



Budget and Five Year Financial Plan Update

Presentation to CBO Taskforce

April 8, 2013



Agenda

- Financial Policies
- Goals of the Five-Year Financial Plan
- Key Assumptions
- General Fund Base Case
- Proposed Fiscal Strategies



Financial Planning and Policies

- The City has worked over the last several years to strengthen its long term financial management and reduce volatility in our budget process.
- Two-year budgeting: FY 2012-13 and FY 2013-14 budget was the first two-year budget for all City departments.
- Consistent Long-Term Planning
 - Five-Year Financial Plan
 - Five-Year Information and Communication Technology (ICT) Plan
 - Ten-Year Capital Plan
- Responsible Fiscal Policies
 - Increase reserves and create the Budget Stabilization Reserve
 - Limit the use of one-time sources to balance the budget
 - Codify debt policies and restrictions



Goals for the Five-Year Financial Plan

- Financial Road Map for the City over the next five years
 - High level planning document to guide future budgets
- Highlight Key Financial Issues
 - Identify key drivers of revenues and expenditures
 - Monitor progress on the City's structural deficit
- Develop Multi-Year Strategies
 - Adopt strategies and implement them over time to reduce volatility in the City's budgeting process

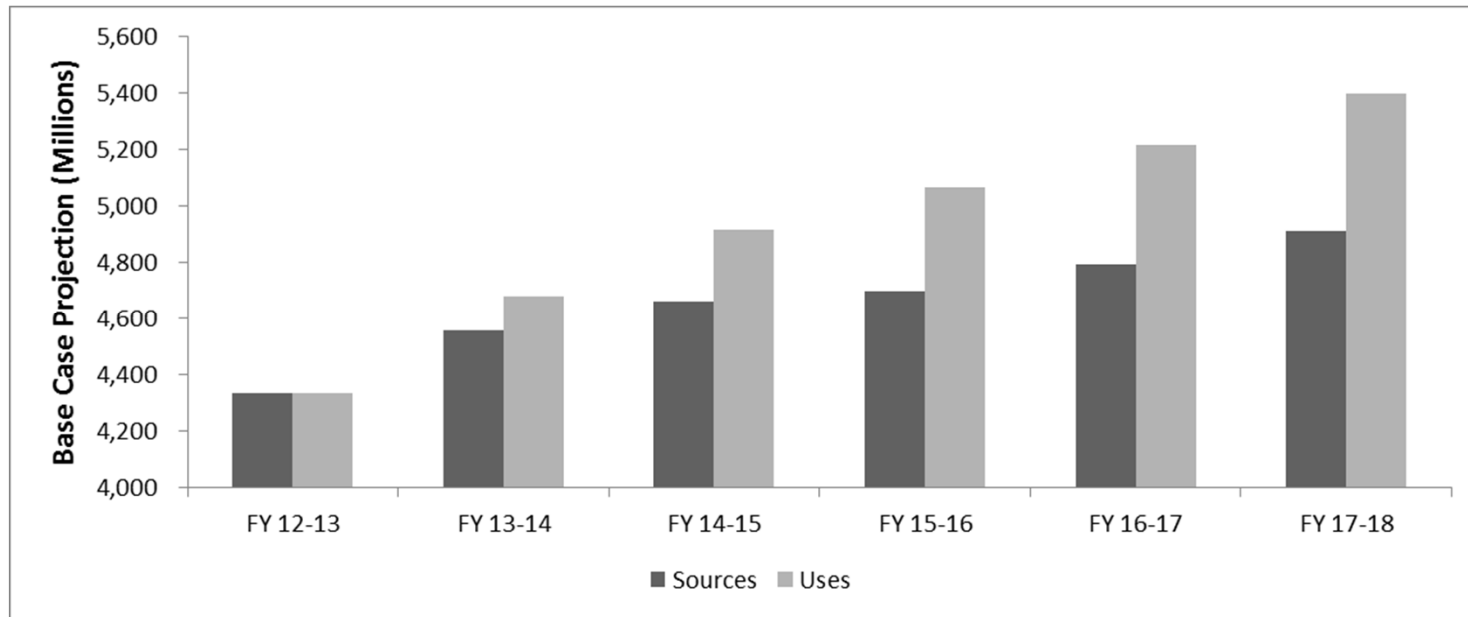


5 Year Plan Key Assumptions

- Adopted FY 13-14 AAO serves as a starting point for the base case projections.
- No major changes to service levels or number of employees, however known increases are assumed.
- Reserves:
 - No additional allowance for state revenue losses
 - City Ineligible for Rainy Day Withdrawal
- Wage and Benefit Costs:
 - No change in closed labor agreements.
 - Inflationary increases equal to CPI on open MOU agreements starting in FY 15-16
 - Retirement plan employer contribution rates and implementation of Pension Reform (Proposition C)
- Departmental Issues

General Fund Base Case Projection Overview

- Revenues are projected to grow 13% and expenditures are projected to grow 25%, which results in a gap of \$487 million over the five-year period.



	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Sources	4,332.9	4,556.6	4,661.8	4,696.3	4,791.0	4,910.4
Uses	4,332.9	4,680.2	4,917.9	5,064.0	5,214.2	5,397.6
(Shortfall)	-	(123.6)	(256.1)	(367.7)	(423.2)	(487.2)



General Fund Base Case Projection Revenues

- Revenues are projected to grow \$578 million (13%) in the next five years.
- This continued modest economic growth in tax revenues is supported by increasing housing prices, consumer credit, tourism, and job growth.
- The pace of growth will depend heavily on job growth, which will be moderated by federal spending cuts and tax increases.
- Projected rates of growth in the later years are slower to reflect the risk of a downturn after seven to eight years of growth.
- The largest increases are in property taxes (\$312 million), business taxes (\$148 million), and local taxes (hotel and sales taxes are projected to increase by \$81 million).

General Fund Base Case Projection Revenues

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	% Chg from FY 2012-13 Original Budget	% Chg from FY 2013-14 Five Year Projection	% Chg from FY 2014-15 Five Year Projection	% Chg from FY 2015-16 Five Year Projection	% Chg from FY 2017-18 Five Year Projection
Property Taxes	5.7%	6.3%	5.3%	4.5%	4.3%
Business Taxes	13.4%	5.9%	4.9%	2.5%	2.7%
Sales Tax	4.3%	4.0%	4.0%	3.0%	3.0%
Hotel Room Tax	9.4%	5.7%	5.5%	3.1%	3.1%
Utility Users Tax	4.0%	2.0%	2.0%	2.0%	2.0%
Parking Tax	7.2%	3.0%	3.0%	2.0%	1.0%
Real Property Transfer Tax	10.6%	0.0%	-11.1%	-12.5%	0.0%
Stadium Admission Tax	2.0%	2.0%	2.0%	0.0%	0.0%
Access Line Tax	-5.3%	1.0%	1.0%	1.0%	1.0%
Subtotal - Tax Revenues	7.7%	5.1%	3.4%	2.4%	3.2%
Subtotal - Federal Subventions	5.7%	-4.8%	0.0%	0.0%	0.0%
Subtotal - State Subventions	4.1%	1.1%	1.1%	1.1%	1.1%
Subtotal - Charges for Services	3.2%	1.0%	1.0%	0.0%	0.0%
TOTAL REVENUES	6.8%	3.1%	2.7%	1.9%	2.5%



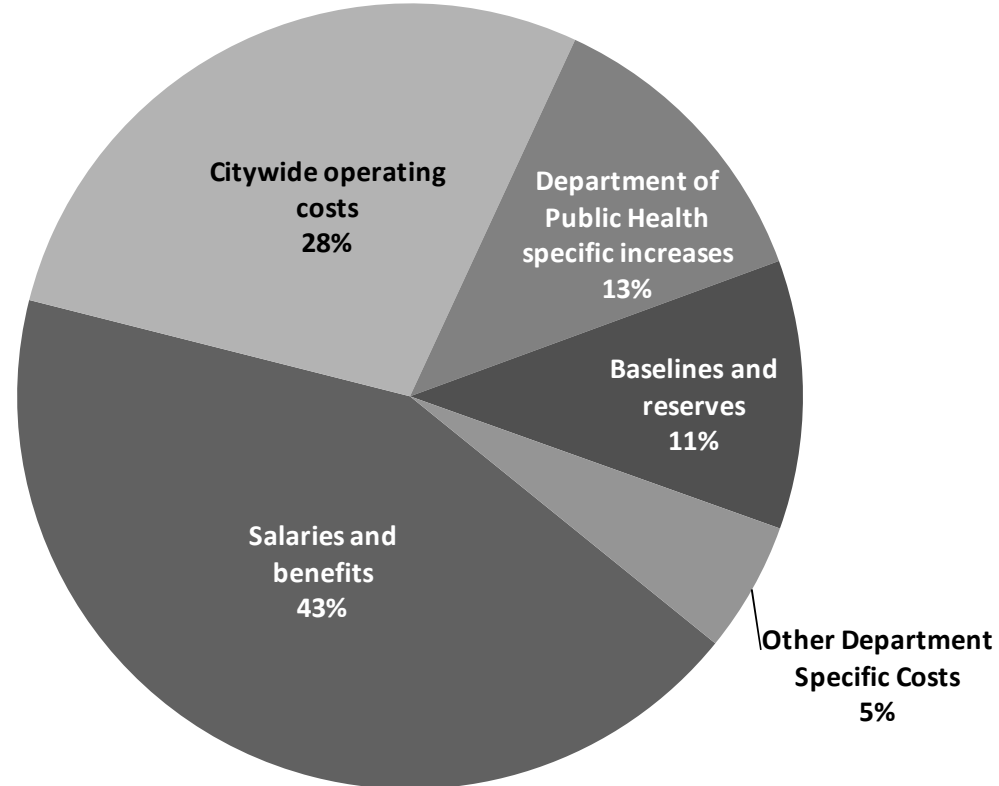
General Fund Base Case Projection Expenditures

- Expenditures are projected to increase by \$1,065 million (25%) over the five-year period.

Salary and Fringe Benefit Costs	459
Citywide cost increases	
Capital, IT and equipment costs	119
Inflation on non-personnel costs and grants	129
Debt service payment increases	27
Other citywide costs	23
Contributions to baselines and reserves	118
Department specific costs	190
5 Year Expenditure Growth	1,065

General Fund Base Case Projection Expenditures

Projected Growth in Expenditures FY 2014 - FY 2018



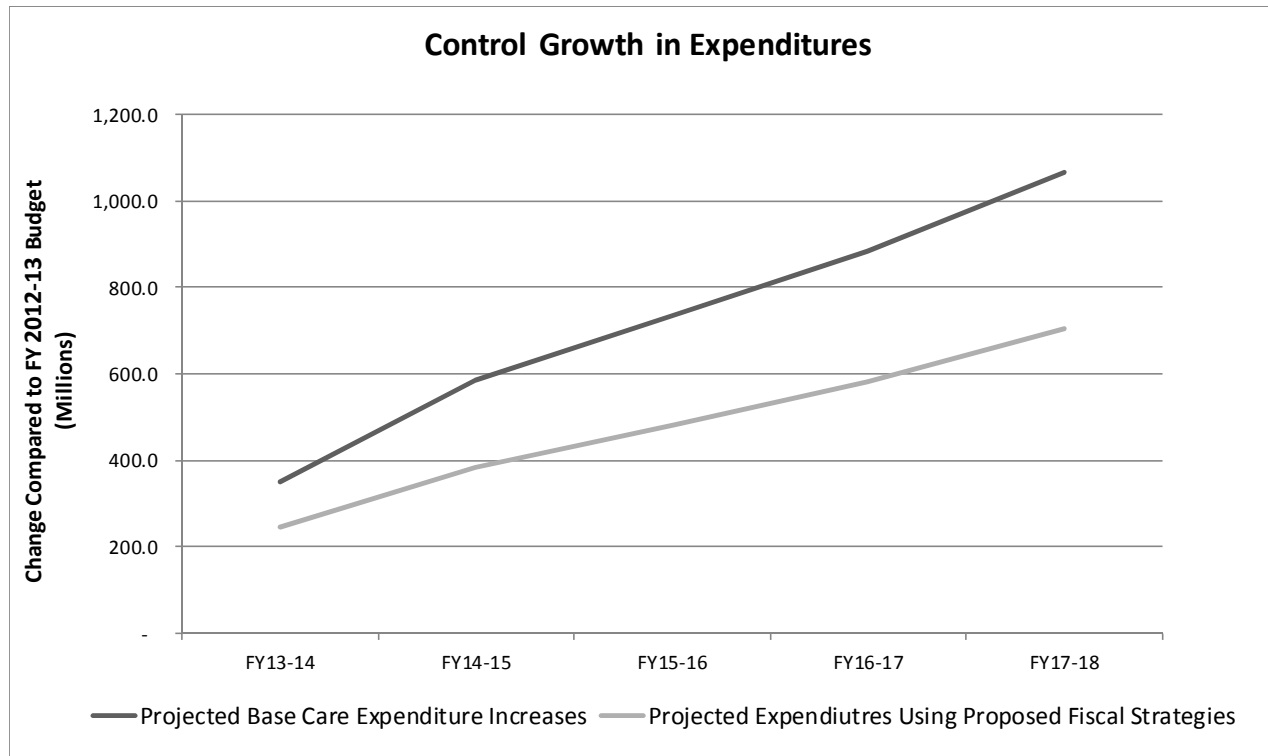


Proposed Fiscal Strategies

Base Case Outlook	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
<i>(\$ millions)</i>	(124)	(256)	(368)	(423)	(487)
Proposed Financial Strategies - Savings					
Capital Spending and Debt Restructuring	10	41	36	43	44
Manage Employee Wage and Benefit Costs	17	21	60	83	119
Additional Tax, Fees and Other Revenues	20	25	85	86	87
Adjust Baselines and Revenue Allocations	-	27	30	32	34
Limit Non-Personnel Inflation	-	33	50	67	78
Non-Recurring Revenues and Savings	48	57	30	12	2
On-Going Departmental Revenues and Savings Initiatives	28	52	76	101	121
New On-Going Savings Initiatives	12	12	12	13	13
Cumulative Value of On-Going Savings Initiatives	-	12	24	36	49
Health Department On-Going Savings Initiatives	17	12	12	12	7
Cumulative Value of Health Department Savings Initiatives	-	17	28	40	52
Adjusted Outlook	-	-	-	-	-

Fiscal Strategies: Slow Expenditure Growth

- The Plan recommends slowing the pace of expenditure growth from 25% to a more modest 16% over the next five years through a variety of strategies.

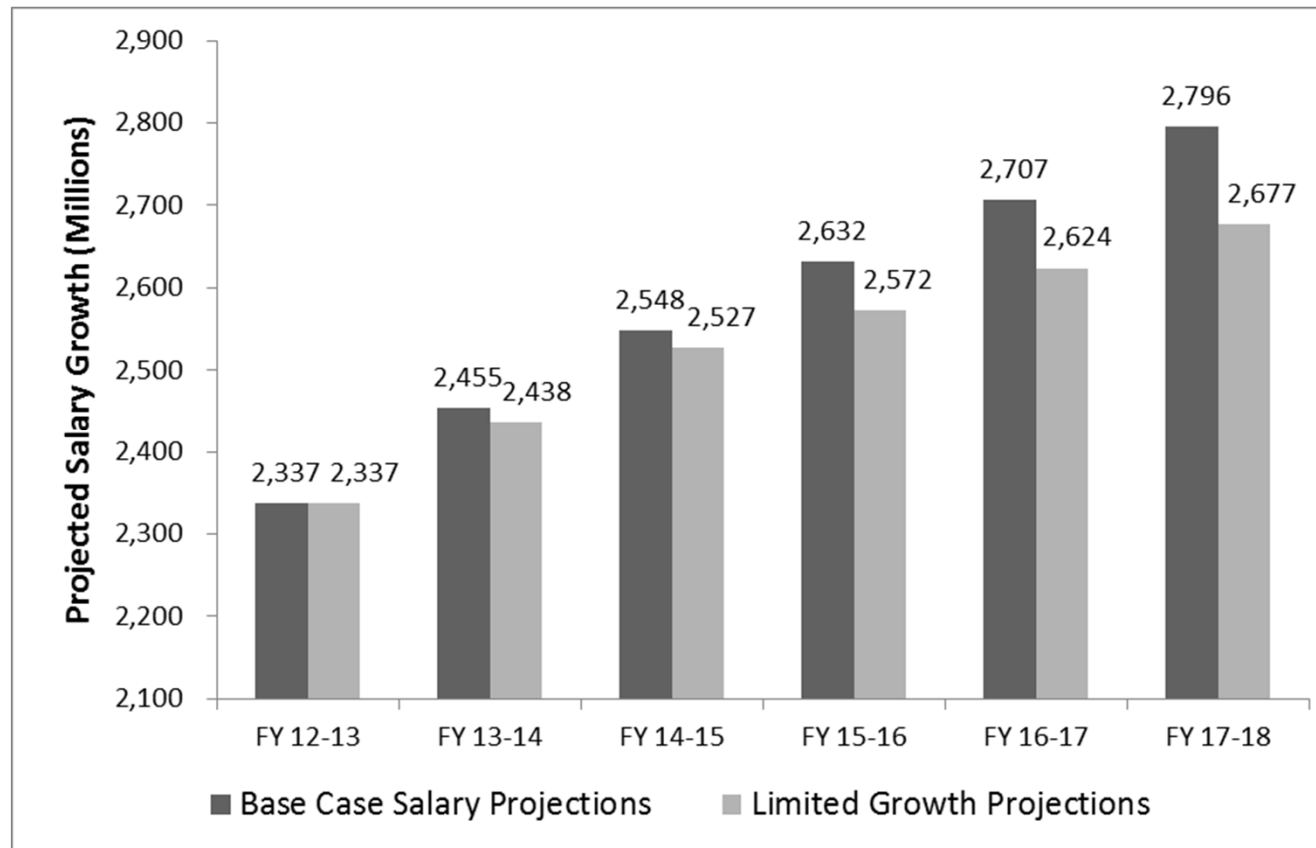




Fiscal Strategy: Capital Spending and Debt Restructuring

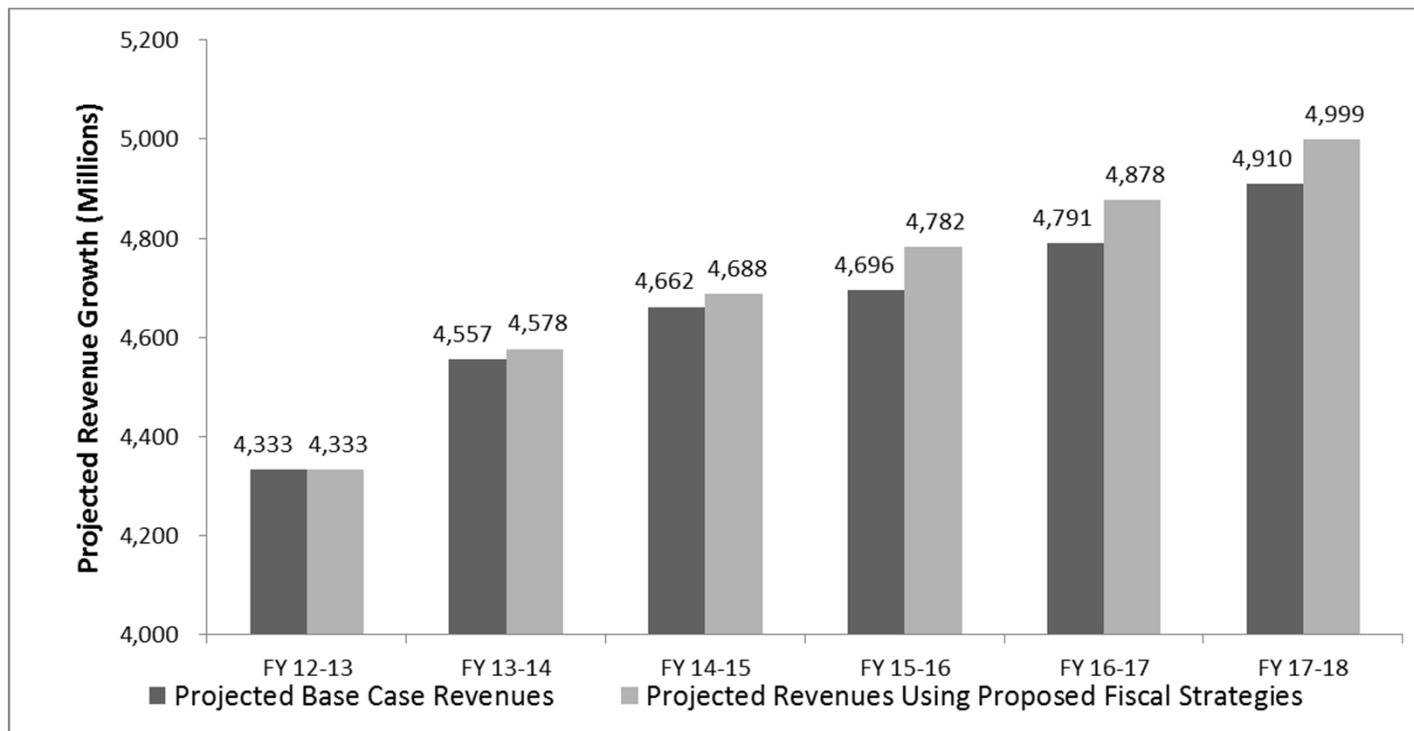
- Reset the capital plan pay-as-you-go program to FY 2013-14 budgeted spending levels:
 - Increase this allocation by 10% each year;
 - Fully fund street repaving after the expiration of the Road Repaving and Streets Safety bond in FY 2014-15;
- Actively manage and restructure debt portfolio to minimize ongoing costs.

Fiscal Strategy: Manage Employee Wage and Benefit Costs



Fiscal Strategy: Additional Tax, Fees & Other Revenues

- Gradual increase in users fees as costs escalate;
- Develop new user fees where appropriate;
- Generate new tax or other revenue.





Fiscal Strategy: Adjust Baselines & Revenue Allocations

- Pull the “Proposition H” trigger as permitted in the voter initiative in years when the shortfall exceeds \$100M;
- Capture all growth in hotel taxes in the General Fund during the first two years;
- Maximize the use of balances in other legally-available special funds, where advisable.



Fiscal Strategy: Limit Non-Personnel Inflation

- Absorb non-salary inflation within base budgets during the first two years of the plan through prioritization and improved purchasing;
- Limit non-profit COLAs during the next two years, and fund modest increases as finances stabilize after that;
- Adjust service level expectations as needed.



Fiscal Strategy: Non-Recurring Revenues and Savings

- Reduce reliance on one-time savings over the life of the plan;
- Spread large one-time costs over longer horizons, through lease financing or other strategies;
- Utilize one-time sources to fund one-time costs;
- Manage and limit equipment and IT costs.



Fiscal Strategy: On-Going Departmental Revenues & Savings Initiatives

- 1.5% on-going targets for departments each year, for the next five years
 - Administrative efficiencies
 - Utilize technology to meet workload demands
 - Improved use of performance based contracting
 - Develop new program models to minimize costs
 - Prioritize core services
- Department of Public Health specific solutions



Fiscal Strategy: Department of Public Health

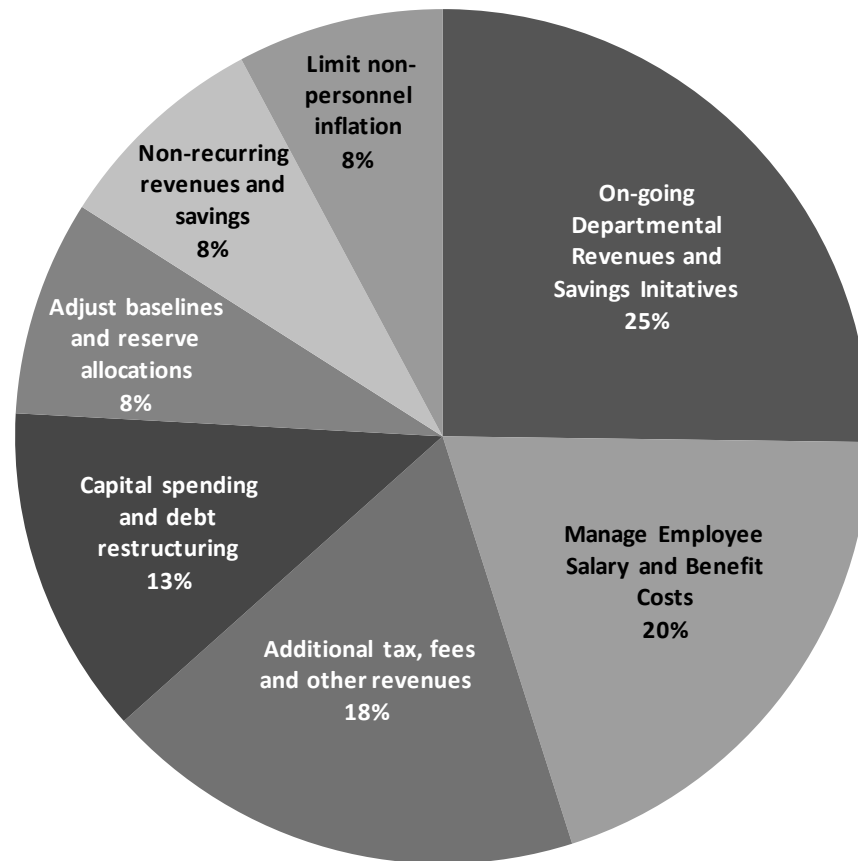
- New Department of Public Health specific focus added to Fiscal Strategies since the last Five-Year Plan

(\$ millions)	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
DPH Net Projected Cumulative Shortfall	(141.9)	(211.6)	(228.7)	(242.4)	(291.2)
General Fund Growth allocated to DPH	85.0	107.4	126.0	140.3	159.7
DPH Shortfall after General Fund Revenue Growth	(57.0)	(104.2)	(102.7)	(102.1)	(131.5)
Proposed Financial Strategies - Savings					
Department Solutions	16.5	28.2	40.1	52.2	59.5
DPH Share of salary and benefit savings	6.1	7.5	21.1	29.1	41.8
DPH Share CPI savings	-	20.7	31.6	41.7	49.1
Adjusted Outlook	(34.4)	(47.9)	(9.9)	20.8	18.8
Cumulative Outlook	(34.4)	(82.3)	(92.2)	(71.3)	(52.5)

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Proposed Fiscal Strategies Reflect a Structurally Balanced Approach





Questions?

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