



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

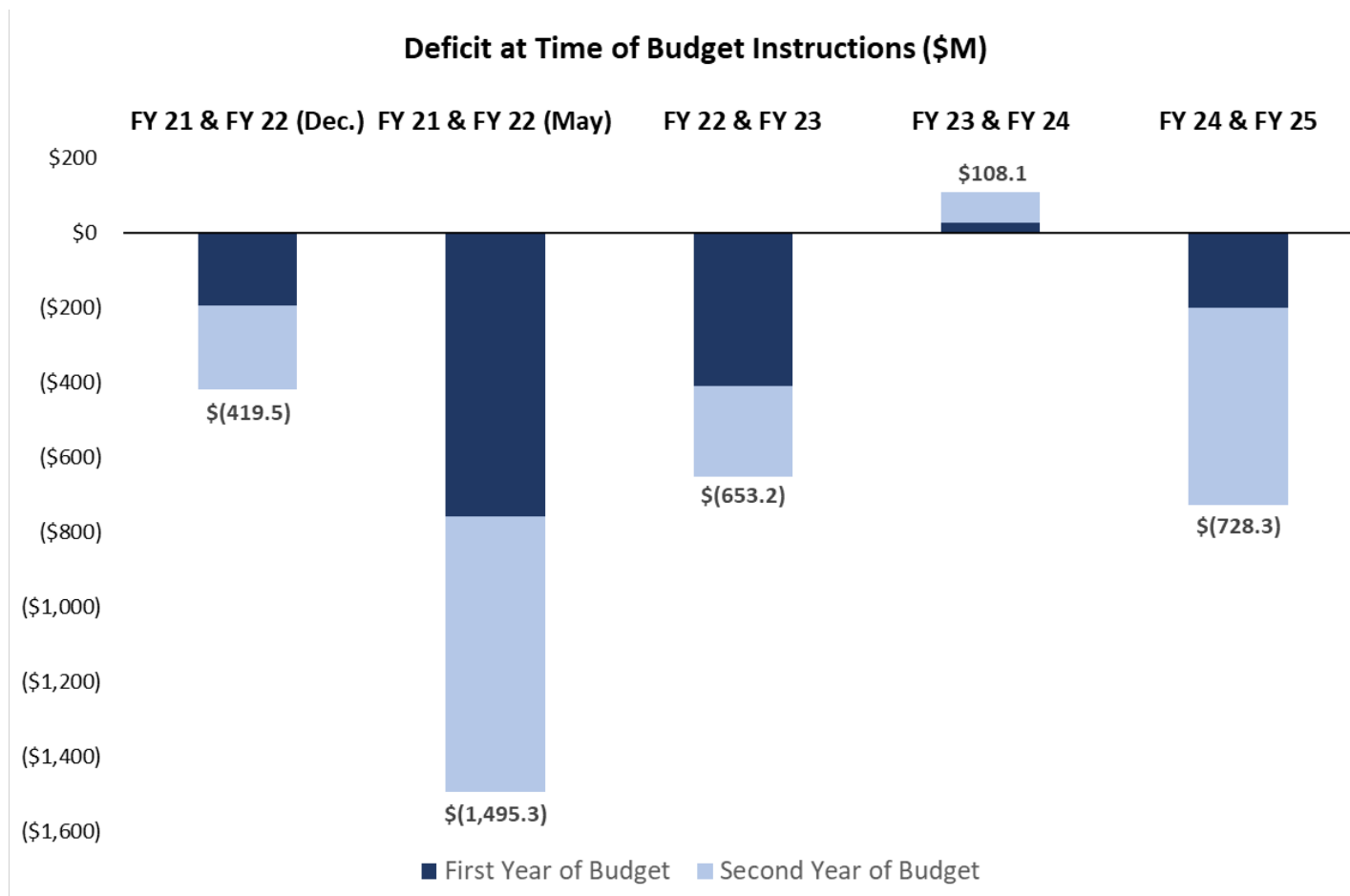


Fiscal Outlook & Five Year Financial Plan



Overview: Fiscal Outlook

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

	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
<i>SOURCES Increase / (Decrease)</i>	(29.2)	(24.7)	49.9	105.4	206.2
Uses					
Baselines	(49.8)	(96.3)	(140.9)	(177.1)	(209.9)
Salaries & Benefits	(55.0)	(169.6)	(257.7)	(364.2)	(490.7)
Citywide Operating Budget Costs	(78.5)	(199.5)	(312.8)	(409.6)	(514.9)
Departmental Costs	11.7	(37.3)	(84.0)	(146.1)	(214.9)
<i>USES (Increase) / Decrease</i>	(171.6)	(502.8)	(795.4)	(1,097.0)	(1,430.4)
Projected Annual Surplus / (Shortfall)	(200.8)	(527.5)	(745.6)	(991.7)	(1,224.1)
Two Year Deficit	(728.3)				



Five Year Report – Revenue Detail

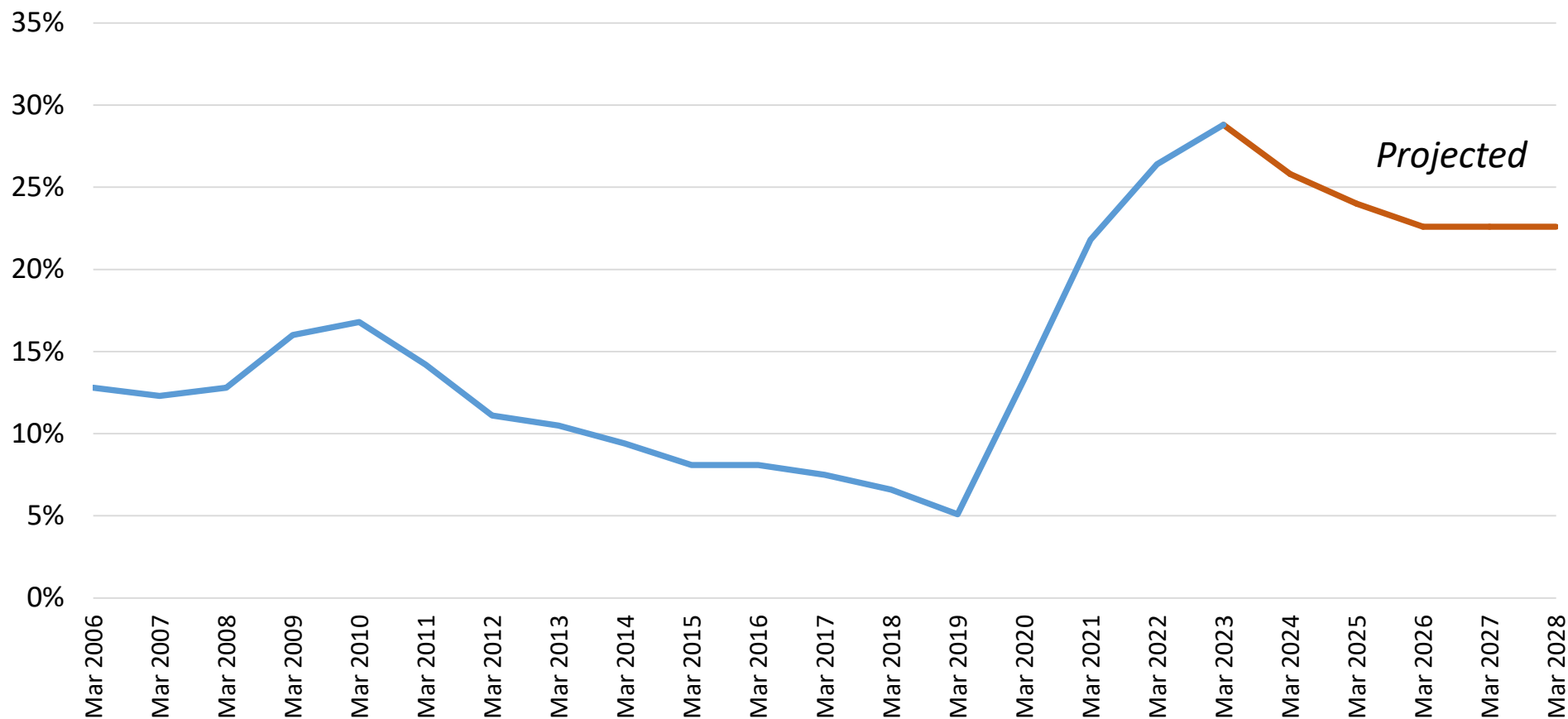
Selected General Fund Taxes (\$m)

	FY 23-24	FY 24-25	FY 25-26
March 2022 Forecast / Budget	4,366.3	4,575.2	4,753.9
(-) Property tax	(69.9)	(190.8)	(316.4)
(-) Transfer tax	(178.7)	(135.0)	(91.2)
(-) Business tax	(78.5)	(100.8)	(91.2)
(+) Sales & Hotel tax	53.3	72.2	74.1
Total	(273.8)	(354.4)	(424.7)
Fall 2022 5 Yr Forecast	4,092.6	4,220.8	4,329.2



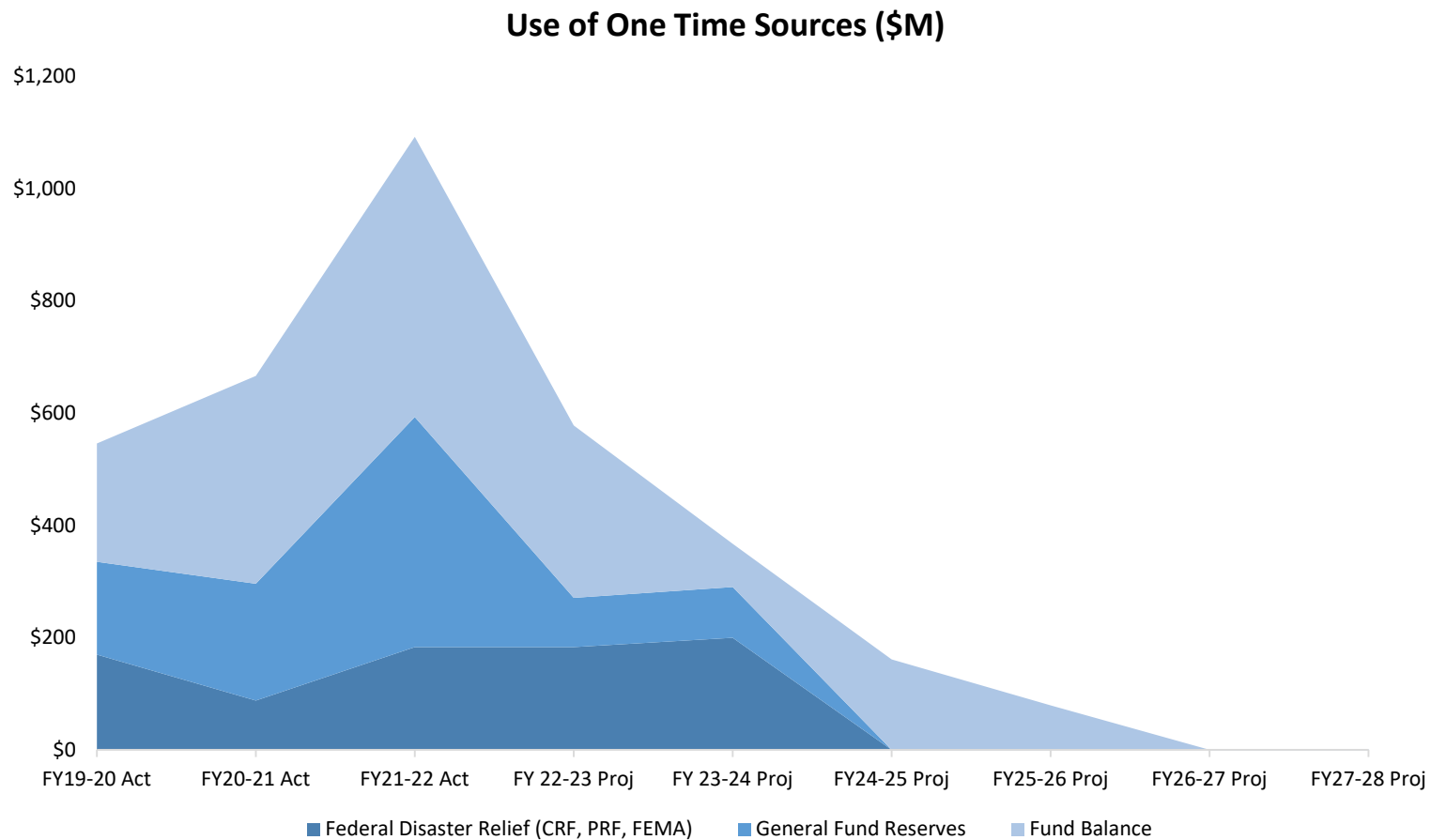
Revenue Detail - Office Vacancy Rates

Office Vacancy Rates, Historical and Projected





Revenue Detail – Depletion of One-Time Sources





Five Year Report – Expenditure Growth

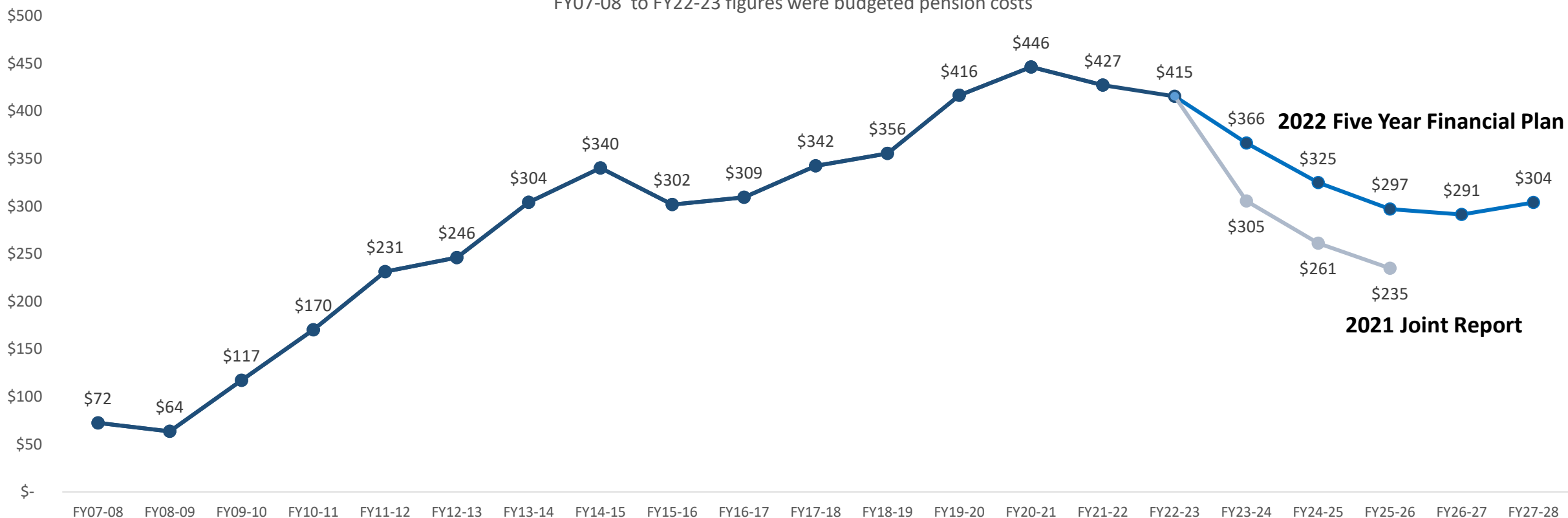
- Expenditure drivers include salaries and benefits, citywide operating and other program costs
- Last budget made significant ongoing wage investments; health care costs continue to exceed inflation
- Other major costs: new baseline for schools, fully funding the updated Ten-Year Capital Plan, debt 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





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