



# Budget Outlook & Department Instructions

December 16, 2019

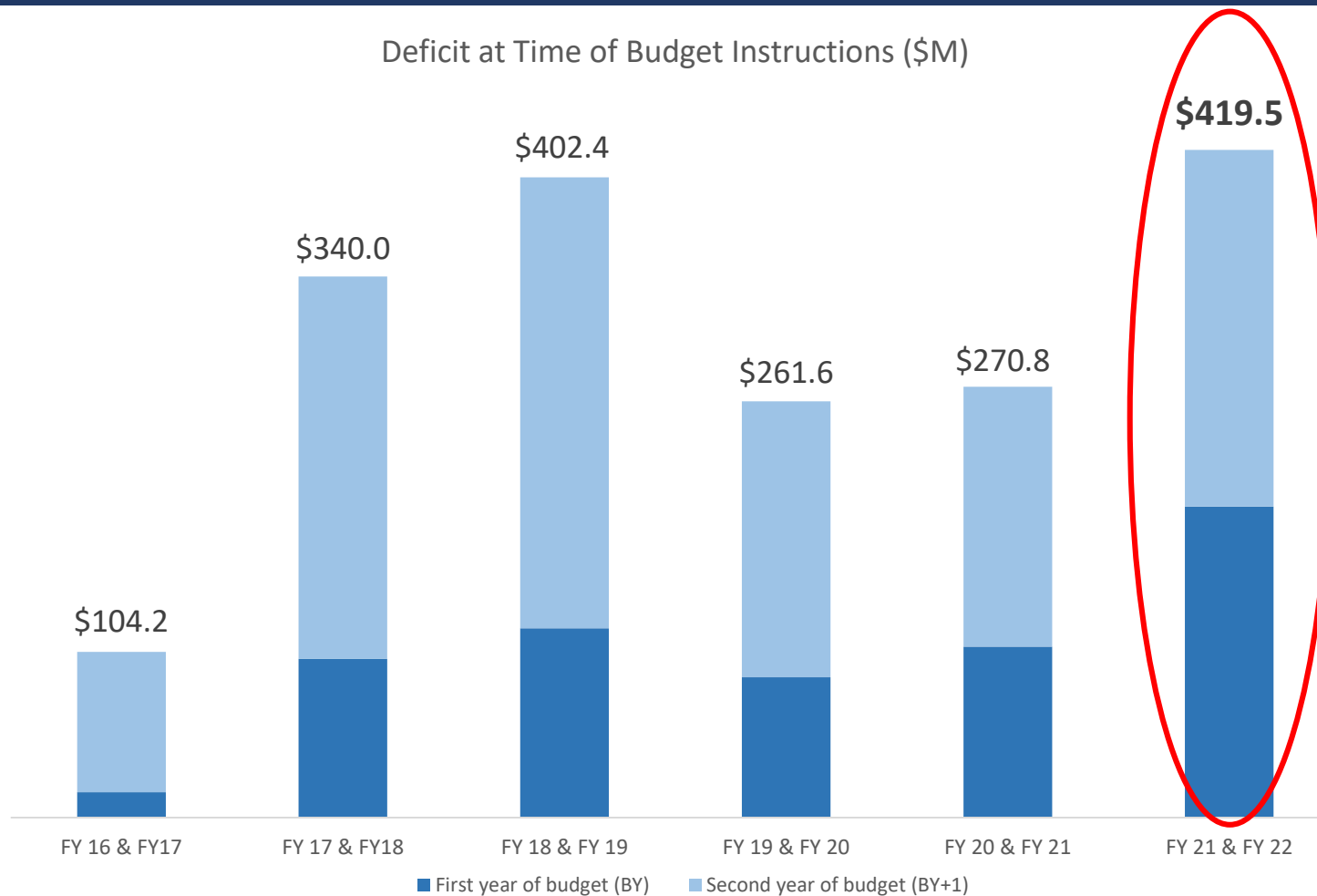


# Agenda

- Deficit Projection – Joint Report Update
- Fiscal Outlook Details
- Mayoral Priorities & Budget Instructions for Departments



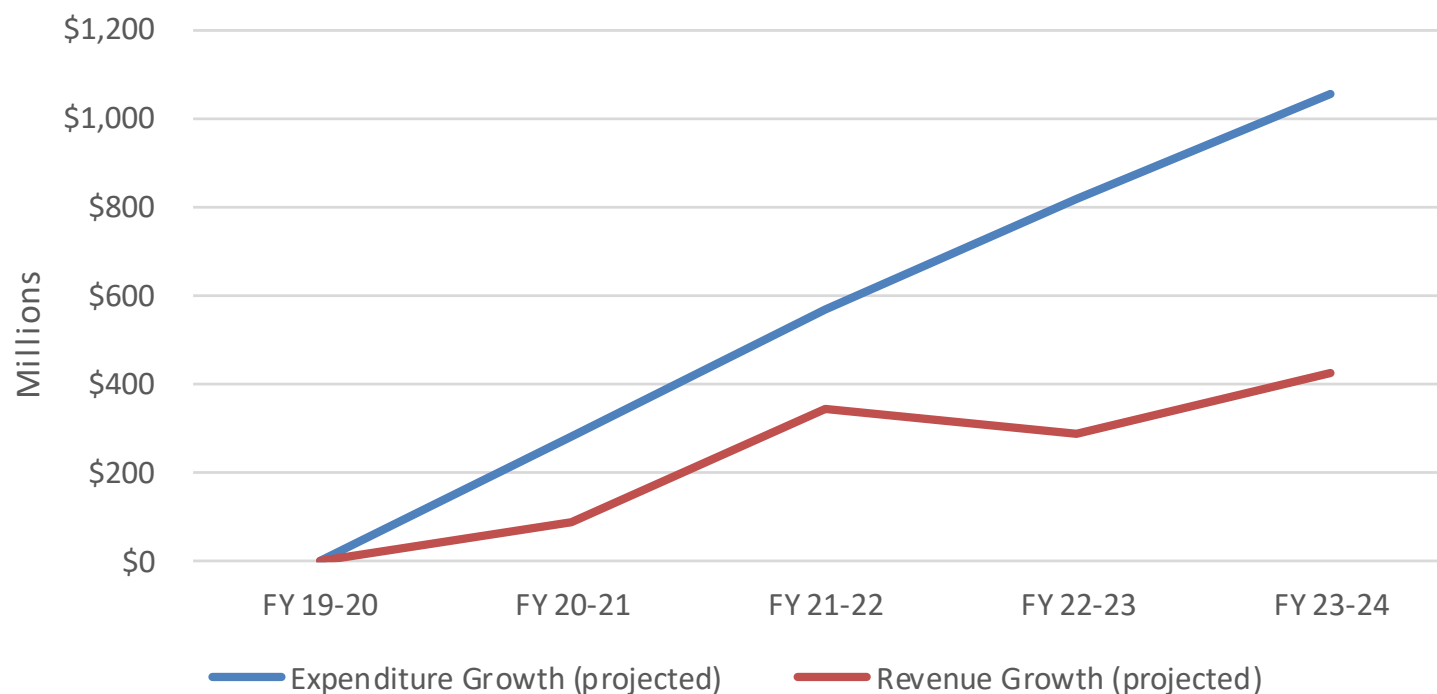
# Projected Deficit vs. Historical Deficits





# Deficit – Changes Summary

What changed from last year? The rate of revenue growth is slowing and rising costs are significantly outpacing revenue





# Mayoral Priorities

The Mayor's top priority for the coming year is to address the challenges we face with those struggling on our streets

- Housing, shelter, and services for those in need
- Clean and safe streets for everyone
- Healthy and vibrant neighborhoods

We need to focus and reprioritize funding toward this most pressing need so we can:

- Provide assistance to those on our streets
- Be responsive to residents
- Support City workers out there trying to make a difference



# Deficit Projection – Joint Report Update



# Joint Report – Assumptions

- “Base case” projection
- Revenue
  - Continued tax revenue growth, but at a slowing rate
- Salary & Benefits
  - Agreed to wage increases
  - Inflation increase on future open contracts
  - Benefit cost increases – pension and health
- Citywide & Departmental Costs
  - Debt and capital expenditures
  - Continued support of IHSS cost increases from the State
  - Inflation on non-personnel (including grants for nonprofits)



# Joint Report – Assumptions

- ERAF not assumed in the deficit
- Mayor and Board passed legislation outlining the following allocation policy:
  - At least 50% spent on one-time expenditures
  - 50% of ERAF allocated for housing expenditures
  - Appropriate on an annual basis due to uncertainty at the state level





# Deficit Details

	<b>FY 20-21</b>	<b>FY 21-22</b>	<b>FY 22-23</b>	<b>FY 23-24</b>
<b><i>SOURCES Increase / (Decrease)</i></b>	<b>89.0</b>	<b>346.0</b>	<b>289.4</b>	<b>423.6</b>
<b>Uses</b>				
Baselines & Reserves	(45.5)	(54.0)	(127.1)	(163.3)
Salaries & Benefits	(167.9)	(269.6)	(338.5)	(407.5)
Citywide Operating Budget Costs	(66.9)	(167.8)	(235.0)	(314.6)
Departmental Costs	(3.9)	(78.8)	(119.9)	(168.8)
<b><i>USES (Increase) / Decrease</i></b>	<b>(284.3)</b>	<b>(570.1)</b>	<b>(820.5)</b>	<b>(1,054.2)</b>
<b>Projected Cumulative Surplus / (Shortfall)</b>	<b>(195.4)</b>	<b>(224.1)</b>	<b>(531.1)</b>	<b>(630.6)</b>
<b>Two Year Deficit</b>	<b>(419.5)</b>			



# Summary – Deficit Projections

Revenue growth is slowing and rising costs are significantly outpacing revenue

- Reliance on one-time “fund balance” to balance annual budgets
- Slowing rate of growth for business tax and interest earnings
- Growing employee costs – wages, pension, and health
- Large on-going cost commitments – IHSS, Free City College, and MCO

Long-term, fiscal outlook considerations

- Economic cycle
- Large number of baselines and set-asides
- Revenue trends and continued growing costs



# Fiscal Outlook Details



# Revenue Projections

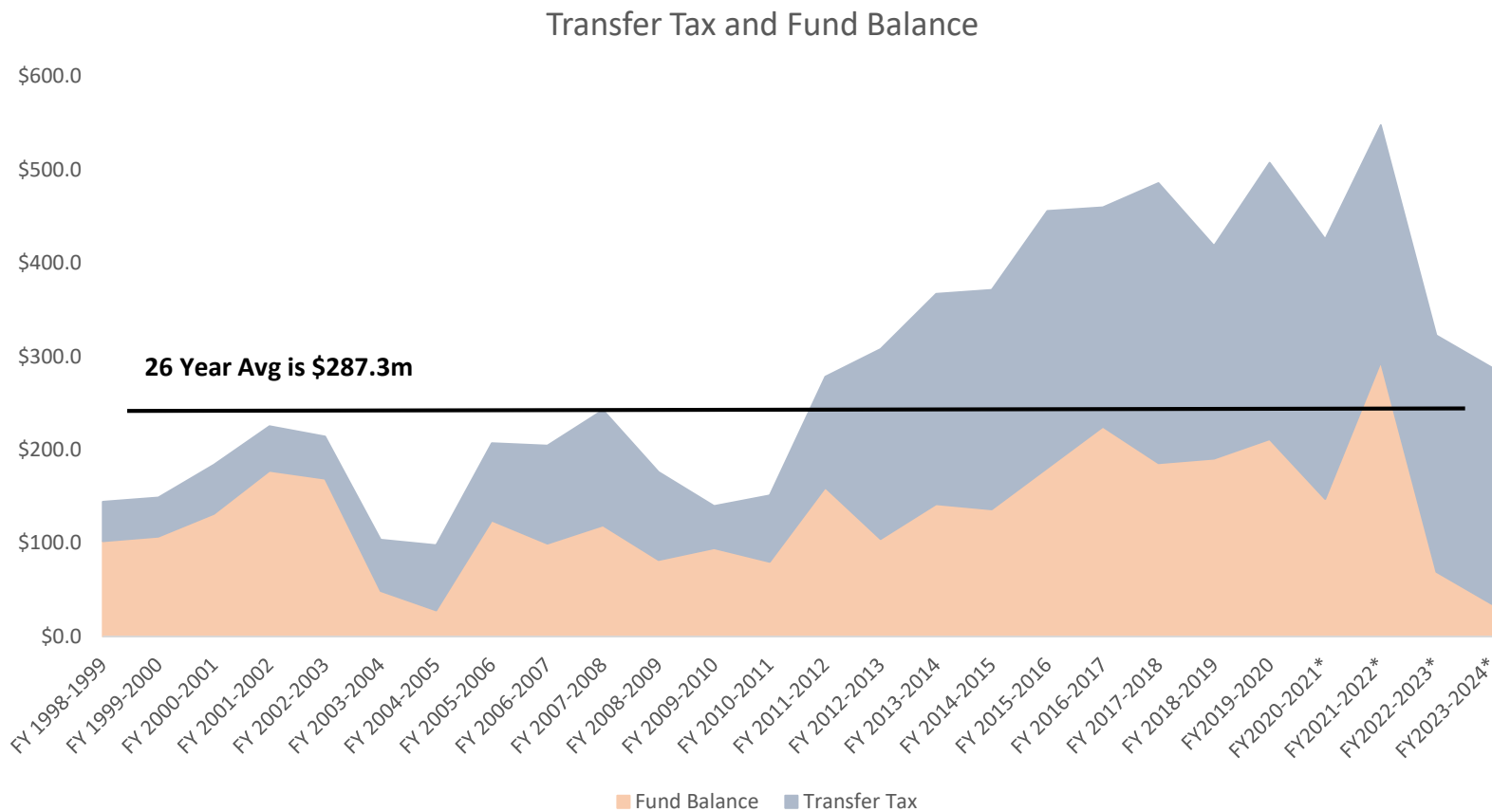
	Actuals			Projected		
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
<b>General Fund Tax Revenues (\$M)</b>	<b>\$3,385</b>	<b>\$3,652</b>	<b>\$3,831</b>	<b>\$4,006</b>	<b>\$4,100</b>	<b>\$4,176</b>
<b>Growth Rate</b>	<b>9.0%</b>	<b>7.9%</b>	<b>4.9%</b>	<b>4.5%</b>	<b>2.4%</b>	<b>1.9%</b>

## Continued tax revenue growth, but at a slowing rate...

- Interest earnings declining given federal interest rates cuts
- Moderated business tax growth
- Strong current year transfer tax returns, but projected to decline to norms in future years



# Use of Volatile Sources



- Recent budgets have increasingly been balanced with the help of volatile sources such as prior year fund balance and transfer tax
- When not paired with equally offsetting one-time uses, these sources present risks for future budgets



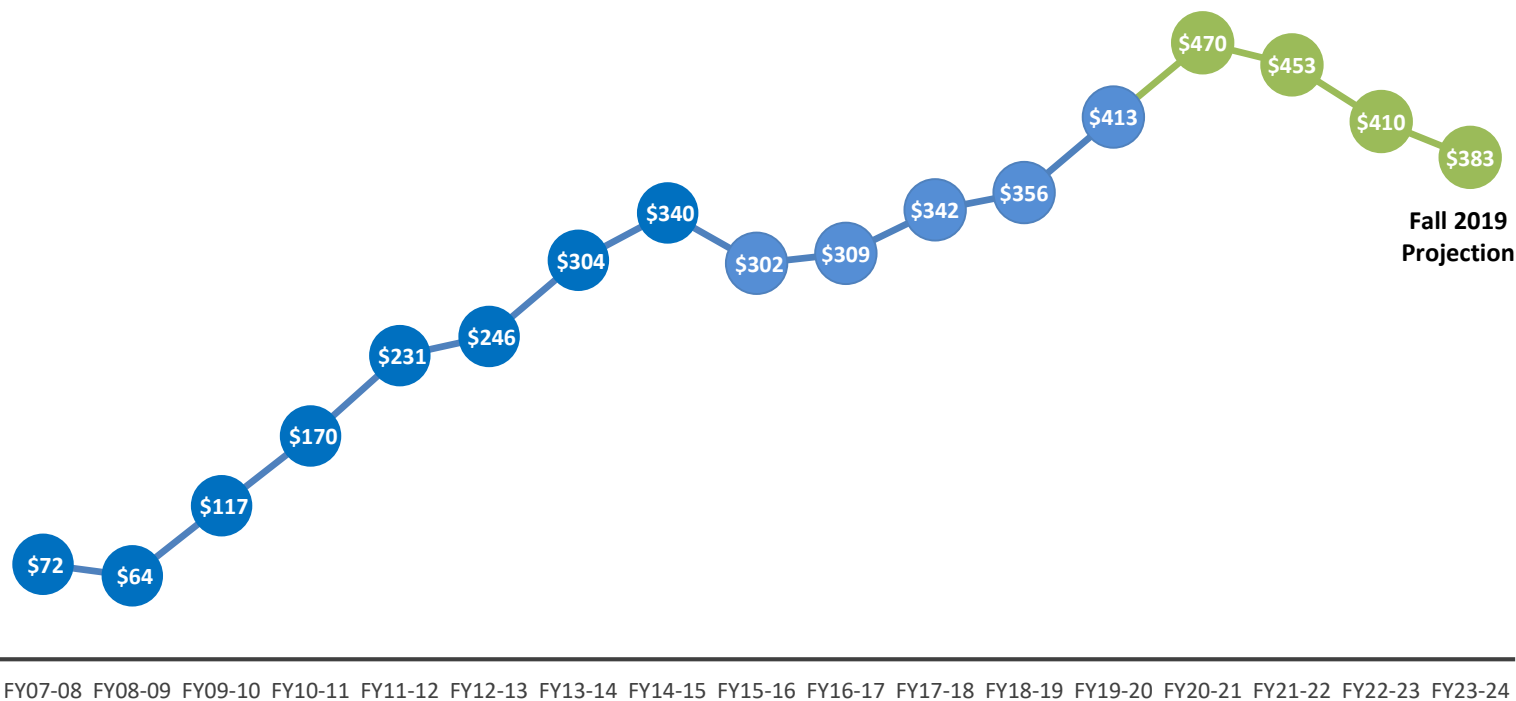
# Rising Employee Costs – Salaries & Benefits

- Spring 2019 labor negotiations – 28 MOUs negotiated
  - Negotiated wage increases included in the deficit
  - Future, open contracts - inflation assumed for wage increases
- Health benefits – growing at rate that exceeds CPI (~6%/year)
- Pension – significant cost increases in FY 2020-21 (\$43.8M) due to CalPERS and assumed supplemental COLA, followed by cost savings in out years from SFERS given current return assumptions



# Rising Employee Costs – Pensions

Projected Employer Pension Contribution Cost  
Increases from Prior Projections (\$ Millions)



- Pension obligations have increased nearly 7-fold between FY 2007-08 and FY 2020-21
- Major cost drivers:
  - Fall 2018 discount rate change
  - Prior year lower returns
  - Supplemental COLAs (2014, 2017, 2018, 2019)

FY07-08 FY08-09 FY09-10 FY10-11 FY11-12 FY12-13 FY13-14 FY14-15 FY15-16 FY16-17 FY17-18 FY18-19 FY19-20 FY20-21 FY21-22 FY22-23 FY23-24

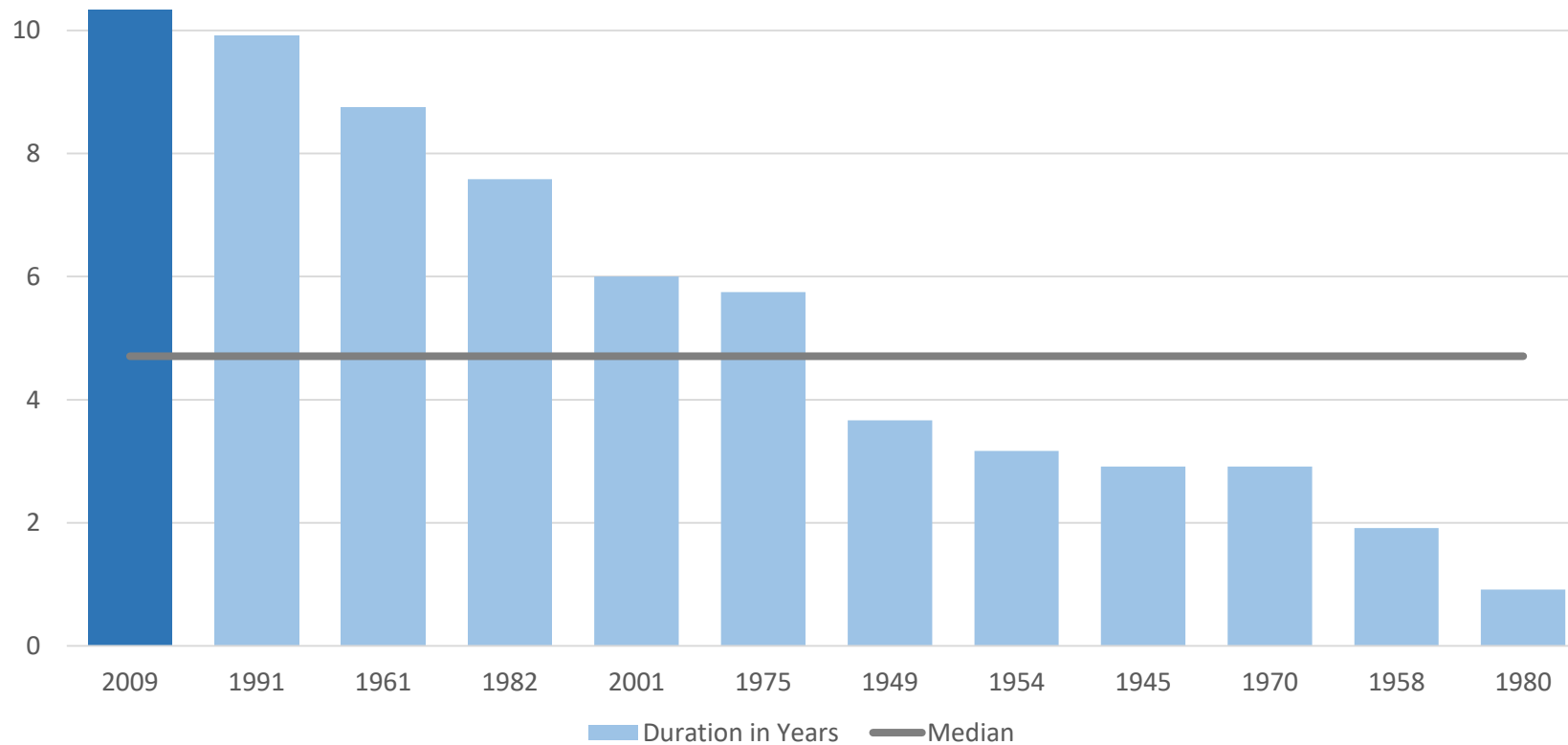
Note: FY07-08 to FY19-20 figures were budgeted pension costs



# Looking Forward – Economic Climate

Our current expansion is the longest since 1945

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







# Policy Priorities & Department Budget Instructions



# Mayoral Priorities

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# Accountability & Equitable Outcomes

Continued focus on accountability & equitable outcomes. Departments need to demonstrate how their budget submissions help achieve these goals.

- Accountability
  - Demonstrate the effective use of existing City funding
  - Track and monitor meaningful and measurable metrics
  - Achieve outcomes and goals as outlined (performance measures; project deliverables)
- Equitable Outcomes
  - City services that reflect the value that each person deserves an opportunity to thrive in a diverse and inclusive city (*Citywide Strategic Initiatives Framework*)
  - Prioritize funding initiatives that serve residents with the highest need



# Accountability & Equitable Outcomes

Piloted Accountability & Equitable Outcome (AEO) Plans last year, and will build and grow this model of accountability

- Tracking implementation and outcomes of important initiatives
- Monitoring performance progress
- Help inform budget decisions



# Budget Instructions – Balancing the Budget

## “Target” Efficiency/Reduction Proposals

- Required proposals to reduce General Fund support
  - Equivalent to 3.5% of adjusted GFS (growing to 7% in the second year of the budget)
- When developing target proposals, please seek solutions that prioritize core functions, minimize service impacts, and avoid lay-offs
- Seek and prioritize solutions that spend General Fund more effectively and efficiently, such as:
  - Explore revenue options
  - Review and consolidate service contracts for potential savings
  - Streamline programs and operations using Lean principles
  - Pilot creative solutions that reduce costs



# Budget Instructions - Balancing the Budget

To help constrain growing General Fund costs:

- Departments shall not load new General Fund supported FTE requests in the budget system
- Do not load budget enhancements during department phase

*New General Fund supported positions and discretionary spending will be included in the Mayor's proposed budget that align with the Mayor's targeted priorities*



# Budget Process Legislation

Goal is to provide greater transparency and public input at all points along the budget process

- Requires public meetings to consider department budget development for all departments – December – February
- Budget system snapshot of department submissions provided to the BLA by March 1<sup>st</sup>
- Formalized budget priority setting processes for Mayor and Board
- Centralization of all budget documents on a single website – coordinated by the Controller's Office

(Ordinance File No. 191072 & Motion File No. 191088)



# Summary - Budget Instructions

- Mandated “target” efficiency/reduction proposals of 3.5% reduction in adjusted general fund support, growing to 7% total in second year
- Intensified focus on accountability and equitable outcomes
- Demonstrate the effective use of resources, help identify programs and funding that can be reprioritized
- Do not load new General Fund supported FTE or budget enhancements





# Calendar / Key Dates

Dec 16 <sup>th</sup>	Budget Outlook & Instructions issued
Mid Dec	Budget system opens to departments / CON budget system trainings
January 17 <sup>th</sup>	COIT and Capital budget requests due
Early February	Controller's 6-Month Report
February 21 <sup>st</sup>	Budget submissions due
May 1 <sup>st</sup>	Mayor proposes select department budgets to the Board of Supervisors
May	Controller's 9-Month Report Governor's May Revise
June 1 <sup>st</sup>	Mayor proposes balanced budget to Board of Supervisors
June	Budget and Finance Committee hearings
July	Budget considered at Board of Supervisors



# Questions?