



Budget Outlook & Department Instructions

January 2017



Agenda

- Joint Report
- Looking Forward
 - Existing Areas of Concern
 - Future Risks / Uncertainty
- Next Steps / Budget Instructions for Departments



Summary

- In the short term, fiscal picture is similar to last year.
- In the medium to long term –
 - Existing areas of concern:
 - 1) Growing employee costs;
 - 2) Cost shift from state on IHSS; and
 - 3) Large number of baselines and set asides.
 - Future risks / uncertainty related to:
 - 1) The timing of the economic cycle;
 - 2) Federal risks: tax reform, Affordable Care Act, and budget.



Summary

- Need to continue responsible fiscal policies:
 - Building our reserves;
 - Limit on-going cost growth; and
 - Fund strategic one-time investments.
- Instructions to Departments:
 - Revenue or reduction targets (2.5% growing to 5%);
 - No growth and absorb cost increases; and
 - No new FTEs.



Joint Report



Joint Report Projection – Assumptions

- “Base case” projection
- Revenue
 - Economy strong but revenue growth slowing and signs of growth constraints
- Salary and Benefits
 - Benefit cost increases – health and pension
 - Inflation increase on personnel (average of Moody’s & CA DOF)
- Citywide Costs
 - Inflation on nonpersonnel (including grants for nonprofits)
 - IHSS cost increases from the State
 - Funding the Hall of Justice Exit plan



Joint Report Projection

	<u>FY 18-19</u>	<u>FY 19-20</u>	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>% of Uses</u>
<i>Total - Sources</i>	189.9	450.7	330.3	436.8	
Uses					
Baselines & Reserves	(78.2)	(117.0)	(158.1)	(180.3)	16%
Salaries & Benefits	(132.7)	(290.8)	(437.8)	(559.0)	49%
Citywide Operating Budget Costs	(50.6)	(152.5)	(208.8)	(282.0)	25%
Departmental Costs	(16.6)	(63.8)	(86.8)	(124.9)	11%
<i>Subtotal - Uses</i>	(278.1)	(624.1)	(891.4)	(1,146.0)	100%
Projected Cumulative Surplus / (Shortfall)	(88.2)	(173.4)	(561.2)	(709.3)	

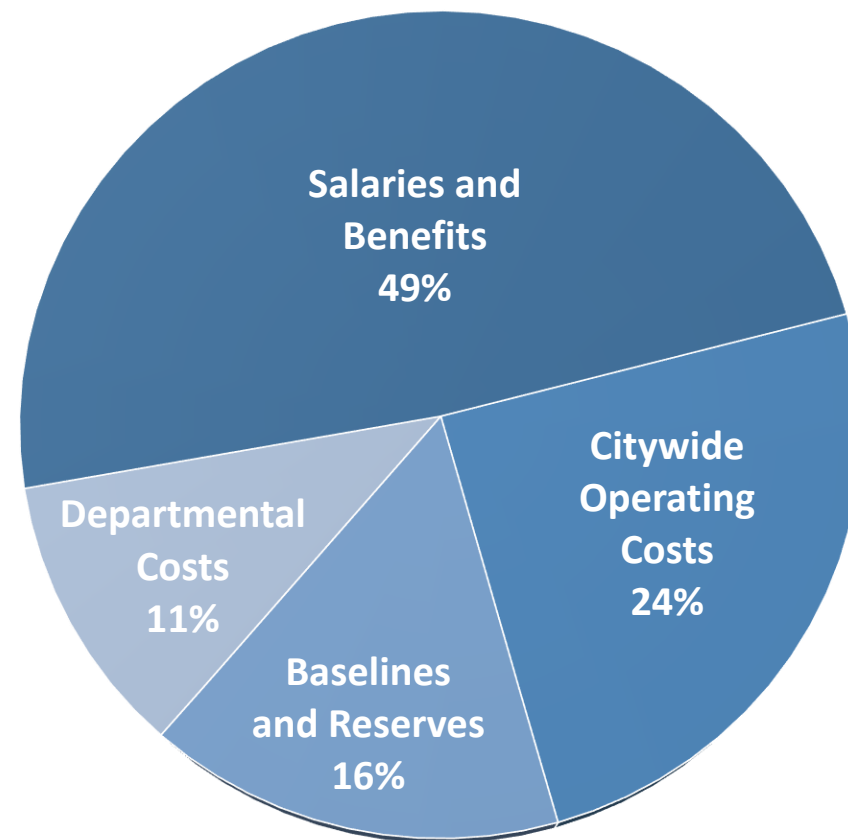
Approx. \$262 million for the upcoming two-year budget. Mayor must introduce a balanced budget each year.



Joint Report Projection - Projected Expenditure Growth

- Total projected expenditure growth over the four year period is \$1.1 billion
- The salaries and benefits section is driven by inflation on wages, and pension and health cost increases
- For Citywide operating costs, 42% of this growth is inflation on non-personnel & grants to nonprofits
- For baselines and set asides, MTA and the Children's Fund make up 76% of the growth
- For Departmental costs, 65% of the growth is related to the IHSS cost shift from the state

Projected Cost Increases FY18-19 through FY21-22



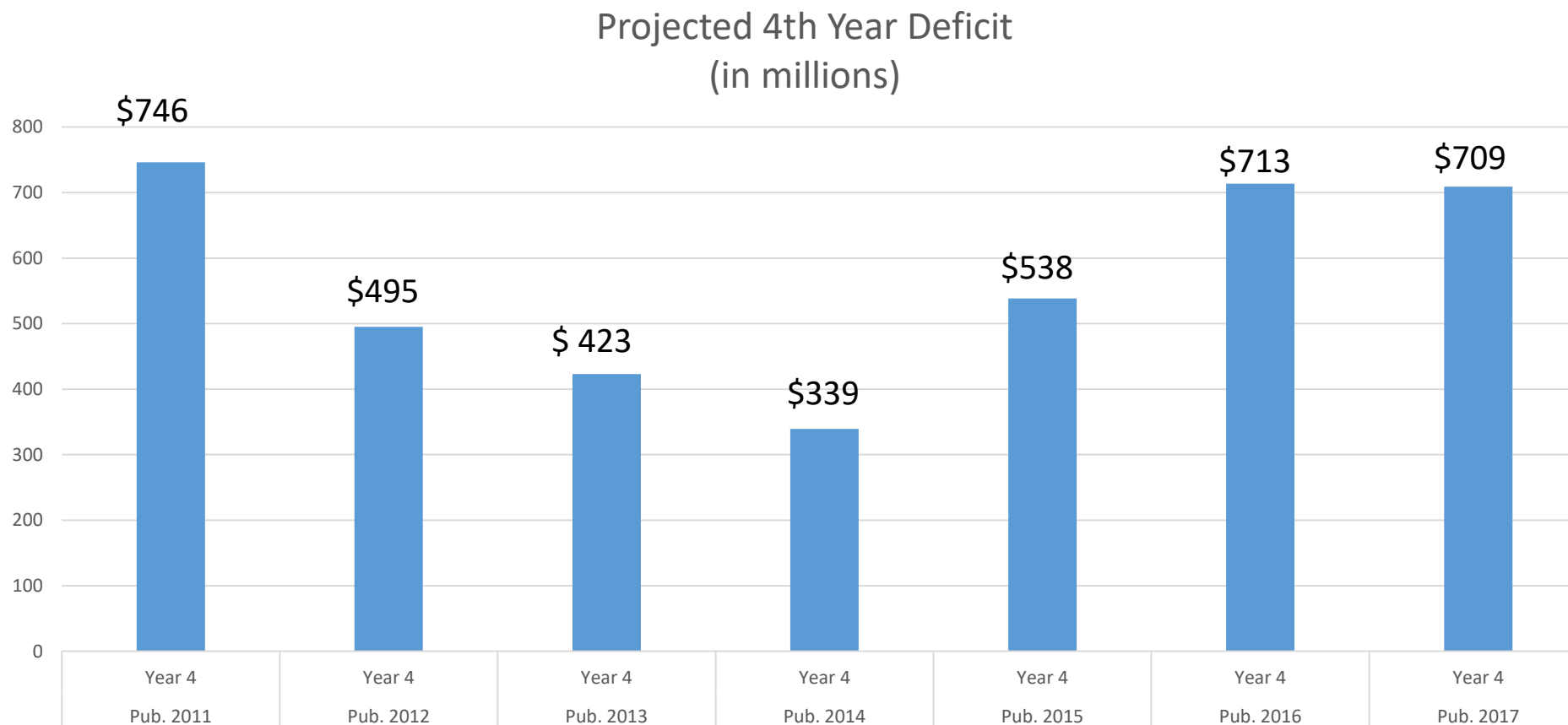


Looking Forward

Existing Areas of Concern
Future Risks / Uncertainty



Looking Forward – Structural Deficit



In the longer term, structural deficits are on the rise.



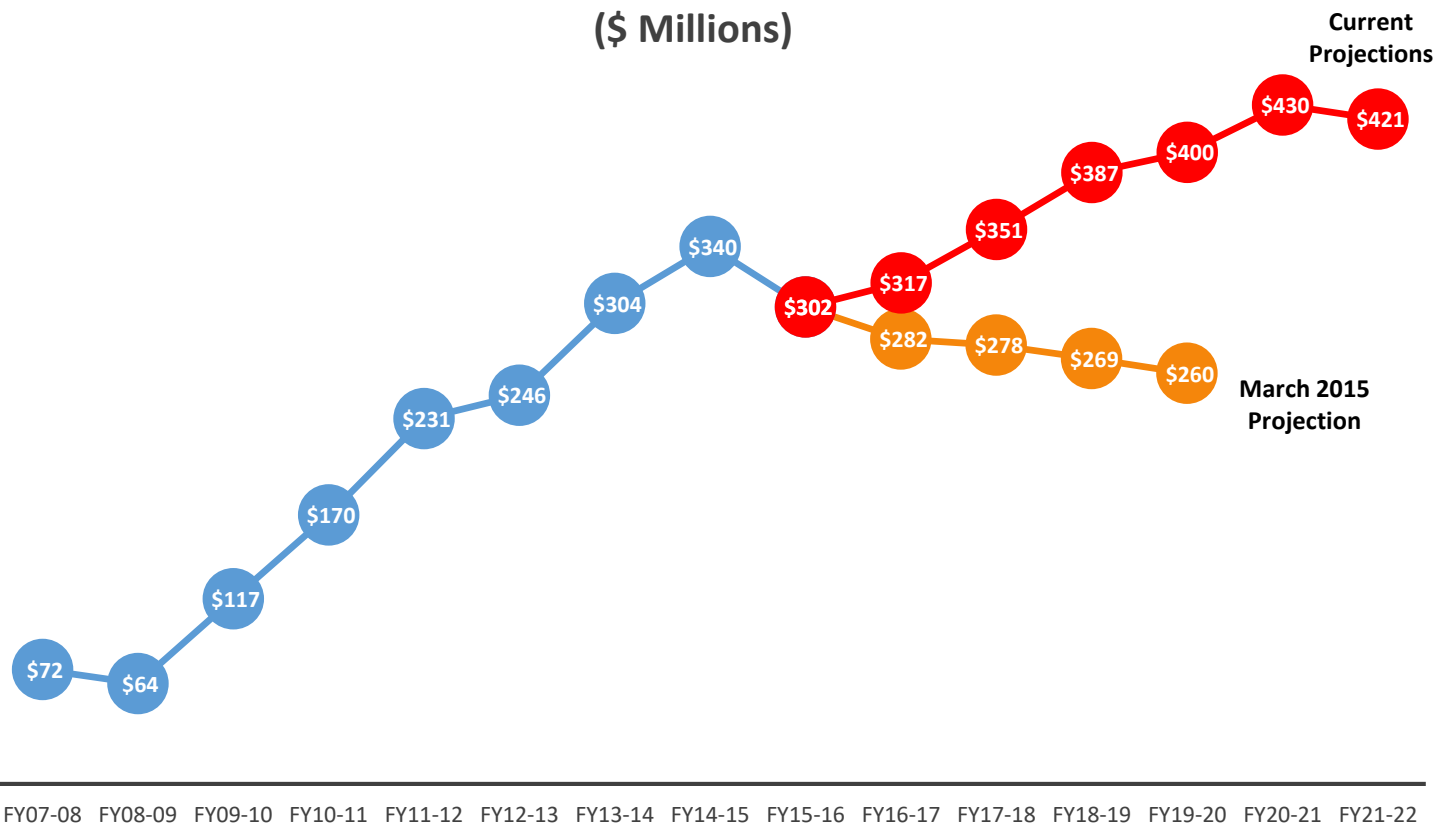
Looking Forward – Rapid Employee Cost Growth

- Pension – supplemental COLA / loss of lawsuit, returns below 7.5%, and people living longer
- Wages – CPI increasing and more employees
- Health benefits – almost double-digit cost growth projected each year
 - Rich benefits; uncertainty at federal level pushing costs up



Looking Forward – Employee Pension Cost Growth

Projected Employer General Fund Pension Contribution Cost
(\$ Millions)



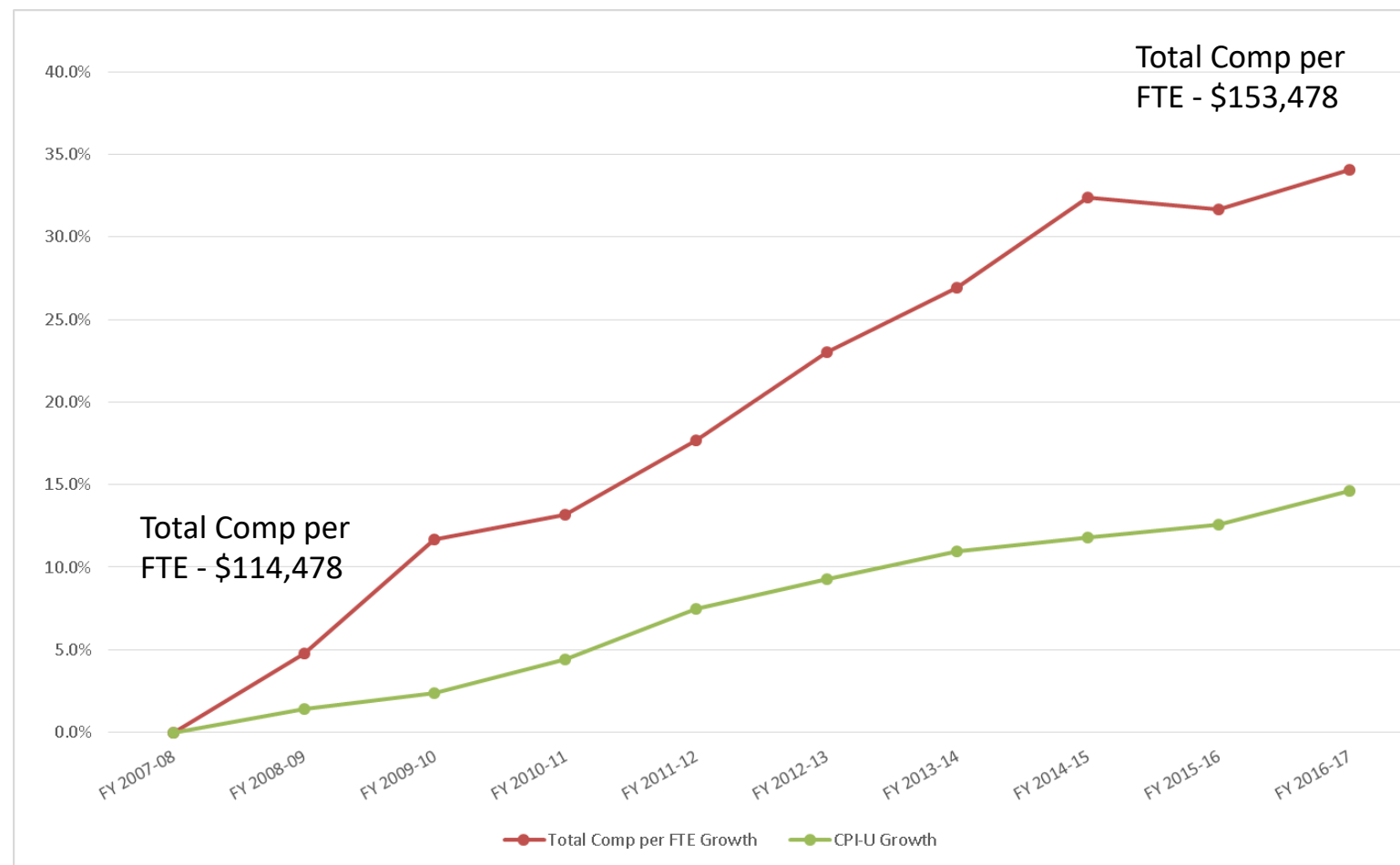
Note: FY 2007-08 to FY 2015-16 figures were budgeted pension costs

- Pension obligations have increased nearly 5-fold between FY 2007-08 and FY 2017-18 and are projected to continue increasing.
- In FY 2017-18, pension payments accounted for 7% of General Fund expenditures – up from 2.5% in FY 2007-08.
- Major cost drivers include:
 - Past poor market performance
 - Changes in retiree longevity
 - Supplemental COLAs



Looking Forward – Employee Compensation Cost Growth

Personnel costs per FTE have grown at more than twice the rate of inflation during the past decade.





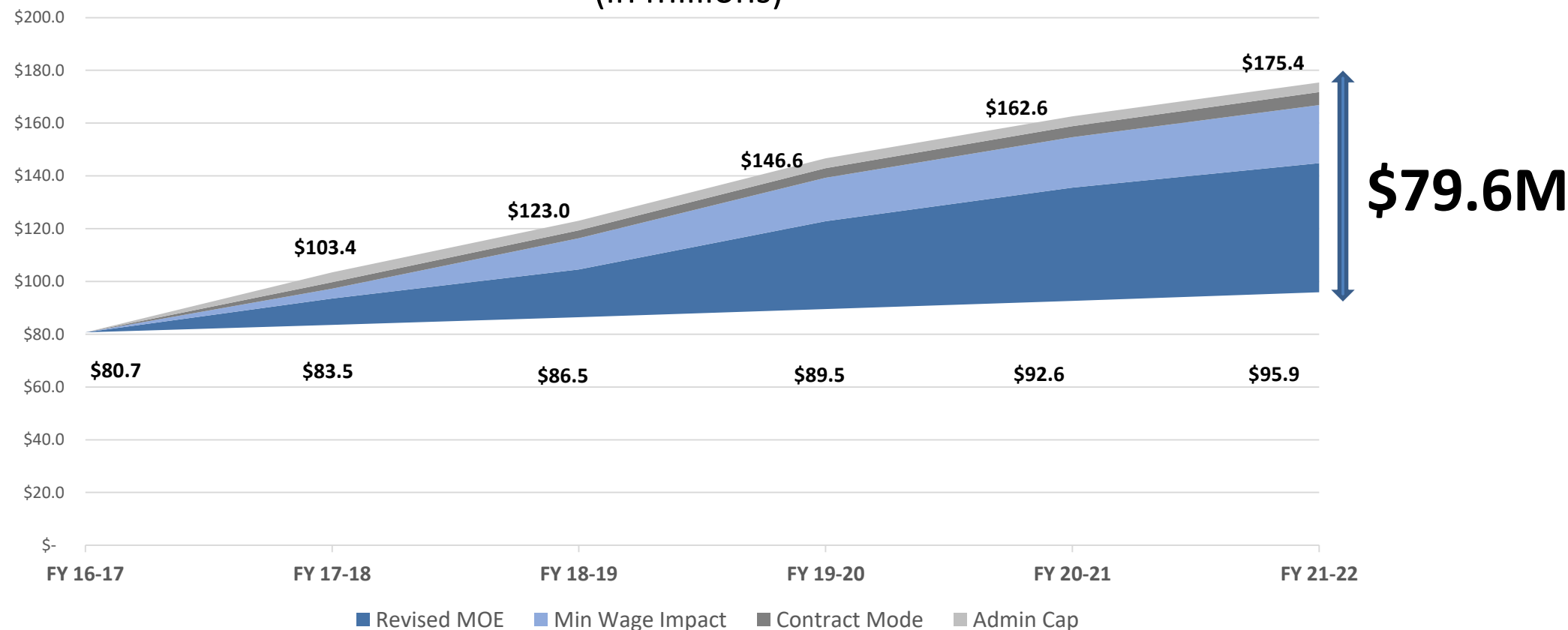
Long Term Fiscal Picture – Baselines and Set-asides

- Baselines and set-aside spending has gone from 14% of General Fund sources in FY 94-95 to over 30% of projected current General Fund spending.
- It is a uniquely San Francisco problem:
 - San Francisco has **19** baselines and set asides
 - Across the entire state of California – there are **10 baselines TOTAL**



Looking Forward – Cost Shift from the State on the In-Home Support Services (IHSS) Program

Change in Annual IHSS Costs
(in millions)

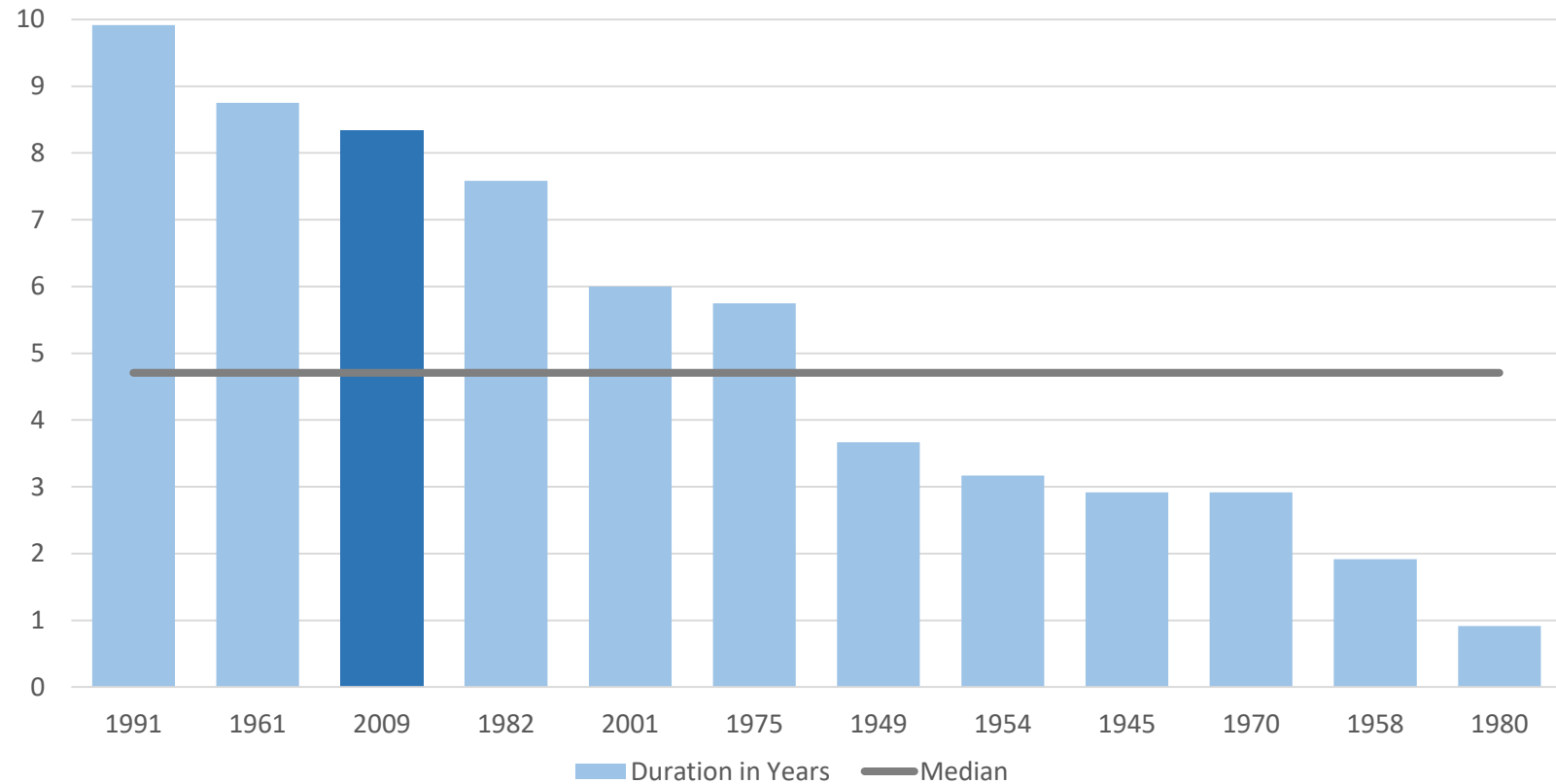




Looking Forward – Risk on Economic Climate

Our current expansion is the 3rd longest since 1945

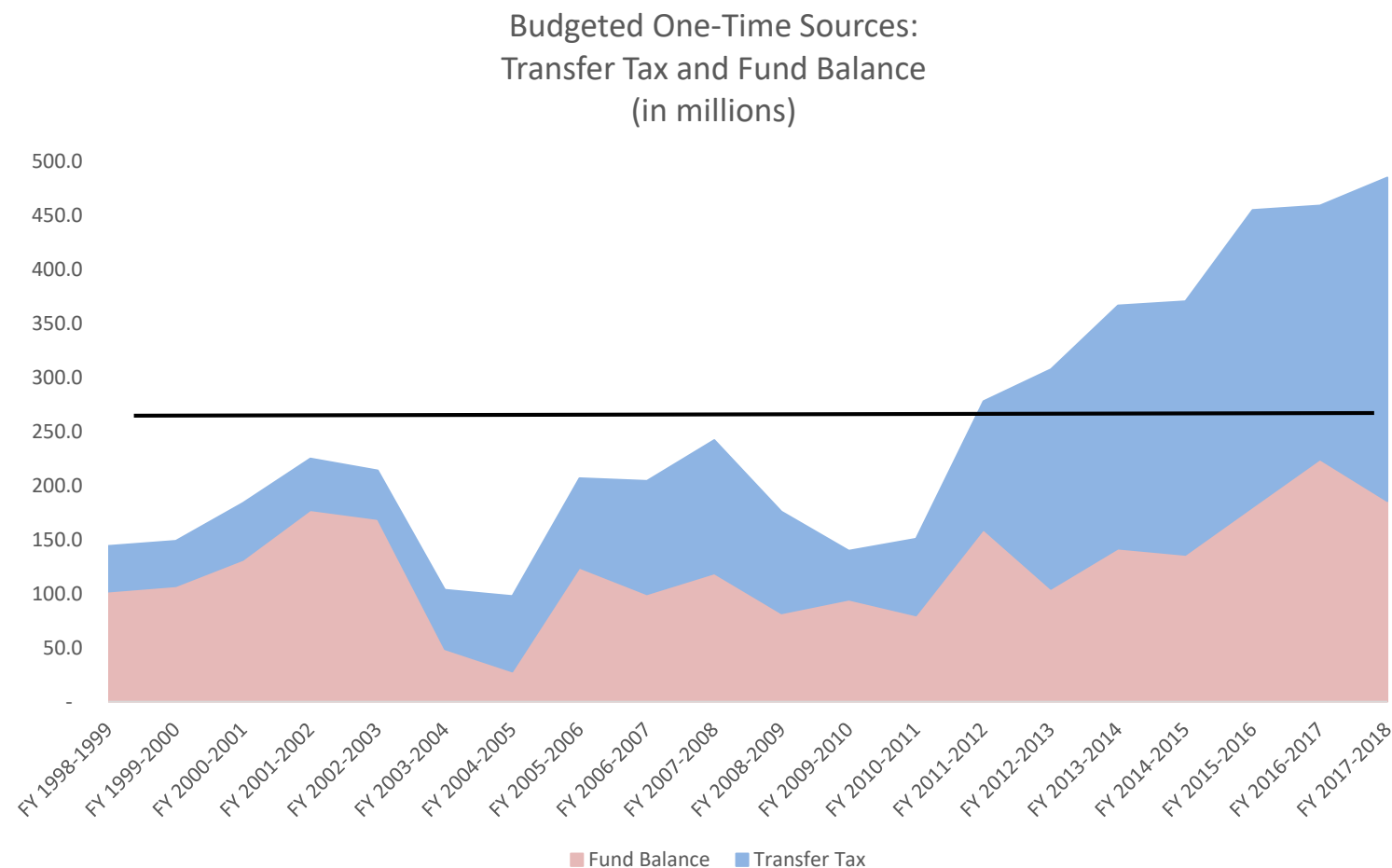
Length of economic expansion in years by start year, sorted longest to shortest





Looking Forward – Risk on Economic Climate

Fund balance and transfer tax are the biggest risk on the revenue side; these sources combined have been almost \$400 million lower in down years compared to FY 17-18 budgeted levels.





Looking Forward – Risk from Federal Government

- Potential federal impacts from tax reform, healthcare changes, and federal budget:
 - Elimination of State and Local Tax (SALT) Deduction;
 - Reduction of mortgage interest deduction;
 - Repeal of ACA individual mandate could result in 13 million fewer insured nationwide, resulting in market uncertainty and higher premiums;
 - Efforts to convert Medicaid to a block grant or per capita cap also remain a risk; and
 - Potential or additional Federal Government shut downs.



Next Steps / Department Budget Instructions



Next Steps

- What should we do about all of this? Continue with responsible fiscal practices such as:
 - Funding reserves
 - Control employee costs
 - Fund strategic one-time investments (capital, information technology, and equipment)
 - Long-term savings proposals
 - Limited on-going spending growth; especially limit FTE growth since employee costs growing faster than inflation



Budget Instructions for Departments

- FY 2018-19 & FY 2019-20: Propose **on-going reductions** and revenues equal to 2.5% of adjusted General Fund support in each year (growing to 5% in the second year of the budget)
- Departments **should not grow** budgeted and funded FTE count
- Enterprise / self supporting must absorb all known cost increases
- Legally mandated to balance the budget by June 1



Budget Instructions for Departments

- Mayor's Office and Controller's Office will continue to work with departments to align budget with strategic planning
- Citywide Strategic Initiatives – please highlight how any proposed changes to your department's budget align with these principles
- Updating Performance Measures to align with Strategic Plans

<http://sfmayor.org/strategy-and-performance>



Questions?