



# Budget Outlook & Department Instructions

December 2017



# Agenda

- Joint Report
- Looking Forward
  - Existing Areas of Concern
  - Future Risks / Uncertainty
- Next Steps / Budget Instructions for Departments



# Summary

- In the short term, fiscal picture is similar to last year.
- In the medium to long term –
  - Existing areas of concern:
    - 1) Growing employee costs;
    - 2) Cost shift from state on IHSS; and
    - 3) Large number of baselines and set asides.
  - Future risks / uncertainty related to:
    - 1) The timing of the economic cycle;
    - 2) Federal risks: tax reform, Affordable Care Act, and budget.



# Summary

- Need to continue responsible fiscal policies:
  - Building our reserves;
  - Limit on-going cost growth; and
  - Fund strategic one-time investments.
- Instructions to Departments:
  - Revenue or reduction targets (2.5% growing to 5%);
  - No growth and absorb cost increases; and
  - No new FTEs.



# Joint Report



# Joint Report Projection – Assumptions

- “Base case” projection
- Revenue
  - Economy strong but revenue growth slowing and signs of growth constraints
- Salary and Benefits
  - Benefit cost increases – health and pension
  - Inflation increase on personnel (average of Moody’s & CA DOF)
- Citywide Costs
  - Inflation on nonpersonnel (including grants for nonprofits)
  - IHSS cost increases from the State
  - Funding the Hall of Justice Exit plan



# Joint Report Projection

	<u>FY 18-19</u>	<u>FY 19-20</u>	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>% of Uses</u>
<b><i>Total - Sources</i></b>	<b>189.9</b>	<b>450.7</b>	<b>330.3</b>	<b>436.8</b>	
<b>Uses</b>					
Baselines & Reserves	(78.2)	(117.0)	(158.1)	(180.3)	16%
Salaries & Benefits	(132.7)	(290.8)	(437.8)	(559.0)	49%
Citywide Operating Budget Costs	(50.6)	(152.5)	(208.8)	(282.0)	25%
Departmental Costs	(16.6)	(63.8)	(86.8)	(124.9)	11%
<b><i>Subtotal - Uses</i></b>	<b>(278.1)</b>	<b>(624.1)</b>	<b>(891.4)</b>	<b>(1,146.0)</b>	100%
<b>Projected Cumulative Surplus / (Shortfall)</b>	<b>(88.2)</b>	<b>(173.4)</b>	<b>(561.2)</b>	<b>(709.3)</b>	

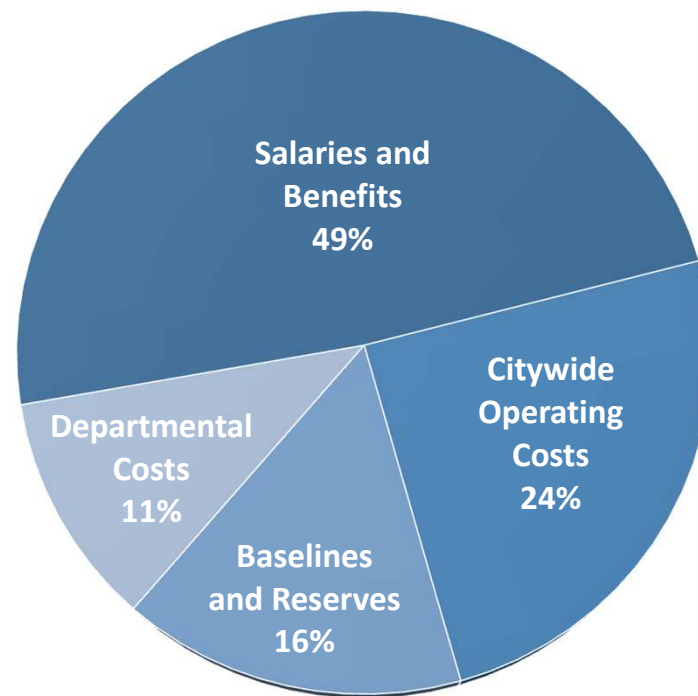
Approx. \$262 million for the upcoming two-year budget. Mayor must introduce a balanced budget each year.



# Joint Report Projection - Projected Expenditure Growth

- Total projected expenditure growth over the four year period is \$1.1 billion
- The salaries and benefits section is driven by inflation on wages, and pension and health cost increases
- For Citywide operating costs, 42% of this growth is inflation on non-personnel & grants to nonprofits
- For baselines and set asides, MTA and the Children's Fund make up 76% of the growth
- For Departmental costs, 65% of the growth is related to the IHSS cost shift from the state

Projected Cost Increases FY18-19 through FY21-22







# Looking Forward

Existing Areas of Concern  
Future Risks / Uncertainty



# Looking Forward – Structural Deficit

Projected 4th Year Deficit  
(in millions)



In the longer term, structural deficits are on the rise.



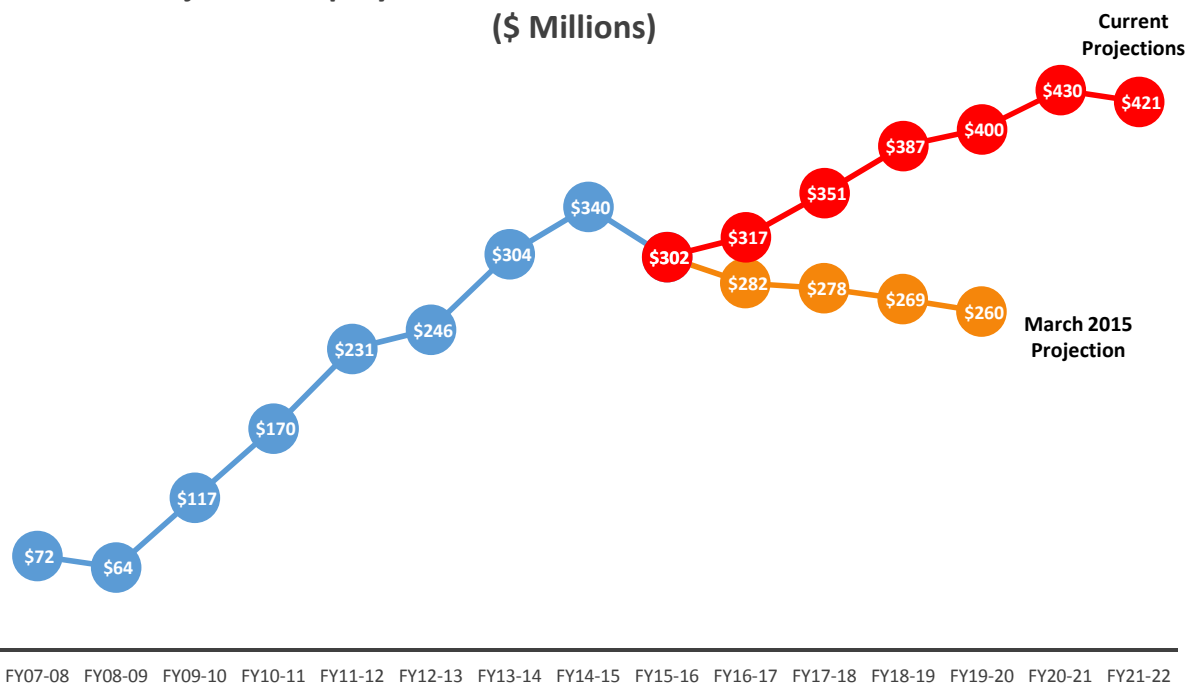
# Looking Forward – Rapid Employee Cost Growth

- Pension – supplemental COLA / loss of lawsuit, returns below 7.5%, and people living longer
- Wages – CPI increasing and more employees
- Health benefits – almost double-digit cost growth projected each year
  - Rich benefits; uncertainty at federal level pushing costs up



# Looking Forward – Employee Pension Cost Growth

Projected Employer General Fund Pension Contribution Cost  
(\$ Millions)



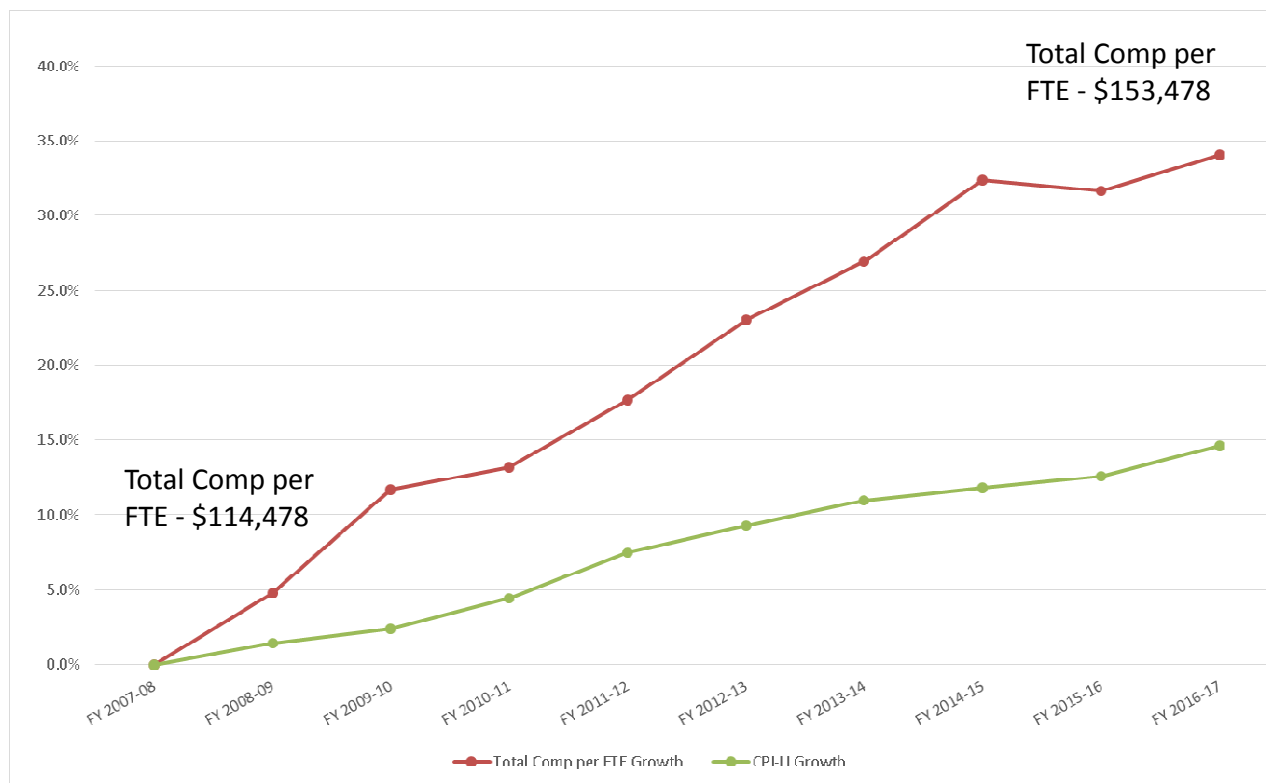
Note: FY 2007-08 to FY 2015-16 figures were budgeted pension costs

- Pension obligations have increased nearly 5-fold between FY 2007-08 and FY 2017-18 and are projected to continue increasing.
- In FY 2017-18, pension payments accounted for 7% of General Fund expenditures – up from 2.5% in FY 2007-08.
- Major cost drivers include:
  - Past poor market performance
  - Changes in retiree longevity
  - Supplemental COLAs



# Looking Forward – Employee Compensation Cost Growth

Personnel costs per FTE have grown at more than twice the rate of inflation during the past decade.





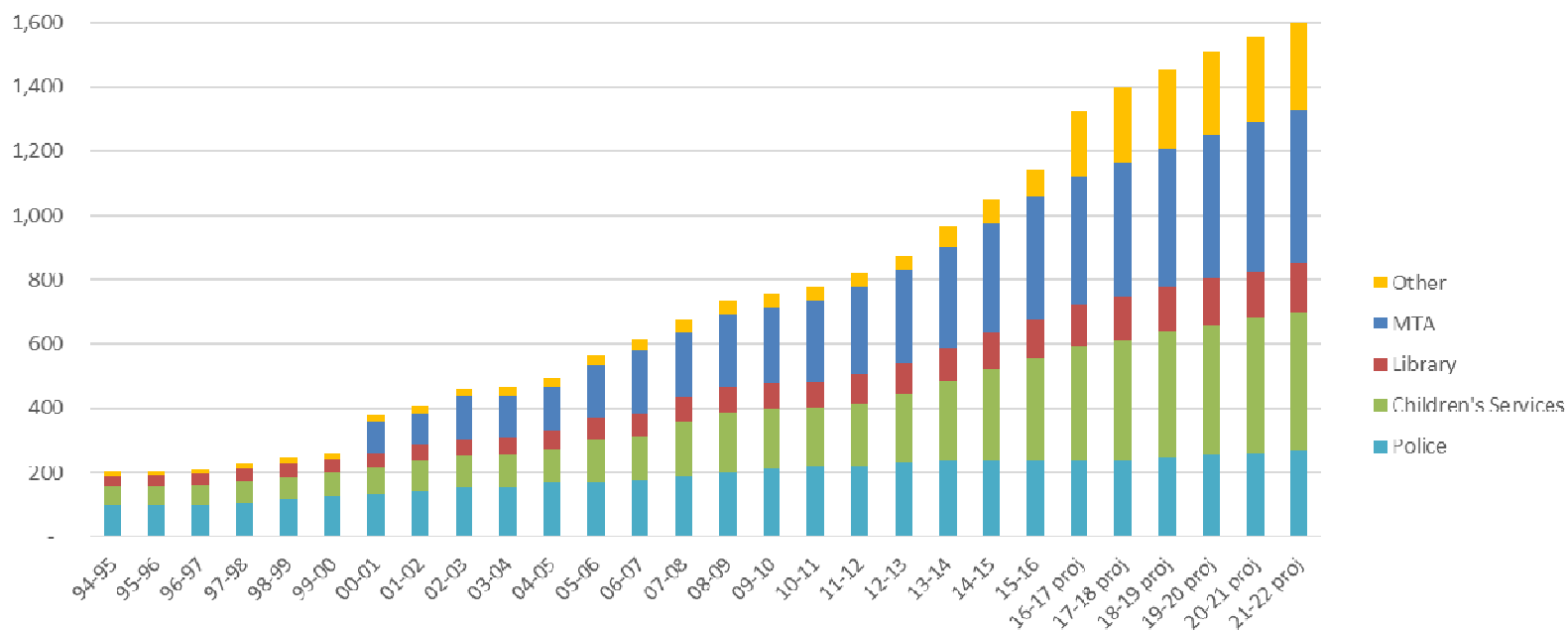
## Long Term Fiscal Picture – Baselines and Set-asides

- Baselines and set-aside spending has gone from 14% of General Fund sources in FY 94-95 to over 30% of projected current General Fund spending.
- It is a uniquely San Francisco problem:
  - San Francisco has **19** baselines and set asides
  - Across the entire state of California – there are **10 baselines TOTAL**



# Long Term Fiscal Picture – Baselines and Set-asides

Baseline spending levels by category FY 94-95 to FY 21-22

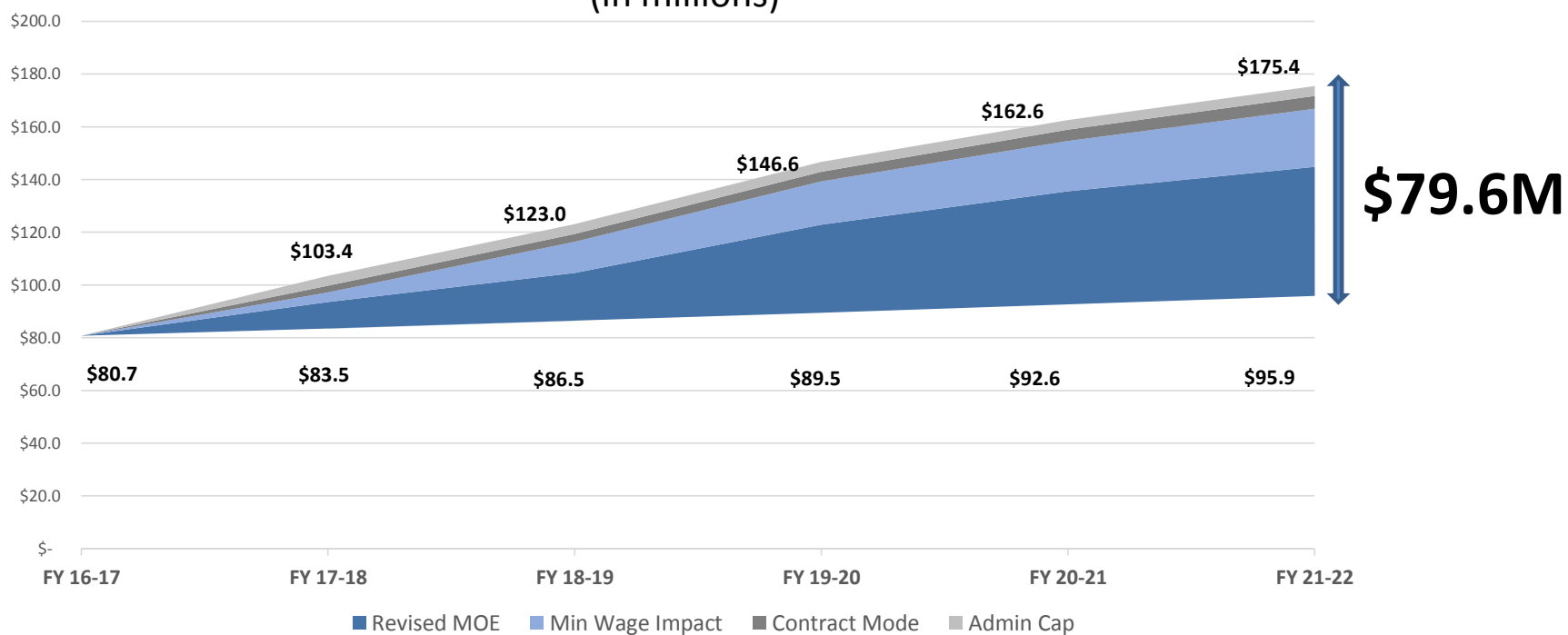


Baseline spending has grown dramatically from \$200 million in FY94-95 to a projected \$1.6 billion in FY21-22.



# Looking Forward – Cost Shift from the State on the In-Home Support Services (IHSS) Program

## Change in Annual IHSS Costs (in millions)



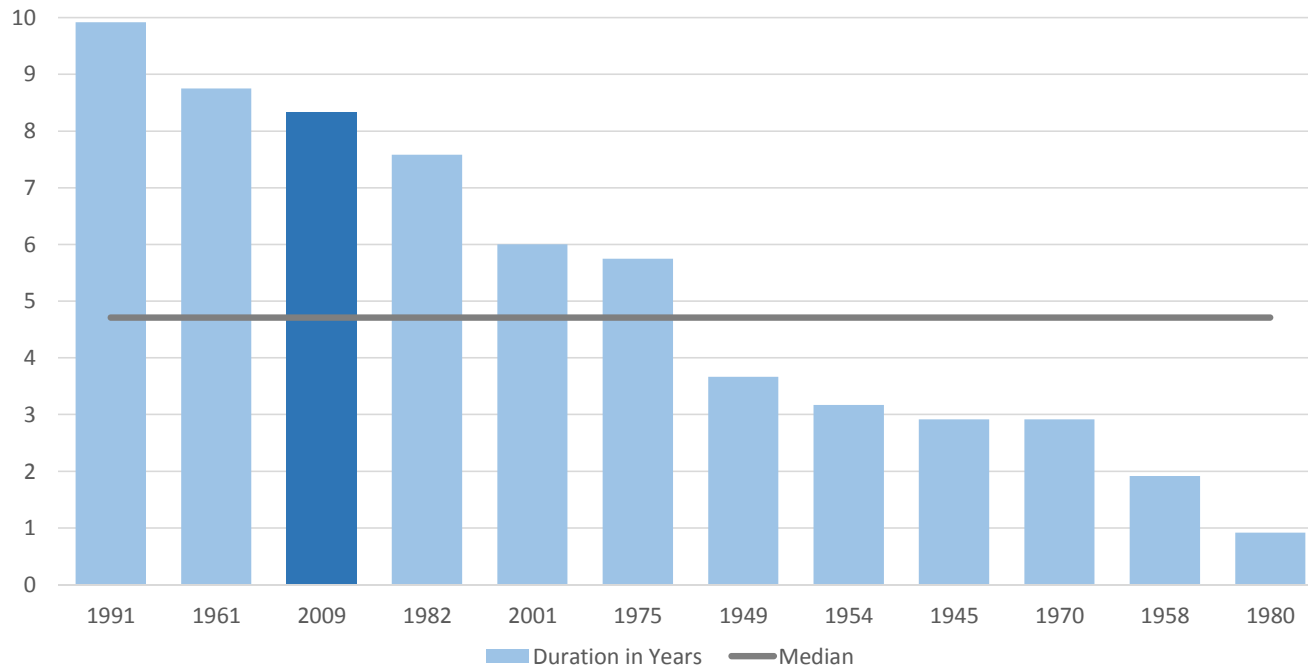




# Looking Forward – Risk on Economic Climate

## Our current expansion is the 3rd longest since 1945

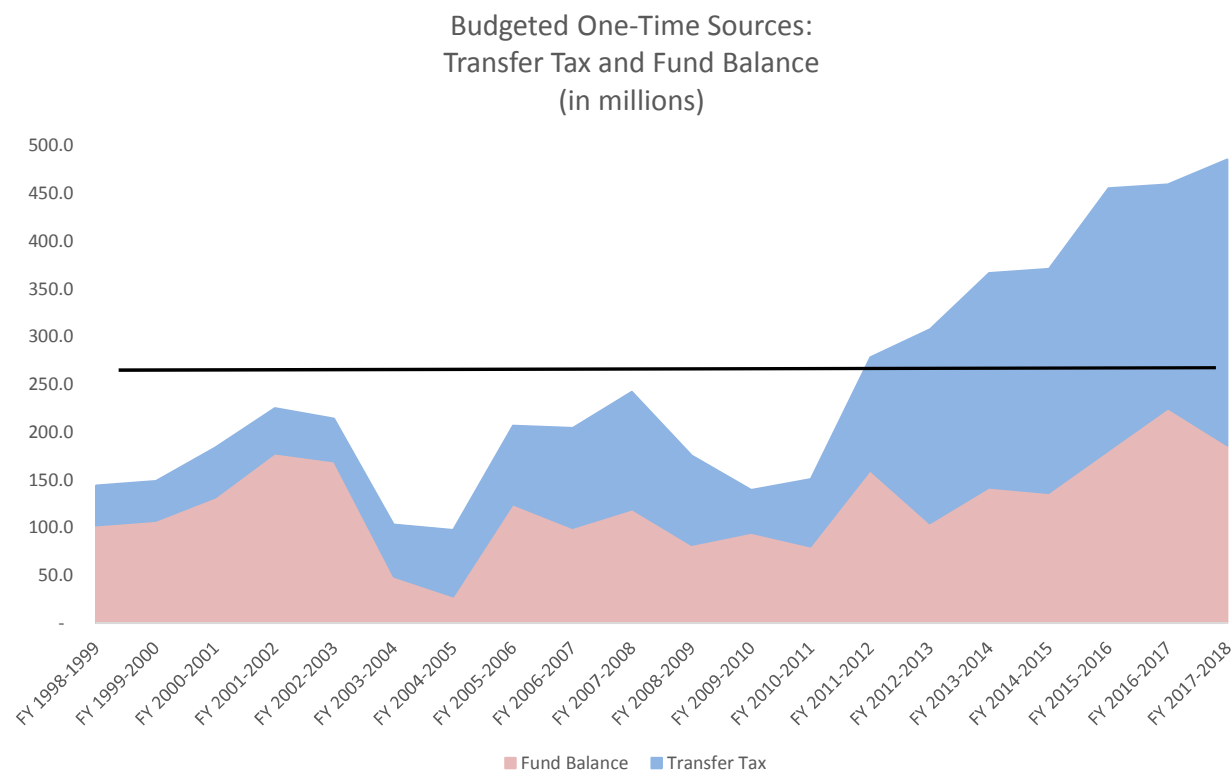
Length of economic expansion in years by start year, sorted longest to shortest





# Looking Forward – Risk on Economic Climate

Fund balance and transfer tax are the biggest risk on the revenue side; these sources combined have been almost \$400 million lower in down years compared to FY 17-18 budgeted levels.





# Looking Forward – Risk from Federal Government

- Potential federal impacts from tax reform, healthcare changes, and federal budget:
  - Elimination of State and Local Tax (SALT) Deduction;
  - Reduction of mortgage interest deduction;
  - Potential ending of the Low Income Housing Tax Credit, which would greatly impact the MOHCD's affordable housing program;
  - Repeal of ACA individual mandate could result in 13 million fewer insured nationwide, resulting in market uncertainty and higher premiums;
  - State will run out of funding for Children's Health Insurance Program by end of 2017; and
  - Efforts to convert Medicaid to a block grant or per capita cap also remain a risk.



# Next Steps / Department Budget Instructions



## Next Steps

- What should we do about all of this? Continue with sound fiscal practices such as:
  - Funding reserves
  - Control employee costs
  - Fund strategic one-time investments (capital, information technology, and equipment)
  - Long-term savings proposals
  - Limited on-going spending growth; especially limit FTE growth since employee costs growing faster than inflation



## Next Steps - Long Term Savings Proposals

- New York OMB Citywide Savings Program
- Generate savings / efficiency over the long term
- Topic areas:
  - Space planning / real estate cluster
  - Workforce maximization / HR cluster
  - Information Technology
  - Revenue maximization
  - Purchasing / contracts reform
  - Other potential items:
    - Going paperless
    - Fleet



# Budget Instructions for Departments

- FY 2018-19 & FY 2019-20: Propose **on-going reductions** and revenues equal to 2.5% of adjusted General Fund support in each year (growing to 5% in the second year of the budget)
- Departments **should not grow** budgeted and funded FTE count
- Enterprise / self supporting must absorb all known cost increases
- Legally mandated to balance the budget by June 1



# Budget Instructions for Departments

- Mayor's Office and Controller's Office will continue to work with departments to align budget with strategic planning
- Citywide Strategic Initiatives – please highlight how any proposed changes to your department's budget align with these principles
- Updating Performance Measures to align with Strategic Plans
- Update Departmental Strategic Plans by September of 2018
- Five Year Financial Plan next fall – 1 pagers from strategic plans will be included

<http://sfmayor.org/strategy-and-performance>





# Calendar / Key Dates

Dec 6	Budget Outlook & Instructions Issued
Early January	Budget system opens to departments / CON Technical Budget Instructions
January 12	IT Plans, Equipment, and Capital Budget Requests Due
Early February	Controller's 6-Month Report
February 21	Budget Submissions Due
May 1	Mayor Proposes May 1 Department budgets (to be determined)
May	Controller's 9-Month Report Governor's May Revise
May 15	Labor agreements must be finalized
June 1	Mayor Proposes Balanced Budget to Board of Supervisors
June	Department Budget Committee Hearings
July	Budget Considered at Board of Supervisors



# Questions?