

# **Budget Outlook Update FY 14-15 through FY 2017-18**

Presentation to the Human Services Network  
March 28, 2014



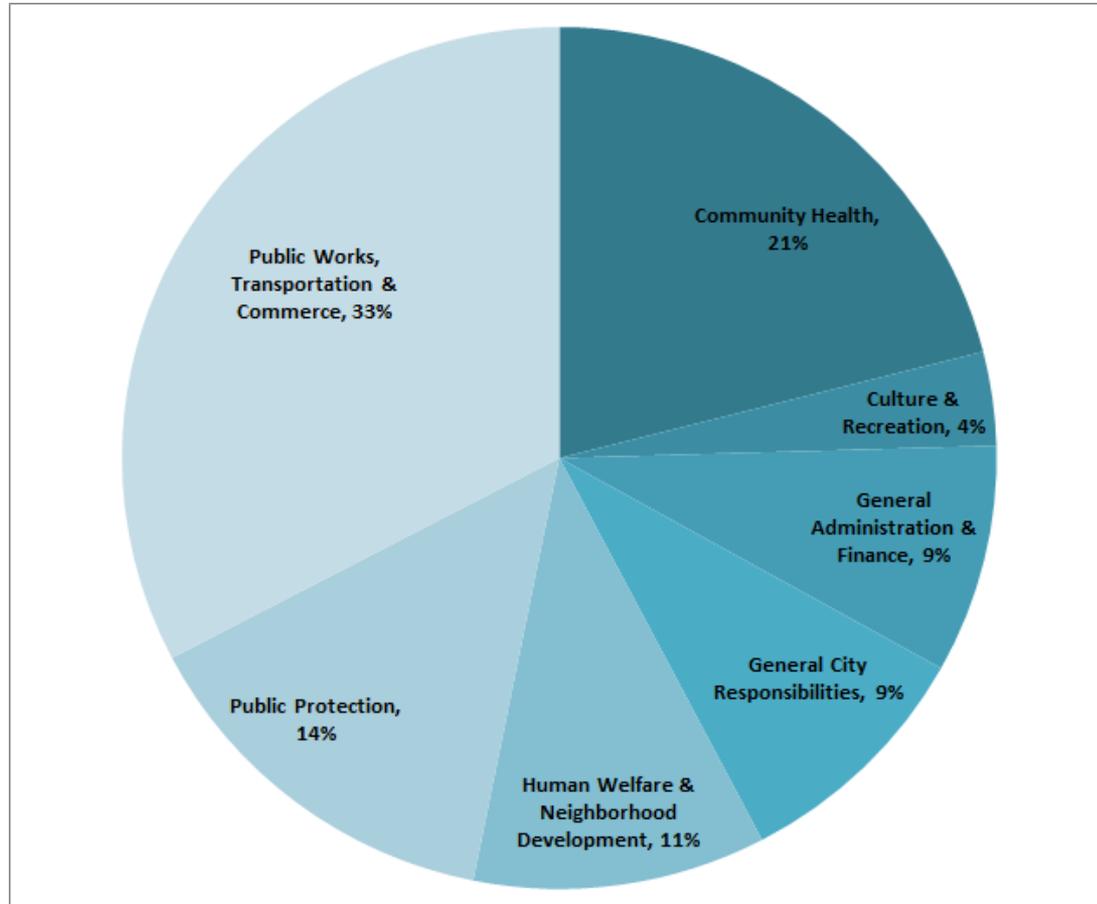
# Agenda

- Budget Basics
- Joint Report Key Assumptions
- Joint Report Deficit Projections
- FY 2014-15 and FY 2015-16 Budget Instructions
- Next Steps
- Questions



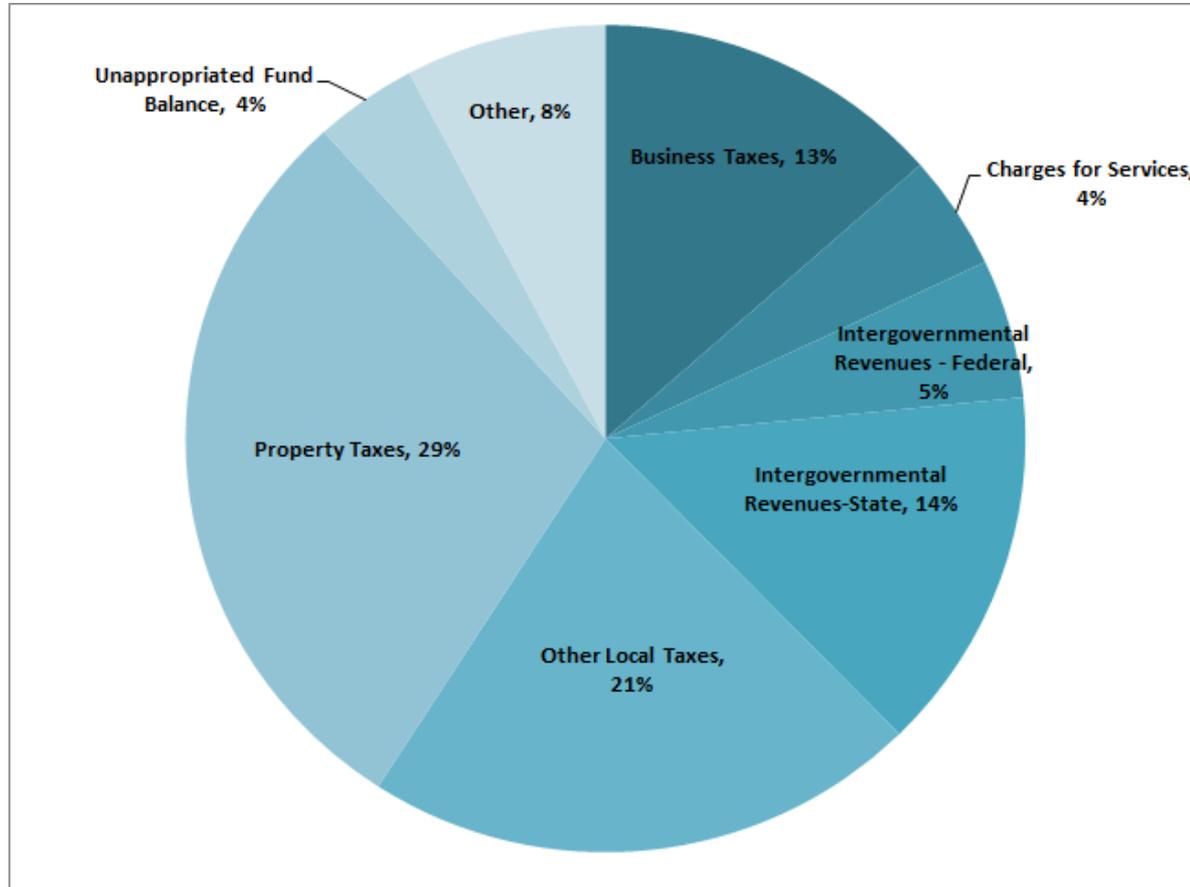
# San Francisco has a \$7.9 Billion annual budget

FY 2013-14 Uses by Major Service Area



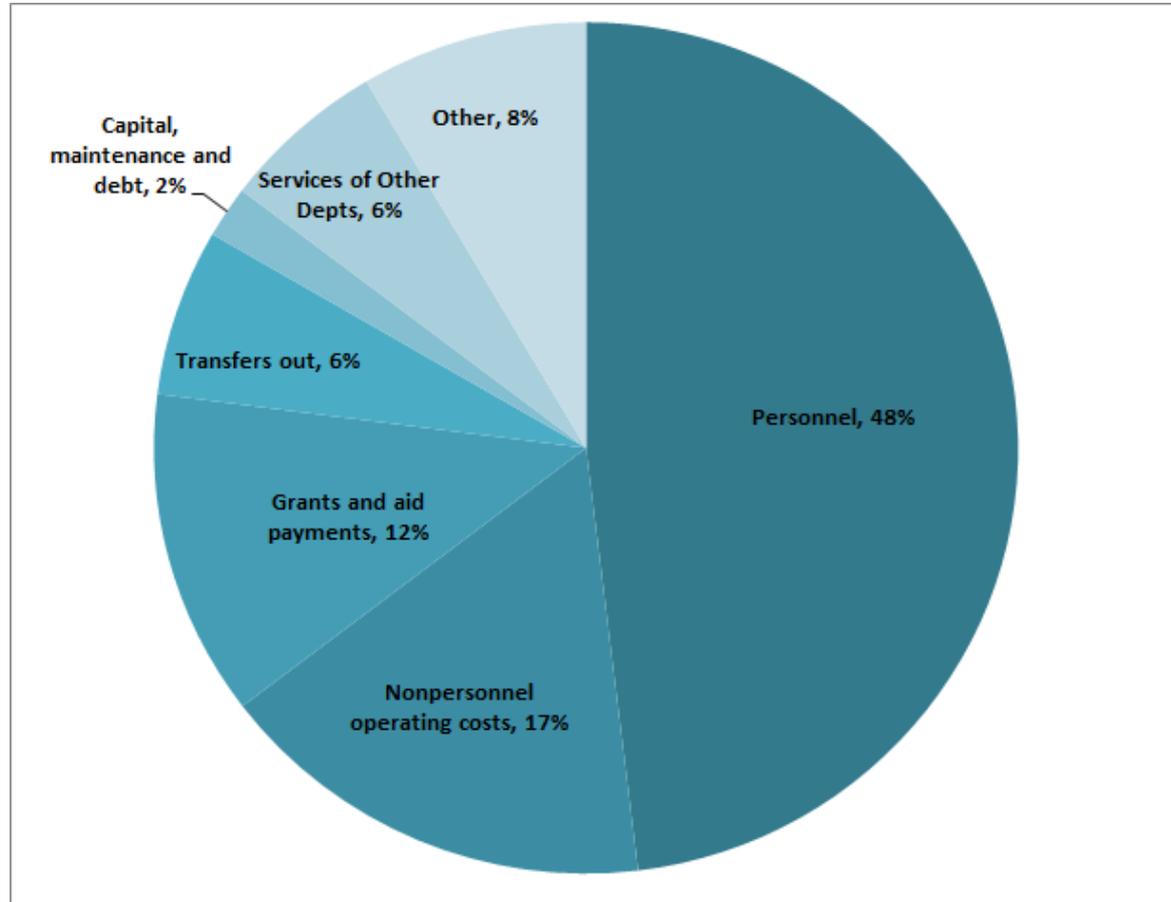
# San Francisco has a \$3.9 Billion General Fund budget

FY 2013-14 General Fund Sources



# San Francisco spends 48% of its General Fund budget on personnel costs

FY 2013-14 General Fund Uses



# FY 14 & FY 15 Budget Context: 2-Year Balanced Budget

- The City adopted a balanced budget for both FY 14 and FY 15
  - Revenue growth
  - Departmental and Citywide Solutions
  - Deferred full funding for General Fund Capital, IT and Equipment
- Shortfalls Projected in both FY 15 and FY 16
  - Health Revenue Changes
  - Full funding of the Prop H Baseline
  - Rebalancing the use of major one time sources (fund balance)
- Looking ahead...
  - Open Two-Year Budget for all departments; with three new fixed two-year budget departments
  - Open labor contracts with all bargaining units except Police and Fire
  - Economy and State and Federal Impacts



# Overview of Joint Report Budget Outlook

## Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)

	Savings/ (Cost) Change from Prior Year, \$ Million			
	FY 2014-15	FY 2015-16	FY 2016-17	FY2017-18
<b>Sources</b>				
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(34.3)	(16.3)	(105.4)	-
Regular Revenues, Transfers, & Other	160.9	147.1	89.7	92.2
<b>Subtotal - Sources</b>	<b>126.6</b>	<b>130.8</b>	<b>(15.7)</b>	<b>92.2</b>
<b>Uses</b>				
Salaries & Benefits	(98.9)	(52.2)	(48.8)	(71.2)
Other Expenditures, Reserves & Transfers	(94.4)	(145.3)	(84.8)	(77.8)
<b>Subtotal - Uses</b>	<b>(193.3)</b>	<b>(197.5)</b>	<b>(133.5)</b>	<b>(149.0)</b>
Total Net GF Impact (from Prior Year)	(66.7)	(66.7)	(149.3)	(56.8)
<b>Total Net GF Impact (Cumulative)</b>	<b>(66.7)</b>	<b>(133.4)</b>	<b>(282.6)</b>	<b>(339.4)</b>



# Joint Report Key Assumptions

- Continued economic recovery is reflected in tax revenue increases. The pace of revenue growth will depend heavily on the strength of the national economy and local technology industry.
- No recession occurs within the projection period.
- No major changes to service levels and numbers of employees.
- No change in closed labor agreements.
- No wage increases on open agreements in FY 2014-15 beyond those already negotiated; inflationary increase (CPI-W) of 2.21% in FY 2015-16 and 2.45% in FY 2016-17 and FY 2017-18.



# Joint Report Key Assumptions, continued

- Health and dental rates for active employees are projected to increase by 5% per year. Retiree health costs are projected to increase 9% per year.
- Employer contribution retirement rates and implementation of Proposition C are assumed to be consistent with the projection scenario provided by Cheiron Consulting Group in November 2013.
- Non-salary operating costs are projected to increase by CPI-U each year starting in FY 2015-16.



# Fund Balance and Revenues

- **\$16.0 million net loss of Fund Balance** in FY 2014-15 due to \$119.9 million loss of prior year (FY 2013-14) fund balance offset by a \$103.9 million gain in starting fund balance as noted in the 6-Month Report. Use is split evenly between FY 2014-15 and FY 2015-16.
- **\$188.7 million increase in revenues and transfers in largely from:**
  - Property tax:** \$79.0 million increase assuming enrollment of commercial values, declining temporary reductions for residential properties, declining need to fund potential appeals, and stable levels of tax increment to the Redevelopment Successor Agency.
  - Hotel tax:** \$41.1 million increase due to continued high occupancy and room rates and strong convention bookings.
  - Business tax:** \$31.0 million increase, as private employment growth and wages are projected to peak in 2015.

# Revenues, continued

**Real Property Transfer Tax:** \$9.8 million increase projected as these revenues have exceeded expectations in the current year and are expected to remain high in FY 2014-15, driven by foreign investment.

## General Fund Tax Revenues (\$ millions)

	FY 2012-13 Year End	FY 2017-18 Projected	\$ Change	% Change
Property Tax	1,114.1	1,393.0	278.9	25%
Business Taxes	479.6	660.1	180.5	38%
Sales Tax	122.3	150.2	27.9	23%
Hotel Tax	182.4	353.9	171.5	94%
Utility Users Tax	91.9	94.0	2.2	2%
Parking Tax	81.6	89.7	8.1	10%
Real Property Transfer Tax	232.7	175.0	(57.7)	-25%
Stadium Admissions Tax	2.8	1.4	(1.4)	-51%
Access Line Tax	42.6	46.1	3.5	8%
<b>Total</b>	<b>2,350.1</b>	<b>2,963.4</b>	<b>613.4</b>	<b>26%</b>



# Baselines

**Revenue increases lead to increased baseline contributions:**

**Public Education Enrichment Fund Annual Contribution:** \$4.8 million increase in FY 2014-15.

**Housing Trust Fund** increases of \$2.8 million per year.

**Other baseline contributions to MTA, Library, etc.:** \$19.3 million increase in FY 2014-15 due to anticipated increases in Citywide aggregate discretionary revenue compared to FY 2013-14 budgeted levels.



# Changes to Reserves

**\$12.5 million net change to Reserves in FY 2014-15**, primarily due to:

- \$6.8 million increased deposit to Budget Stabilization Reserve in FY 2014-15 due to higher Transfer Tax revenue projection
- \$6.9 million decreased deposit to General Reserve due to anticipated carry-forward of unspent reserve from current year
- \$6.4 million increase in salaries and benefits and litigation reserves
- \$4.6 million decreased use of Recreation and Park Reserve in FY 2014-15

# Salaries & Benefits: \$98.9 million increase for FY 2014-15 at current staffing

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Annualization of Partial Year Positions	(13.9)	(1.0)	-	-
Projected Costs of Closed Labor Agreements	(25.1)	(5.1)	(9.4)	(9.5)
Projected Costs of Open Labor Agreements	-	(37.9)	(43.7)	(44.6)
<b><i>Subtotal Salaries</i></b>	<b>(39.0)</b>	<b>(44.0)</b>	<b>(53.1)</b>	<b>(54.1)</b>
Health & Dental Benefits - Current Employees	(8.7)	(9.5)	(12.1)	(12.7)
Health & Dental Benefits - Retired Employees	(8.2)	(9.1)	(9.9)	(10.8)
Retirement Benefits - Employer Contribution Rates	(42.0)	19.8	22.6	5.8
Other Salary & Benefits Savings / (Costs)	(0.9)	(9.4)	3.7	0.6
<b><i>Subtotal Benefits</i></b>	<b>(59.9)</b>	<b>(8.1)</b>	<b>4.3</b>	<b>(17.1)</b>
<b>Change from Prior Year</b>	<b>(98.9)</b>	<b>(52.2)</b>	<b>(48.8)</b>	<b>(71.2)</b>
<b>Cumulative Change- Salaries &amp; Benefits</b>	<b>(98.9)</b>	<b>(151.1)</b>	<b>(199.8)</b>	<b>(271.0)</b>

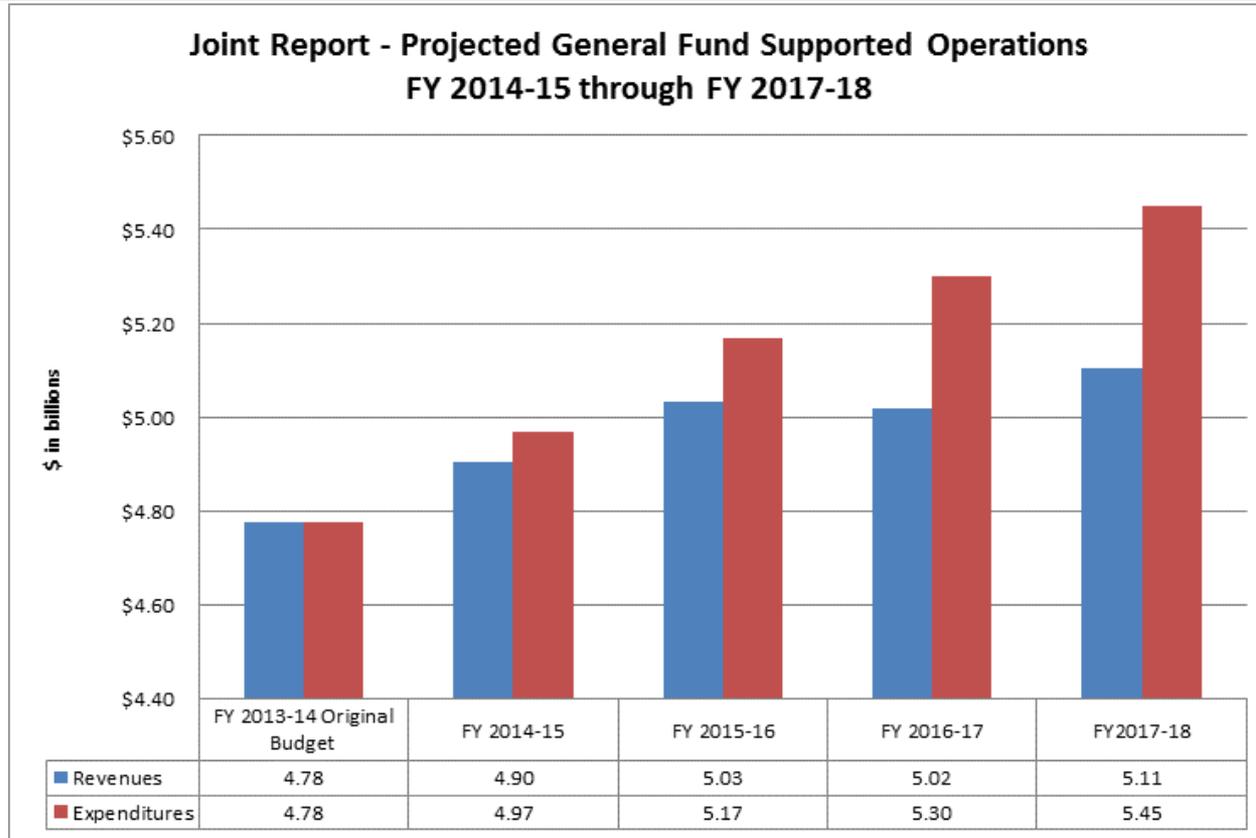
Note: Assumptions detailed in Joint Report pages 19-22.

# Citywide & Departmental Operating Costs

**Table A-1 (p. 9) provides details. Major items include:**

- Capital, Equipment, and Technology: \$25.4 million increase in FY 2014-15 and \$64.2 million in FY 2015-16.
- Inflation on non-salary items (contracts, grants etc.): ~\$22 million annual increases FY 2015-16 through FY 2017-18.
- Fire and Police multi-year hiring plans: net cost increase of \$7.8 million in FY 2014-15.
- SF General Hospital rebuild one-time (fixtures and equipment) and ongoing (staff) costs: \$27.0 million in FY 2014-15, \$20.9 million in FY 2015-16, \$19.5 million savings FY 2016-17.
- Annualization of FY 2013-14 supplemental appropriation: \$5.6 million in FY 2014-15.

# Joint Report Summary– growth in expenditures continues to outpace growth in revenues



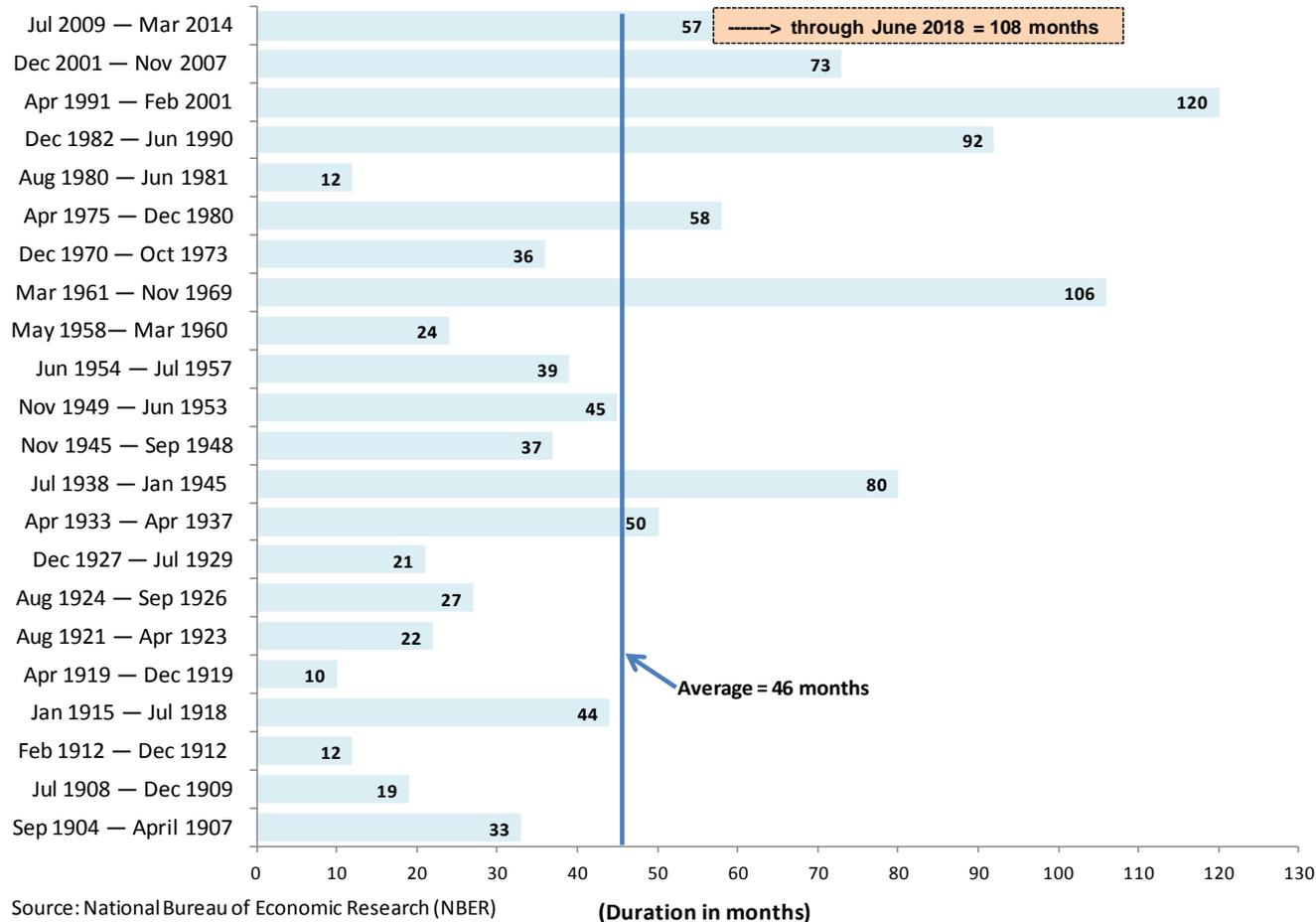
- Revenues are projected to grow 7% and expenditures 14%, which results in a gap of \$339 million over the four-year period.



# Uncertainties Remain

- Outcome of collective bargaining
- Affordable Care Act implementation
- PUC Hetch Hetchy Power enterprise deficit
- Fire Department Exclusive Operating Agreement
- Outcome of ballot measures, such as minimum wage increase, and local Vehicle License Fee
- Current year overspending or supplemental appropriations
- Pace and duration of recovery

# Economic Expansions



# FY 15 & FY 16

## *Budget Instructions*

- Reduce General Fund Support by 2.5% over two years
  - FY 14-15: Propose ongoing reductions and revenues equal to 1.5% of adjusted GF support.
  - FY 15-16: Propose ongoing reductions and revenues equal to an *additional 1.0%* of adjusted GF support.
- Propose an additional contingency reduction for FY 15-16 equivalent to 1% of adjusted GF support
- 1.5% generates \$21.5 Million Annually

# FY 15 & FY 16

## *Budget Instructions*

- Prioritize core functions
- Minimize service impacts
- Conduct a review of departmental fees
- Seek and prioritize solutions which, supported by the use of data, address:
  - Government Efficiency
  - Affordability of Services and Programs
  - Government Innovation
- Engage with stakeholders



# Calendar: *Key Dates and Next Steps*

Dec 18	Budget Instructions
January	Governor's Budget Released
January 17	IT Plans and Capital Budget Requests Due
February	Controller's 6-Month Report
Feb 21	Budget Submissions Due
March	Budget Stakeholder Meetings Begin
	Joint Report Issued
May 1	May 1 Department Budgets
May	Controller's 9-Month Report
	Governor's May Revise
June 2	Mayor Proposes Balanced Budget
June	Budget Committee Hearings
July	Budget Considered at Board of Supervisors



**Questions?**

