Budget Outlook & Department Instructions

December 2022
Agenda

• Fiscal Outlook & Five Year Financial Plan
• Mayoral Priorities & Budget Instructions for Departments
Overview

• Mayoral priorities unchanged: economic recovery, clean and safe streets, homelessness and mental health

• Slow-growth revenue outlook with escalating costs drive the deficit forecast, but does not assume a recession

• Budget reductions necessary to help address shortfall and departments should prepare for outlook to worsen
Fiscal Outlook & Five Year Financial Plan
Financial forecast projects a $728 million deficit over the upcoming two budget years.
Fiscal Outlook – What Changed?

• Weakening revenue outlook and loss of Federal revenues

• Higher base wages for employees and growing health benefit costs

• Increased pension costs due to recent market down-turn

• New and growing General Fund commitments that increase annually
Five Year Report – Assumptions

• Slow or no growth in major tax revenues

• Loss of federal revenues and other one-time sources

• Incorporates 2022 Election Measures, including new set-aside for schools

• Salary & Benefits – assumes CPI growth on open contracts; 7.2% rate of return on pension investments

• Citywide & Departmental Costs – CPI on non-personnel costs and IHSS wages, full funding of Ten Year Capital Plan, and other updates
## Five Year Report – Financial Forecast

### SOURCES Increase / (Decrease)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 23-24</th>
<th>FY 24-25</th>
<th>FY 25-26</th>
<th>FY 26-27</th>
<th>FY 27-28</th>
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</thead>
<tbody>
<tr>
<td>(29.2)</td>
<td>(24.7)</td>
<td>49.9</td>
<td>105.4</td>
<td>206.2</td>
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### Uses

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<tr>
<th>Category</th>
<th>FY 23-24</th>
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<tbody>
<tr>
<td>Baselines</td>
<td>(49.8)</td>
<td>(96.3)</td>
<td>(140.9)</td>
<td>(177.1)</td>
<td>(209.9)</td>
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<tr>
<td>Salaries &amp; Benefits</td>
<td>(55.0)</td>
<td>(169.6)</td>
<td>(257.7)</td>
<td>(364.2)</td>
<td>(490.7)</td>
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<tr>
<td>Citywide Operating Budget Costs</td>
<td>(78.5)</td>
<td>(199.5)</td>
<td>(312.8)</td>
<td>(409.6)</td>
<td>(514.9)</td>
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<tr>
<td>Departmental Costs</td>
<td>11.7</td>
<td>(37.3)</td>
<td>(84.0)</td>
<td>(146.1)</td>
<td>(214.9)</td>
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### USES (Increase) / Decrease

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 23-24</th>
<th>FY 24-25</th>
<th>FY 25-26</th>
<th>FY 26-27</th>
<th>FY 27-28</th>
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<tr>
<td>(171.6)</td>
<td>(502.8)</td>
<td>(795.4)</td>
<td>(1,097.0)</td>
<td>(1,430.4)</td>
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### Projected Annual Surplus / (Shortfall)

<table>
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<tr>
<th>Year</th>
<th>FY 23-24</th>
<th>FY 24-25</th>
<th>FY 25-26</th>
<th>FY 26-27</th>
<th>FY 27-28</th>
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<tbody>
<tr>
<td>(200.8)</td>
<td>(527.5)</td>
<td>(745.6)</td>
<td>(991.7)</td>
<td>(1,224.1)</td>
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### Two Year Deficit

<table>
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<th>Year</th>
<th>FY 27-28</th>
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<tbody>
<tr>
<td>(728.3)</td>
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### Selected General Fund Taxes ($m)

<table>
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<th></th>
<th>FY 23-24</th>
<th>FY 24-25</th>
<th>FY 25-26</th>
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<tbody>
<tr>
<td>March 2022 Forecast / Budget</td>
<td>4,366.3</td>
<td>4,575.2</td>
<td>4,753.9</td>
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<tr>
<td>(-) Property tax</td>
<td>(69.9)</td>
<td>(190.8)</td>
<td>(316.4)</td>
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<tr>
<td>(-) Transfer tax</td>
<td>(178.7)</td>
<td>(135.0)</td>
<td>(91.2)</td>
</tr>
<tr>
<td>(-) Business tax</td>
<td>(78.5)</td>
<td>(100.8)</td>
<td>(91.2)</td>
</tr>
<tr>
<td>(+) Sales &amp; Hotel tax</td>
<td>53.3</td>
<td>72.2</td>
<td>74.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(273.8)</td>
<td>(354.4)</td>
<td>(424.7)</td>
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<tr>
<td>Fall 2022 5 Yr Forecast</td>
<td>4,092.6</td>
<td>4,220.8</td>
<td>4,329.2</td>
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Revenue Detail - Office Vacancy Rates

Office Vacancy Rates, Historical and Projected

Projected
Revenue Detail – Depletion of One-Time Sources

Use of One Time Sources ($M)
Five Year Report – Expenditure Growth

• Expenditure drivers include salaries and benefits, citywide operating and other program costs

• Last budget made significant ongoing wage investments; health care costs continue to exceed inflation

• Other major costs: new baseline for schools, fully funding the updated Ten-Year Capital Plan, debt service, health and human services costs, and local housing subsidy programs

• Increased pension costs from prior projection
Five Year Report – Pension Contributions

Projected Employer Pension Contribution Cost
Increases from Prior Projections ($M)
FY07-08 to FY22-23 figures were budgeted pension costs

2022 Five Year Financial Plan

2021 Joint Report
Five Year Report – Risks & Uncertainties

• Pace of downtown recovery and office vacancies
• Impacts of high inflation and interest rates
• Continued cutbacks in tech sector and other local industries
• State budget and funding of excess ERAF
• Risk of a recession
Policy Priorities &
Department Budget Instructions
Mayoral Policy Priorities

• **Recovery** of the local economy with focus on downtown and economic core

• **Improving** public safety and street conditions

• Reducing **homelessness** and transforming **mental health** service delivery

• **Accountability & equity** in services and spending
Budget Instructions to Departments

Required General Fund reductions –
5% in FY 23-24 and 8% in FY 24-25
Budget Instructions to Departments

- **Prioritize filling or reclassifying vacancies** for core departmental functions and Mayoral priorities

- **Propose** remaining vacancies for budget savings

- **Maintain Mayoral initiatives** and recommend ways to fund more efficiently

- **Prepare** for outlook to worsen
Budget Instructions – Reminders

• Non-General Fund departments must balance their own budgets

• No May 1 budget this year – all budgets introduced to the Board by June 1

• Adhere to budget transparency legislation, including 1-2 public meetings before February 14
Calendar

December 15  Mayor’s Budget Outlook & Instructions issued
December 19  Budget system opens to departments
Early January  Five Year Report published
January 20  Capital and COIT budget requests due
Early February  Controller’s 6-Month Report
February 21  Budget submissions due
May  Controller’s 9-Month Report
Governors May Revise
June 1  Mayor proposes a balanced budget to the Board of Supervisors
June  Budget and Appropriations Committee hearings
July  Budget considered by the Board of Supervisors
Thank you