainty largely due to 1) pace of economic growth, particularly transfer tax and business taxes, and 2) Federal ACA revenue at DPH.
- Five-year Financial Plan update in early March builds upon these current year trends for projections through FY 2019-20.
- Improved current year news will help close, but not eliminate, projected budget shortfalls.
- Current year budget status will be revisited in the Nine Month Report, issued in early May.



## Update to Five Year Financial Plan

- Joint report issued by three financial offices of City.
- Major Updates include:
  - Controller's FY 2014-15 Six-Month Budget Status Report and revised revenue projections
  - Capital and Information & Communications Technology Plans
  - Increased projected inflationary costs
  - Potential impacts of the Proposed State budget



# Updated Five Year Base Case

## Summary of General Fund-Supported Projected Budgetary Surplus / (Shortfall)

Sources	Savings/ (Cost) Change from Prior Year, \$ Million				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(41.0)	6.7	(146.4)	-	-
Regular Revenues, Transfers, & Other	232.6	109.9	147.2	149.4	151.1
<b>Subtotal - Sources</b>	<b>191.6</b>	<b>116.7</b>	<b>0.8</b>	<b>149.4</b>	<b>151.1</b>
<b>Uses</b>					
Salaries & Benefits	(33.9)	(80.2)	(71.6)	(85.2)	(95.6)
Other Expenditures, Reserves & Transfers	(178.9)	(81.8)	(151.8)	(151.2)	(81.3)
<b>Subtotal - Uses</b>	<b>(212.8)</b>	<b>(162.0)</b>	<b>(223.3)</b>	<b>(236.4)</b>	<b>(176.9)</b>
Total Net General Fund Impact (from Prior Year)	(21.2)	(45.3)	(222.5)	(87.1)	(25.9)
<b>Projected Cumulative Surplus / (Shortfall)</b>	<b>(21.2)</b>	<b>(66.5)</b>	<b>(289.1)</b>	<b>(376.1)</b>	<b>(402.0)</b>



# Summary of Changes to Updated Five Year Outlook

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Cumulative Surplus / (Shortfall) - December 2014</b>	<b>(15.9)</b>	<b>(88.3)</b>	<b>(274.8)</b>	<b>(366.1)</b>	<b>(417.9)</b>
<b>INCREMENTAL CHANGES TO:</b>					
Sources - Revenue and Fund Balance	51.7	3.7	(40.4)	12.6	15.0
Uses - Baselines and Reserves	(34.3)	28.0	5.1	(1.5)	(1.3)
Uses - Salaries and Benefits	(0.0)	(21.7)	4.5	(13.1)	4.4
Uses - Citywide Operating Budget Costs	(21.0)	17.0	(5.2)	6.0	8.0
Uses - Departmental Costs	(1.6)	(0.0)	(0.0)	0.1	(0.1)
<b>Total Incremental Change</b>	<b>(5.3)</b>	<b>27.0</b>	<b>(36.0)</b>	<b>4.2</b>	<b>25.9</b>
<b>Updated Cumulative Surplus / (Shortfall) - March 2015</b>	<b>(21.2)</b>	<b>(66.5)</b>	<b>(289.1)</b>	<b>(376.1)</b>	<b>(402.0)</b>



## Changes in Sources

- **Changes in Revenue and Fund Balance.**
  - Increase of projected FY 2015-16 fund balance identified in Controller's Office Six-Month Budget Status Report
  - Continued increasing growth rates for most economically sensitive revenues – business, hotel, and property transfer taxes.





## Changes in Baselines and Reserves

- **Baselines.** Overall increase in projected revenue results in increased baseline funding to MTA, Library, Children's & Public Education Enrichment Fund, as well as other baselines.
- **Reserves.** Deposits to Budget Stabilization Reserve and General Reserve, consistent with Controller's Six-Month Budget Status Report.



## Changes in Salaries & Benefits

- **Labor Agreements.** In FY 2016-17, most adopted agreements contained formulae tying wage increases to CPI. Given increases to projected CPI, update assumes 2.49% wage increase beginning in July 2016, instead of 2.28% increase assumed in December Five Year plan.
- **Retirement Benefits – Employer Contribution Rates.** Assumes lower annual investment returns of 7.5% instead of previously assumed 7.58%, consistent with Retirement Board's approved valuation in February 2015.



## Changes in Citywide Operating Costs

- **Ten-Year Capital Plan.** Creation of revolving capital project development fund and reduced growth rate of pay-as-you-go program.
- **Five-Year Information and Communication Technology Plan (ICT).** Increase to Major IT projects allocation.
- **Inflation on Non-Personnel Costs.** Increased CPI.
- **State Budget Impacts.** One-time SB90 mandate repayment, reduction of Highway Users Tax Account, and State Assessment Fee on Workers' Compensation



## Key Factors That Could Affect the Forecast

- **Actual Retirement Plan Investment Returns Worse Than Assumed.** If investment returns end up lower than the assumed 7.5% rate, losses would be smoothed into employer retirement contribution rates starting in FY 2016-17, resulting in additional costs.
- **Continued Economic Recovery.** Projections assume that the recovery will continue through the forecast period, reflected in tax revenue increases. Report does not assume any economic down



# Updated Fiscal Strategies

<b>Updated Base Case Outlook (\$ millions)</b>	<b>FY 15-16</b>	<b>FY 16-17</b>	<b>FY 17-18</b>	<b>FY 18-19</b>	<b>FY 19-20</b>
<i>Cumulative Projected Surplus (Shortfall)</i>	(21)	(67)	(289)	(376)	(402)
<b>Proposed Financial Strategies - Savings</b>					
Capital Spending and Debt Restructuring	8	17	29	30	31
Manage Employee Wage and Benefit Costs	-	4	30	60	90
Taxes, Fees & Other Revenues	5	10	88	94	99
Limit Non-Personnel Inflation	-	8	17	25	35
On-Going Departmental Revenues & Savings Initiative	-	16	31	46	61
All Other Revenues and Savings	9	12	95	122	86
<b>Adjusted Outlook</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>





Questions?

City and County of San Francisco