



# Budget Outlook & Department Instructions

December 2021



# Agenda

- Fiscal Outlook & Joint Report
- Mayoral Priorities & Budget Instructions for Departments



# Overview

- Dramatic revenue losses due to COVID resulted in historic budget shortfalls
- Reserves, federal revenue, and restraint helped to balance budget
- Key drivers result in improved financial forecast
- Risks and uncertainties remain



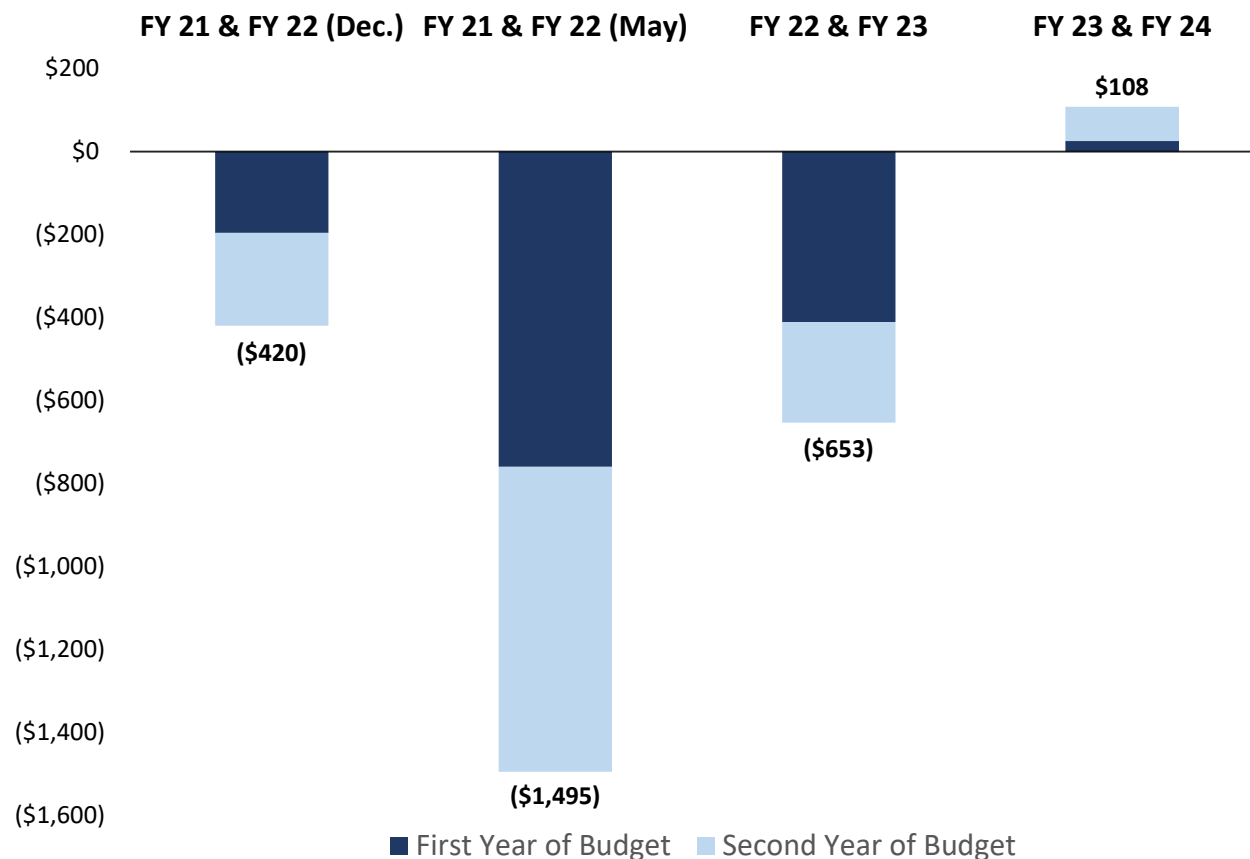
# Overview: Fiscal Outlook

Financial forecast projects a \$108.1 million **surplus** over the upcoming two budget years

## Key Drivers:

- Overall growth in revenue
- Significant ongoing savings in retirement due to record returns
- Constrained ongoing cost growth

Deficit at Time of Budget Instructions (\$M)





# Overview: Mayoral Priorities & Instructions

- Prioritize restoring San Francisco's vibrancy, recovery, accountability, and equity
- Get “back to basics” and improve core service delivery within existing budget
- No mandatory reductions, but no increase to General Fund support



# Fiscal Outlook & Joint Report



# Joint Report – Assumptions

- Revenue – strength in property and real property transfer tax, weakness in business, other local taxes
- Federal disaster relief and prior year fund balance spread over longer period
- Salary & Benefits – assumes CPI on open contracts; assumes 7.2% rate of return on pension investments; accelerated pay-down of SFERS and CalPERS liability
- Citywide & Departmental Costs – CPI on non-personnel, Capital Plan funding, and other updates



# Joint Report – Financial Forecast

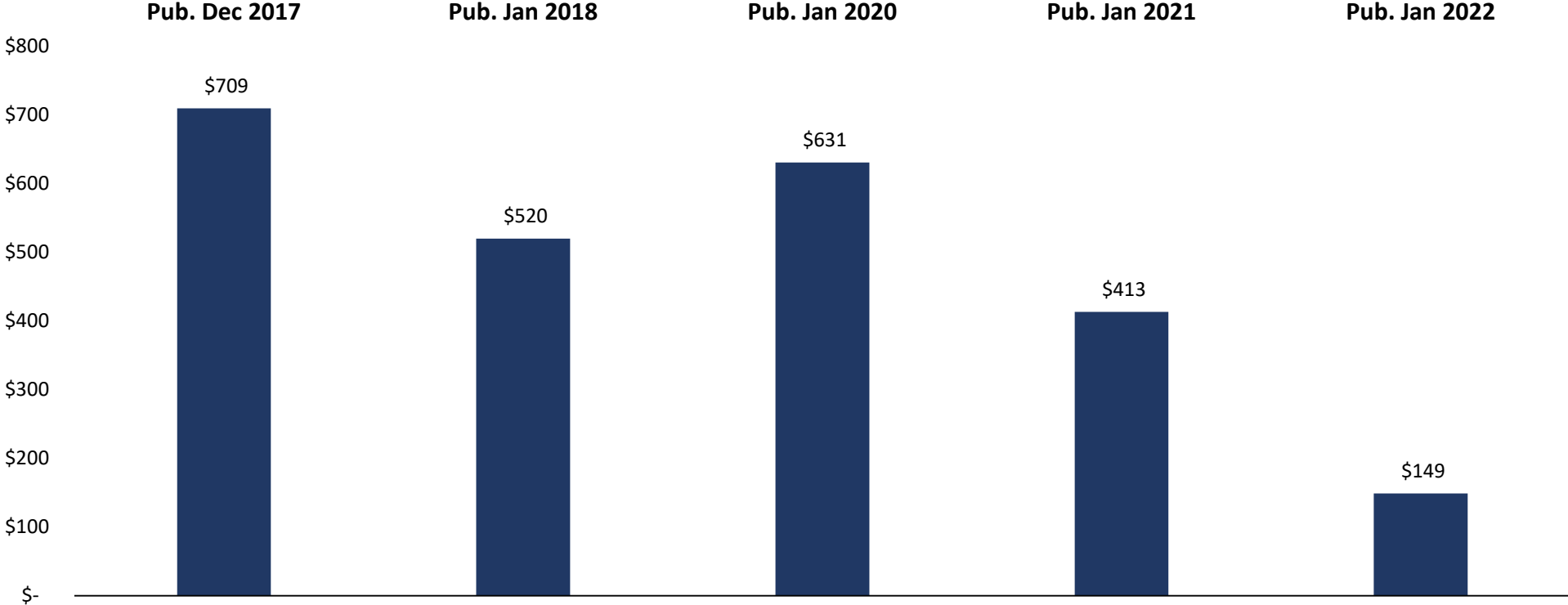
	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b><i>SOURCES Increase / (Decrease)</i></b>	<b>40.1</b>	<b>323.4</b>	<b>522.5</b>	<b>710.9</b>
<b>Uses</b>				
Baselines & Reserves	(112.9)	(202.7)	(271.2)	(318.9)
Salaries & Benefits	(57.8)	(81.7)	(140.6)	(266.3)
Citywide Operating Budget Costs	132.9	58.4	(75.2)	(161.0)
Departmental Costs	24.0	(15.5)	(74.1)	(113.6)
<b><i>USES Decrease / (Increase)</i></b>	<b>(13.9)</b>	<b>(241.5)</b>	<b>(561.1)</b>	<b>(859.8)</b>
<b>Projected Cumulative Projected Surplus/(Shortfall)</b>	<b>26.2</b>	<b>81.9</b>	<b>(38.6)</b>	<b>(148.9)</b>
<b>Two-year Surplus/(Shortfall)</b>	<b>108.1</b>			





# Joint Report – Structural Deficit

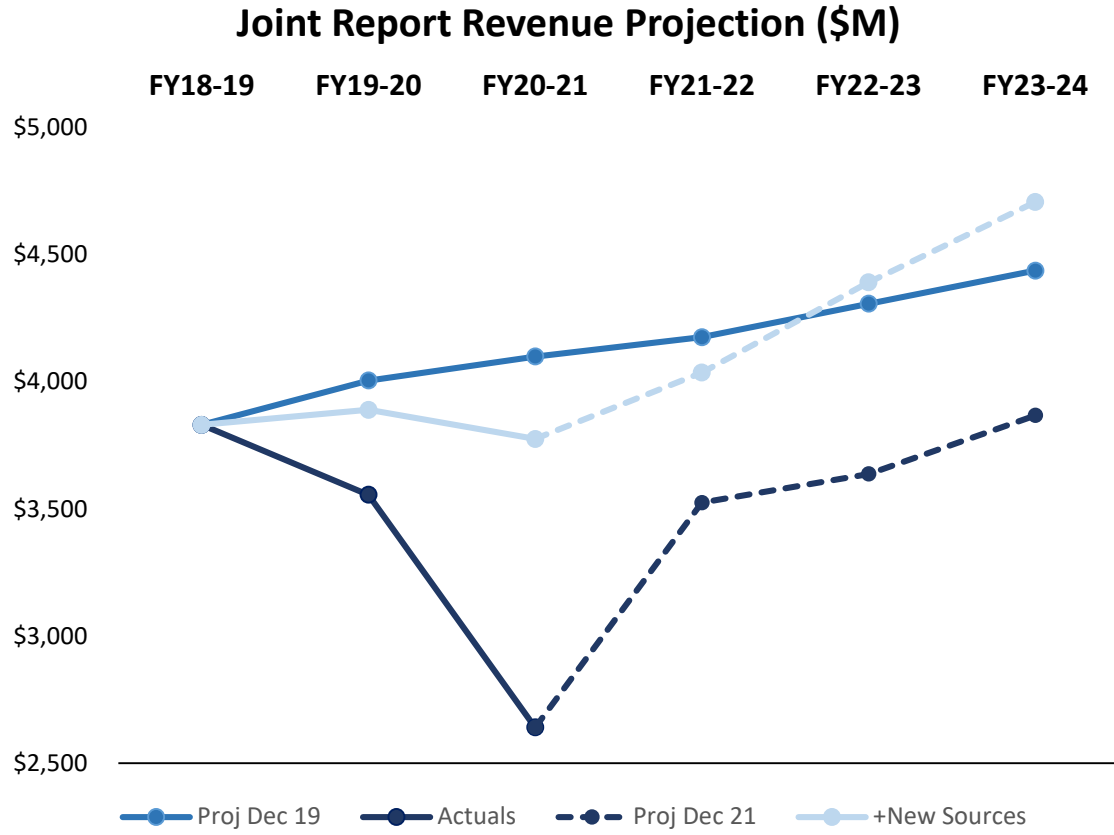
Projected 4<sup>th</sup> Year Deficit (\$M)





# Joint Report – Revenue

- Property, business, and other local taxes have improved, but not to pre-pandemic levels
- New sources including excess ERAF, federal relief, and other new taxes were not known pre-pandemic, and drive improved forecast

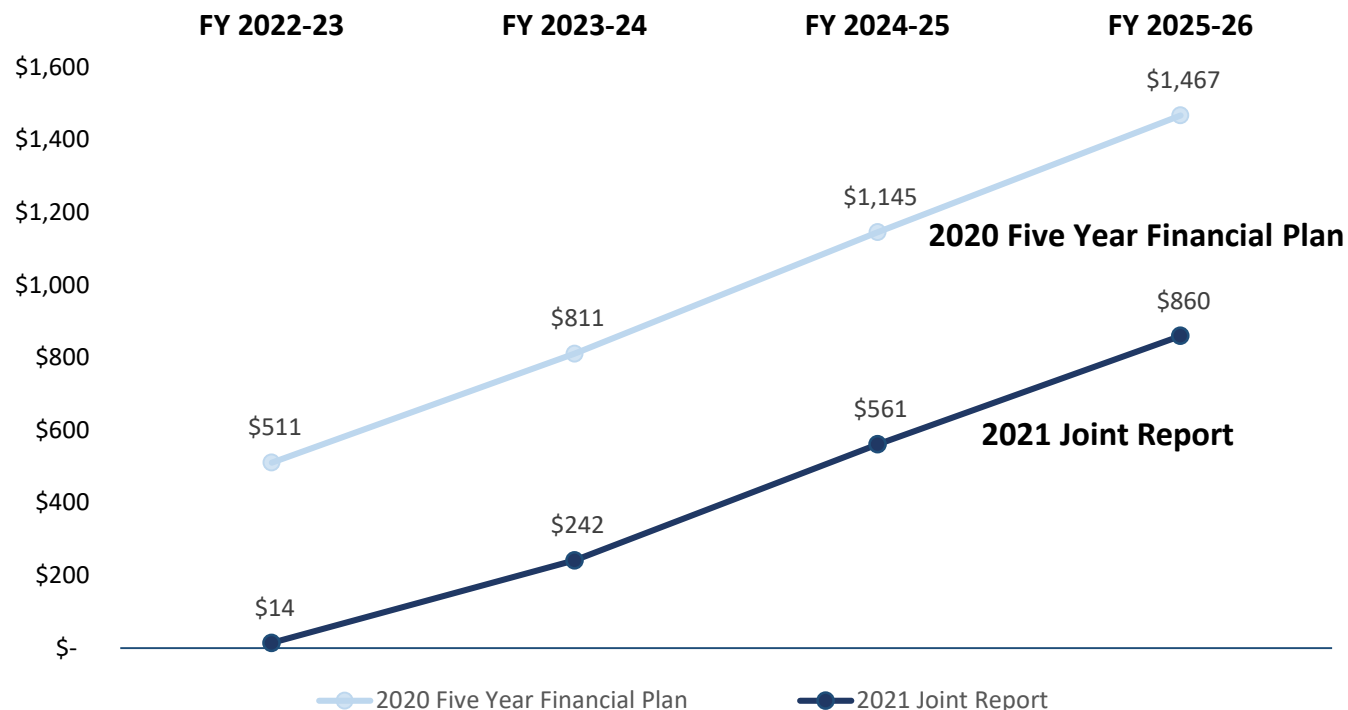




# Joint Report – Expenditure Growth

- Expenditure drivers include salaries and benefits, citywide operating budget costs, and other departmental costs
- Last budget made significant one-time investments, limited new ongoing cost growth
- Reduced pension costs represent largest change in expected cost growth

Projected Cumulative Expenditure Growth (\$M)

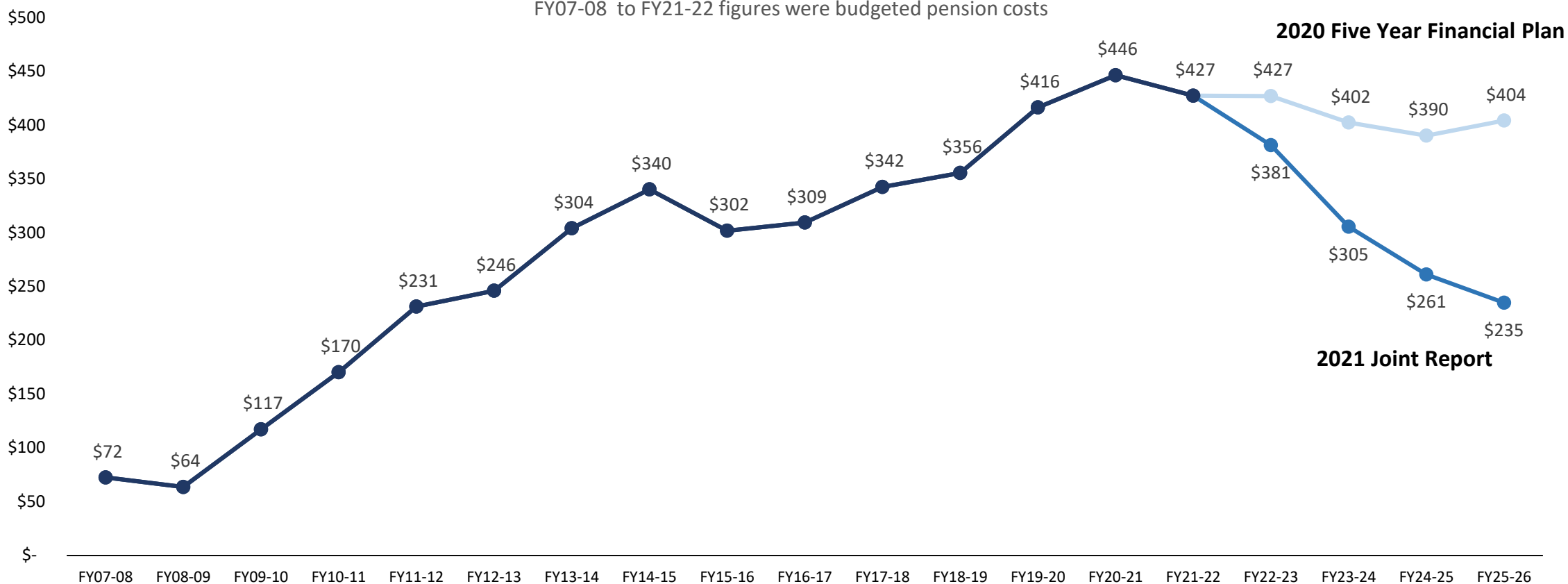




# Joint Report – Pension Contributions

## Projected Employer Pension Contribution Cost Increases from Prior Projections (\$M)

FY07-08 to FY21-22 figures were budgeted pension costs





# Joint Report – Risks & Uncertainties

- COVID-19 variants and public health response
- Pace of recovery and continued impact on local economy
- Market volatility impacting pension returns
- State and local ballot measures
- Ongoing risk to excess ERAF at state level



# Policy Priorities & Department Budget Instructions



# Mayoral Policy Priorities

- **Restoring vibrancy** in San Francisco, including improved public safety and street conditions
- **Recovery** of the local economy driven by the return of residents, tourists, and office workers to downtown and public spaces; small business; and, housing production
- **Reprioritization** of funding to improve core service delivery
- **Accountability & equity** in programming, services, and spending



# Budget Instructions to Departments

- No mandatory reductions, but do not increase General Fund support
- Get “back to basics”, utilize existing budget and fill current funded vacancies to improve core service delivery
- Focus on programs that produce meaningful, equitable results
- Non-General Fund departments balance within their own revenue projections





# Fixed Budget & May 1 Departments

## Fixed Two-Year Budget

- SFMTA
- Public Utilities Commission
- Airport
- Port

## Additional May 1 Departments

- Board of Appeals
- Department of Building Inspection
- Child Support Services
- Department of the Environment
- Law Library
- Public Library
- Rent Board
- Retirement Board



# Budget Process Legislation Reminders

- Requires two public meetings before February 14
  1. Public input meeting (designated depts exempt from meeting requirement)
  2. Proposed budget meeting for all departments
- Centralization of all budget documents on a single website – information about meeting times and documents must be sent to Controller's Office
- Formalized budget priority setting processes for Mayor and Board

(See Administrative Code Section 3.3 for details)



# Conclusion

- Improved financial forecast resulting in projected surplus in budget year
- Risks and uncertainties could dramatically alter this forecast
- No cuts, but no new costs, rather reprioritize to better deliver core services
- Budget will prioritize vibrancy, recovery, accountability, and equity



# Calendar / Key Dates

Dec 15	Mayor's Budget Outlook & Instructions issued
Dec 13-17	New budget system trainings
Dec 20	Budget system estimated opening to departments
January 14	COIT and Capital budget requests due
Early Feb	Controller's 6-Month Report
February 22	Budget submissions due
May	Controller's 9-Month Report Governor's May Revise
May 1	May 1 Department budgets introduced
June 1	Mayor proposes balanced budget to Board of Supervisors
June	Budget and Finance Committee hearings
July	Budget considered at Board of Supervisors