



Five Year Financial Plan Update & Budget Instructions

Department Heads

December 1, 2015



Agenda

- Five Year Financial Plan Update (Joint Report)
 - Key Assumptions
 - Changes to the General Fund Base Case
 - Recession Scenario
- Budget Instructions
 - Targets
 - Policy Instructions
- Questions?



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 2016-17 and FY 2017-18 budget may include 38 departments with “fixed” two year budgets, pending board action.
- Consistent Long-Term Planning
 - Five Year Financial Plan
 - Five Year Information and Communication Technology (ICT) Plan
 - Ten Year Capital Plan
- Responsible Fiscal Policies
 - Continue to increase reserves
 - Limit the use of one-time sources to balance the budget
 - Codify debt policies and restrictions



Joint Report: Key Assumptions

- No major changes to service levels and numbers of employees, unless specified.
- Continued economic expansion with revenue increases; the pace of revenue growth will depend on the strength of the national economy and local industry.
- No recession occurs within the projection period.
- Previously negotiated wages and then CPI of 2.5% in the out years.
- Assumes funding levels equal to FY 2016-17 adopted budget for IT, capital, equipment, and non-salary spending. Plan levels in out years.

Joint Report Deficit Projection

Table 1: Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)

	Savings / (Cost) Change from Prior Year, \$ Million			
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Sources				
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(57.0)	-	(126.3)	-
Regular Revenues, Transfers, & Other	132.6	152.5	168.2	164.5
Subtotal - Sources	75.6	152.5	42.0	164.5
Uses				
Salaries & Benefits	(112.4)	(100.2)	(98.7)	(120.8)
Other Expenditures, Reserves & Transfers	(63.0)	(192.7)	(177.5)	(107.6)
Subtotal - Uses	(175.4)	(292.9)	(276.2)	(228.4)
Total Net General Fund Impact (from Prior Year)	(99.8)	(140.4)	(234.3)	(63.8)
Projected Cumulative Surplus / (Shortfall)	(99.8)	(240.2)	(474.5)	(538.4)



Joint Report Deficit Projection

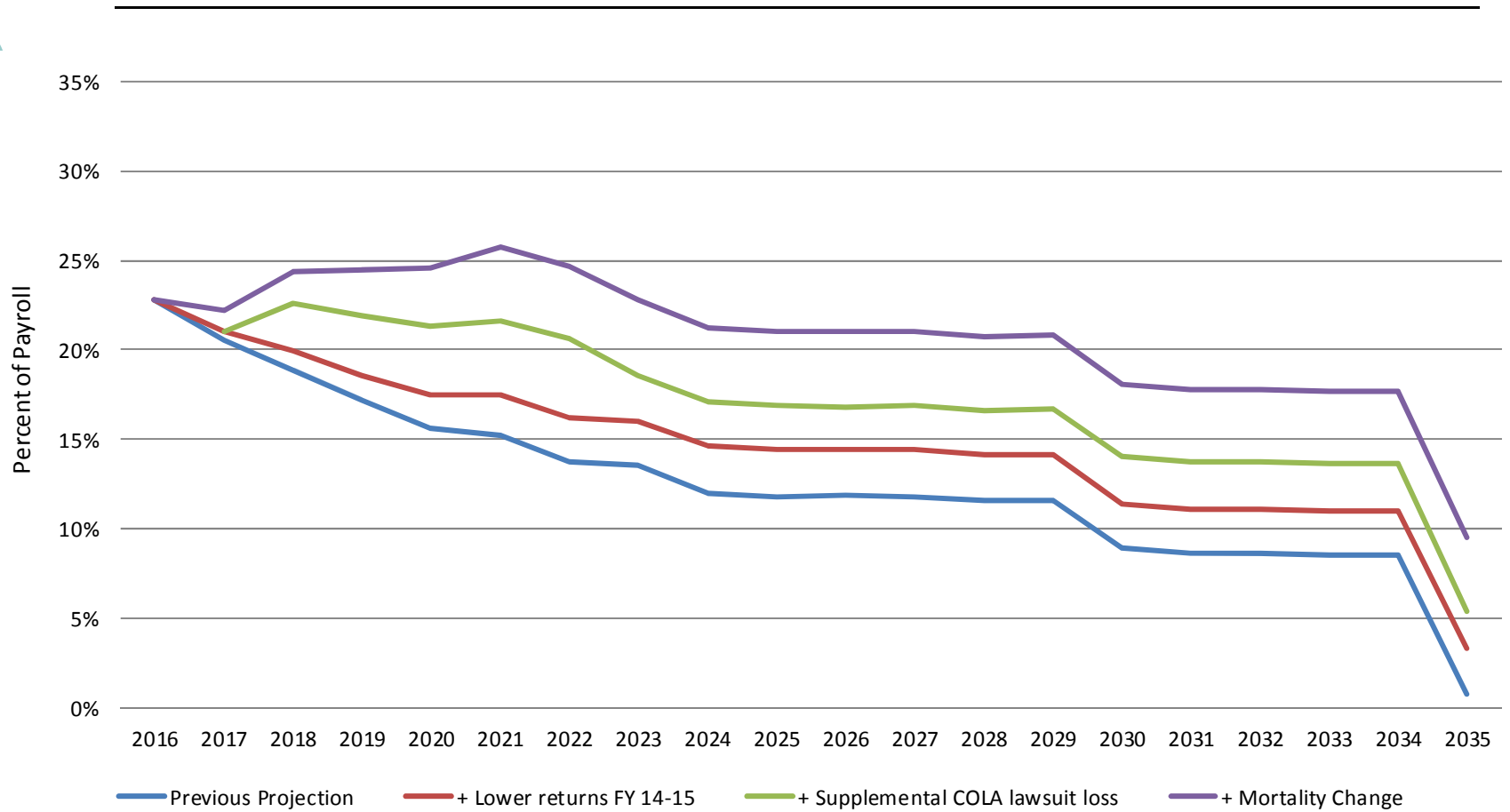
- Revenue growth strong over the period (9.5%); but is outpaced by expenditure growth (21%)
- Major drivers of the projected deficit / changes from prior reports:
 - Unexpected increase in employer retirement contributions to employee pensions
 - Voter approved propositions and set-asides



Joint Report Deficit Projection: Retirement Contributions

- The Five Year Financial Plan, last updated in March 2015, anticipated a decline in retirement costs from approximately \$300 million down to \$260 million by FY 2019-20.
- Several unanticipated factors have changed this trend:
 - Lower than expected investment returns in the pension system for FY 2014-15;
 - Updated mortality assumptions represent employees that are living and collecting pensions longer; and
 - The loss of a legal challenge to a portion of Prop C related to supplemental COLA payments.
- Current projections estimate cost increases over the projection period of up to \$113.0 million by FY 2019-20 compared with prior projections.

Joint Report Deficit Projection: Retirement Contributions over 20 years





Joint Report Deficit Projection: Voter Adopted Set Asides and Baselines

Cumulative Effect of Voter Adopted Baselines and Set Asides 2011-2015

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Housing Trust Fund 2011	(2.8)	(2.8)	(2.8)	(2.8)
MTA population growth 2014	(5.0)	(3.0)	(3.2)	(3.3)
Children's Fund Increase 2014	(5.3)	(5.6)	(6.5)	(1.1)
Minimum Wage 2014	(11.3)	(14.8)	(16.1)	(7.6)
Legacy Business 2015*	(3.7)	(3.9)	(3.8)	(4.2)
Subtotal Propositions	<u>(28.1)</u>	<u>(30.2)</u>	<u>(32.3)</u>	<u>(19.0)</u>
Cumulative Propositions	(28.1)	(58.3)	(90.6)	(109.6)

* Legacy Business is not a charter amendment, which means it is subject to the Budget Appropriation Ordinance each year.

Continued Strong Revenue Outlook

SOURCES Increase / (Decrease)	2016-17	2017-18	2018-19	2019-20
General Fund Taxes, Revenues and Transfers net of items below	132.7	133.6	138.7	140.0
Change in One-Time Sources	(80.2)	-	(126.3)	-
Department of Public Health Revenues	6.5	10.3	11.0	11.8
OCII Tax Increment	(1.3)	(2.6)	3.4	4.1
Other General Fund Support	17.9	11.2	15.1	8.6
TOTAL CHANGES TO SOURCES	75.6	152.5	42.0	164.5

- Strong 9.5% growth in sources projected over next four years
- Projection assumes large growth year-over-year in revenues flattens out due to a higher risk of an economic downturn
- Fund balance of \$123.2 million assumed in each of the next two years - including \$36 million projected current year increase in fund balance



Expenditures Continue to Outpace Revenues

Uses	2016-17	2017-18	2018-19	2019-20
Baselines and Reserves	(25.6)	(36.7)	(46.6)	(35.7)
Salaries & Benefits	(112.4)	(100.2)	(98.7)	(120.8)
Citywide Operating Budget Costs	(24.6)	(120.2)	(109.1)	(66.1)
Departmental Costs	(12.8)	(35.8)	(21.8)	(5.8)
Subtotal - Uses:	(175.4)	(292.9)	(276.2)	(228.4)

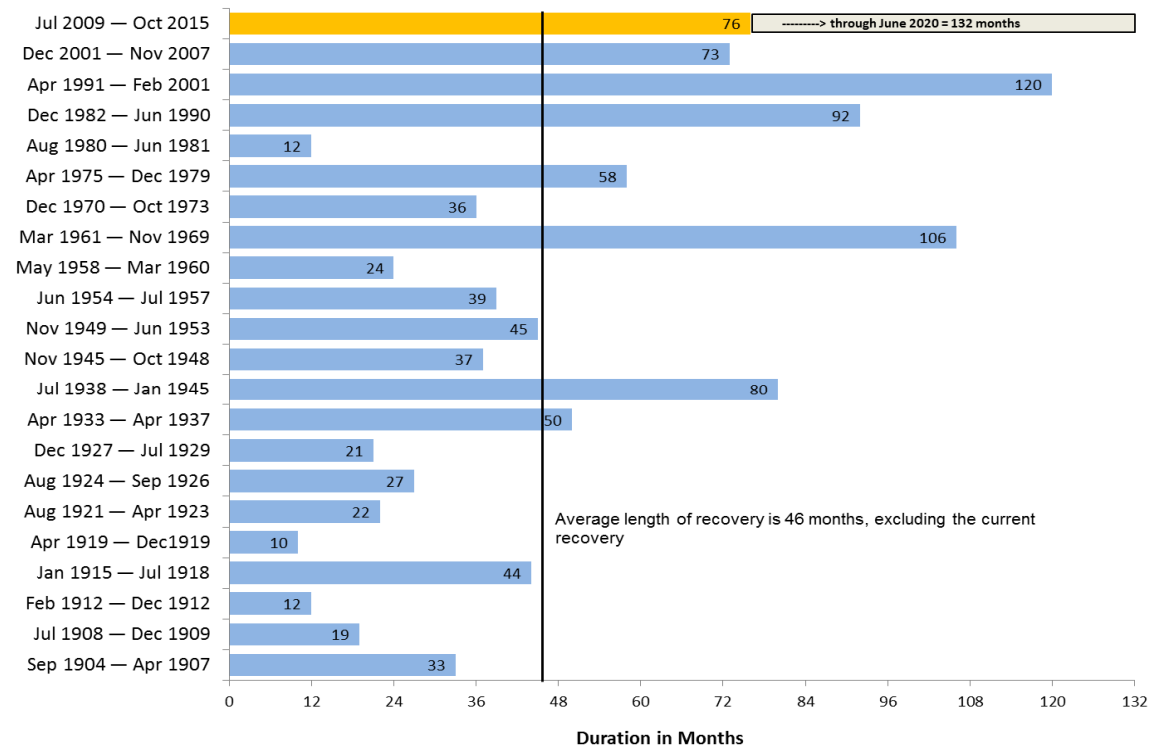
- Baselines & Reserves reflect increased revenues
- Salary & Benefits assume negotiated labor agreements and CPI-U in out years; pension cost increases
- Citywide Operating Costs assume minimum wage increase; investments in IT, capital and equipment
- Departmental Costs include costs related to elections; public safety hiring plans; and Public Health capital projects



Key Factors that Could Affect the Forecast

- Labor costs
- Any new budgetary commitments made
- State or Federal impacts
- Current year overspending or supplemental appropriations
- Changes in the economy

Recession Scenario

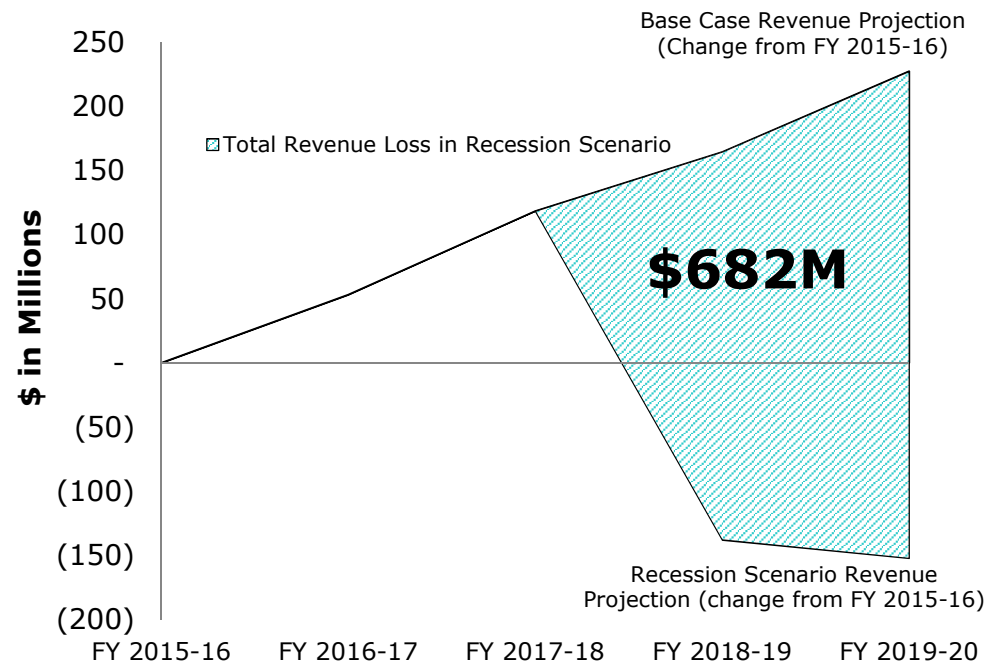


Source: National Bureau of Economic Research (NBER)

- Since 1900, average length of time between recessions has been 46 months. The current economic expansion has lasted over 76 months.
- If no recession through FY20, it will mark the longest economic expansion since 1900.

Recession Scenario

- Due to revenue loss and higher pension contributions, the City's projected deficit would grow by approximately \$120 million and \$320 million in FY 2018-19 and FY 2019-20.
- Updated deficits of \$594.3 and \$857.9 million, respectively.





FY 17 & FY 18

Budget Instructions

PROJECTED BUDGET SHORTFALL	FY16-17	FY17-18
Total Sources	75.6	152.5
Total Uses	(175.4)	(292.9)
Incremental Shortfall	(99.8)	(140.4)
Cumulative Shortfall	(99.8)	(240.2)



FY 17 & FY 18

Budget Instructions

- FY 2016-17: Propose ongoing reductions and revenues equal to 1.5% of adjusted GF support.
- FY 2017-18: Propose additional ongoing reductions and revenues equal to 1.5% of adjusted GF support.
- Enterprise / self supporting must absorb all known cost increases.



FY 17 & FY 18

Policy Instructions

- Reflect the priorities and programmatic goals identified in each department's proposed five year strategic plan
- Support the development of a modern, responsive and engaged government:
 - Public trust and civic engagement
 - Public experience of city services
 - Performance, accountability, investing in what works
 - Giving employees the tools to do their best work
- Minimize service impacts
- Identify and pursue opportunities for cross-departmental collaboration



Calendar: Key Dates and Next Steps

Dec 1	Budget Instructions
Dec 7	Budget system opens to departments
January	Governor's Budget Released
January 15	IT Plans and Capital Budget Requests Due
February	Controller's 6-Month Report
February 22	Budget Submissions Due
April 1	May 1 Departments legislation due to the Mayor's Office
May	Controller's 9-Month Report Governor's May Revise May 1 Departments Budget Committee Hearings
May 2	Departments identified as May Budgets Introduced to BOS
	June 1 Departments legislation due to the Mayor's Office
June 1	Mayor Proposes Citywide budget to Board of Supervisors
June	June 1 Departments Budget Committee Hearings
July	Budget Considered at Board of Supervisors



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Questions

Questions?