Municipal Fiscal Advisory Committee (MFAC)

2016 Annual Economic Briefing

February 26, 2016
## Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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</thead>
<tbody>
<tr>
<td>9:00 – 9:15</td>
<td>Refreshments</td>
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<tr>
<td>9:15 – 9:30</td>
<td>Welcome &amp; Announcements</td>
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<tr>
<td></td>
<td>Ben Rosenfield, Controller</td>
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<td></td>
<td>Alicia John-Baptiste, Deputy Director SPUR</td>
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<td></td>
<td>Michelle Allersma, Director of Budget &amp; Analysis, Controller’s Office</td>
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<tr>
<td>9:30 – 10:30</td>
<td>Economic Overview</td>
</tr>
<tr>
<td></td>
<td>Jerry Nickelsburg, Senior Economist, UCLA Anderson Forecast</td>
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<td></td>
<td>Irena Asmundson, Chief Economist, California Department of Finance</td>
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<td>Ted Egan, Chief Economist, Controller’s Office</td>
</tr>
<tr>
<td>10:30 – 11:45</td>
<td>Revenue Projections</td>
</tr>
<tr>
<td></td>
<td>Jay Liao, Assistant Citywide Revenue Manager, Controller’s Office</td>
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<td>Jamie Whitaker, Property Tax Manager, Controller’s Office</td>
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<td></td>
<td>With Area Experts</td>
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<td>Business and Employment Trends: Business Tax</td>
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<td>Jon Haveman, Marin Economic Consulting</td>
</tr>
<tr>
<td>Time</td>
<td>Session Description</td>
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<tr>
<td>11:45 - 12:00</td>
<td>Additional Q&amp;A and Wrap-up</td>
</tr>
<tr>
<td></td>
<td><strong>Sales Trends: Sales Taxes</strong></td>
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<td><strong>Visitor Trends: Hotel Tax</strong></td>
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<td></td>
<td><strong>Real Estate Prices, Sales and Development: Property and Property Transfer Taxes</strong></td>
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## Overview

- **Goal:** reasonable planning projections for FY 2016-17 through FY 2019-20 for major local revenue sources, based on data, analysis and working assumptions about future trends

- We report changes to projections as we get new data and update assumptions

- Objectives for today: share our data and working assumptions and ask for your input. **Differing views are encouraged.**
San Francisco
Municipal Fiscal Advisory Committee
Economic Briefing

Jerry Nickelsburg
Adjunct Professor of Economics,
UCLA Anderson School of Management
Senior Economist, UCLA Anderson Forecast
February 26, 2016
Main Themes

- US Economy Approaching “Full Employment” – CA Full Employment
- 4% Wage Growth – Inflation to Exceed 2%
- But Risks Abound
- CA Housing Affordability
- Bay Area growth to slow
Job Growth Remains Solid

(Millions)

“Full Employment” as Measured by the Unemployment Rate

Unemployment Rate
2007:Q1 - 2017:Q4

FORECAST
Consumers Are Now Driving The Expansion

Real Consumer Spending
SAAR, 2007:Q1 - 2017:Q4

FORECAST

January 2016

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How Do We Get a Recession?

• Not from housing & autos
• Paths to a recession
  1. Unicorns, pentacorns and decacorns, oh my!
  2. Equipment & software—enough already!
  3. Manufacturing & China & The Middle East
     It’s time to save a lot more!
CALIFORNIA

Some Familiar Trends
Record Employment Levels

California Employment Trends

- Total Employment
- Non-Farm Payroll Jobs

+5.2% increase from 2008 to 2015

3% increase from 2008 to 2015
Geographically widespread

California Regional Job Gain
(Nov. 2014 to Nov. 2015, SA)
Population Limits Growth Rates

Ratio of Employment to CA population (Ages 18-64)
Population Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Natural Increase</th>
<th>Year</th>
<th>Natural Increase</th>
<th>Year</th>
<th>Natural Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.86%</td>
<td>2016</td>
<td>0.81%</td>
<td>2017</td>
<td>0.90%</td>
</tr>
<tr>
<td>2015</td>
<td>0.86%</td>
<td>2016</td>
<td>0.90%</td>
<td>2017</td>
<td>0.94%</td>
</tr>
</tbody>
</table>

Housing Starts

- 2015: 102.3
- 2016: 118.1
- 2017: 122.4

California New Residential Permits
(3 Mo. Moving Average, No. of Units)

Annual Housing Starts as % of Housing Stock 2017 = 0.87%
Factors Affecting Home Prices

• Supply (Stock of Housing)
  – Land area
  – Building Costs
  – Regulation and Zoning

• Demand
  – Attractiveness of The Area
    • Natural and Cultural Amenities
  – Jobs
Natural Amenities and Home Prices

Affordability & Amenities
(US MSA’s, 2014)

Natural Amenities Index vs. Affordability Index

- You
- TOL
- FRS
- BOS
- NYCTOL
- SV

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<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Employment</td>
<td>3.0%</td>
<td>2.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>6.2%</td>
<td>5.2%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Personal Income (real)</td>
<td>4.3%</td>
<td>3.4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Housing Permits (units)</td>
<td>102.3</td>
<td>118.1</td>
<td>122.4</td>
</tr>
<tr>
<td>Population Growth</td>
<td>0.9%</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>
UCLA Bay Area Employment

Bay Area Payroll Employment


2,000,000 2,200,000 2,400,000 2,600,000 2,800,000 3,000,000 3,200,000 3,400,000 3,600,000

2015 4.0%
2016 3.0%
2017 2.7%
Bay Area Unemployment

![Bar graph showing Bay Area Unemployment from 2000 to 2016]
The Bay Area Forecast

- Bay Area to continue to outperform
- New employment highs in 2016 & 2017
- The risks to the Bay Area Forecast are the same as the US risks but were they to occur, the impact will be greater
Governor’s Budget Forecast, 2016-2017

California Department of Finance
Outlook: US GDP

Contribution to U.S. GDP

Source: BEA, DOF
Outlook: Jobs

US and California Nonfarm Employment

Source: BLS
Outlook: Unemployment

US and California Unemployment Rate

Source: BLS
Stock Markets: S&P 500 Index

S&P 500 Index
Outlook: California Income

California Personal Income, $ billions

Source: BEA, DOF
Outlook: US & CA CPI

U.S. & CA Headline Inflation, year-over-year change

- CA Headline CPI
- US Headline CPI

Data
Forecast

Recession Scenario 2017-2018

California's Total Wages and Salaries (Billion $)

- Recession
- Governor's Budget
San Francisco's Economy

Ted Egan
MFAC Annual Meeting
February 26, 2016
Through March, San Francisco Employment Has Reached Record Highs: Job Growth Has Outpaced the Bay Area Since 2004

San Francisco Total Employment, March 2005-2015, With the City's Share of the Bay Area Total

Source: BLS
BLS Data for the City Through March Indicates Continued Employment Growth in Every Sector, Led by Professional Services & Information


- All Private Sector
- Construction
- Manufacturing
- Trade, Transportation, Utilities
- Information
- Financial Activities
- Professional and Business Services
- Education and Health Services
- Leisure and Hospitality
- Other Services

Source: BLS
Resident Labor Force and Unemployment Rate Have Levelled Off, Signaling Full Employment in the City, and Increased In-Commuting

From May-November 2015:

- No change in the city's unemployment rate
- 1.4% annualized growth in the labor force
- 4.4% annualized growth in employment in the Metro Division (SF and San Mateo counties).

Source: EDD
The Latest Regional Data (Including San Mateo County) Through October Shows the Largest Tech Sector Growing at Over 15% Per Year
Hard to Read the Trend in the NASDAQ From Day to Day…
Easier to See the Trend over 12 months

Source: Yahoo! Finance
So What? NASDAQ Tracks the City's Business Tax Base, and Predicts Downturns
Our Fastest-Growing Sector Has an Appetite for New Investment


- Profitable Public in top 75: 21%
- Unprofitable Public in top 75: 27%
- Private - top 75: 22%
- Not Top 75: 30%
- Google
- Yelp
- Adobe
- Dolby
- Riverbed
- Twitter
- Zynga
- LinkedIn
- Lending Club
- Zendesk
- Uber
- Dropbox
- Airbnb
- Pinterest
- StubHub
Things to Consider: Three Factors Affecting Continued Growth

- The U.S. Economy – Risk is relatively low for 2016, but global factors are a concern
  - Blue Chip GDP forecasts for 2016 range from 2.2 - 2.9%.
  - U.S. unemployment now 5.0% - wages now rising nationally at a 2.3% rate - with virtually no inflation.
  - 211,000 jobs added in November - Fed began raising interest rates in December.
  - China, impact of a rising dollar are potential risks that may slow interest rate movement.
- Local Tech Sector – Risk is Rising.
  - Unprofitable companies employ many if not most tech employees.
  - A weakening investment climate could slow and eventually reverse the pace of hiring.
- Local Infrastructure Constraints – Will lead to a slowdown even without a downturn in the tech sector or the broader economy.
Revenue Projections
For each revenue stream...

Questions we’d like you to weigh in on:

1. Any additional considerations we should be taking into account that might change our forecasts now?

2. What leading indicators should we be looking for that might cause us to change forecasts in the future?
# Revenue Projections

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY 2015-16 ($ mil)</th>
<th>FY 2016-17</th>
<th>FY 2017-18</th>
<th>FY 2018-19</th>
<th>FY 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td></td>
<td>2.75%</td>
<td>2.75%</td>
<td>2.75%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Business Tax</td>
<td>$631.1</td>
<td>5.50%</td>
<td>5.25%</td>
<td>5.00%</td>
<td>4.75%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$157.9</td>
<td>4.00%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Hotel Tax</td>
<td>$389.2</td>
<td>5.00%</td>
<td>4.50%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Property Transfer Tax</td>
<td>$275.3</td>
<td>-9.18%</td>
<td>-5.00%</td>
<td>-5.26%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$1,360.0</td>
<td>2.35%</td>
<td>4.02%</td>
<td>5.46%</td>
<td>4.52%</td>
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Consumer Price Index (CPI)
## CPI Assumptions

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<tbody>
<tr>
<td>2007</td>
<td>3.29%</td>
<td>3.29%</td>
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<tr>
<td>2008</td>
<td>3.23%</td>
<td>3.23%</td>
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<tr>
<td>2009</td>
<td>1.83%</td>
<td>1.83%</td>
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<tr>
<td>2010</td>
<td>1.20%</td>
<td>1.20%</td>
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<tr>
<td>2011</td>
<td>1.67%</td>
<td>1.67%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>2.78%</td>
<td>2.78%</td>
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</tr>
<tr>
<td>2013</td>
<td>2.60%</td>
<td>2.60%</td>
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<tr>
<td>2014</td>
<td>2.38%</td>
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<td></td>
</tr>
<tr>
<td>2015</td>
<td>2.72%</td>
<td>2.71%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>2.88%</td>
<td>1.98%</td>
<td></td>
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</tr>
<tr>
<td>2017</td>
<td></td>
<td>3.05%</td>
<td>2.64%</td>
<td></td>
<td>2.75%</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>3.11%</td>
<td>3.09%</td>
<td></td>
<td>2.75%</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td>3.05%</td>
<td>3.31%</td>
<td></td>
<td>2.75%</td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.75%</td>
</tr>
</tbody>
</table>

Notes:
1) California Department of Finance data are CPI-U for San Francisco CMSA.
2) Moody's data are for the San Francisco-San Mateo-Redwood City Metropolitan Division.
Business Taxes
Business Tax Revenue Components

- Payroll
- Gross Receipts
- Admin Office

Fiscal Year-End


Business Tax Revenue ($ millions)

$0 $100 $200 $300 $400 $500 $600 $700 $800
San Francisco Wages

![Chart showing San Francisco Wages from 2007 to 2020. The chart compares Wage Growth-Actual, Wage Growth-Projection (Moody's), Business Tax-Actual, and Business Tax-Protection. Key data points include:
- Wage Growth-Actual: 8.0% in 2012, 13.5% in 2014, and 6.8% in 2020.
]
San Francisco Employment

Emp Growth-Actual
Emp Growth-Projection (Moody's)
Business Tax- Actual
Business Tax-Projection

Fiscal Year-End


-10% -5% 0% 5% 10% 15% 20%

-4.5% 6.1% 5.6% 1.0% -10% -5% 0% 5% 10% 15% 20%

1.0%
Sales Taxes
SF Sales Tax Trend vs. Bay Area 9 Counties vs. Statewide
Sales Tax: San Francisco Sales Tax and Retail Sales

Fiscal Year-End

SF Sales Tax
Moody's Retail Sales SF
SF Sales Tax-Projections
Moody's Retail Sales SF-Projection
Sales Tax Growth vs. Income Growth

Fiscal Year-End

-25% -20% -15% -10% -5% 0% 5% 10% 15%

Sales Tax Revenue Growth
Moody's Household Income Growth

Sales Tax Revenue Growth-Projection
Moody's Household Income Growth-Projection
## Sales Tax Projections

<table>
<thead>
<tr>
<th>Fiscal Year-End</th>
<th>Current Projection</th>
<th>MuniServices</th>
<th>HdL</th>
<th>Moody's Retail Sales - SF</th>
<th>Moody's Retail Sales - CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.8%</td>
<td>4.2%</td>
<td>1.3%</td>
<td>8.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2017</td>
<td>4.5%</td>
<td>3.5%</td>
<td>3.6%</td>
<td>6.7%</td>
<td>3.6%</td>
</tr>
<tr>
<td>2018</td>
<td>4.8%</td>
<td>3.4%</td>
<td>3.8%</td>
<td>6.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2019</td>
<td>4.4%</td>
<td>3.0%</td>
<td>3.9%</td>
<td>6.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>2020</td>
<td>4.2%</td>
<td>2.9%</td>
<td>3.6%</td>
<td>5.2%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>
Hotel Taxes
RevPAR compared to Hotel Tax growth

Source: PKF Hotel Horizons December 2015 – February 2016; SF Upper-Priced Hotels
Hotel Tax: The rise in Average Daily Room Rates (ADR)
## Hotel Tax: Revenue Implications

<table>
<thead>
<tr>
<th>Fiscal Year-End</th>
<th>PKF Actual/Projected RevPAR ($ mil)</th>
<th>% Change</th>
<th>Actual/Projected Hotel Tax Revenue ($ mil)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$150.0</td>
<td>14.7%</td>
<td>$249.0</td>
<td>15.0%</td>
</tr>
<tr>
<td>2013</td>
<td>$165.3</td>
<td>10.2%</td>
<td>$281.5</td>
<td>13.1%</td>
</tr>
<tr>
<td>2014</td>
<td>$187.8</td>
<td>13.6%</td>
<td>$310.3</td>
<td>10.2%</td>
</tr>
<tr>
<td>2015</td>
<td>$227.2</td>
<td>21.0%</td>
<td>$369.4</td>
<td>19.1%</td>
</tr>
<tr>
<td>2016</td>
<td>$248.4</td>
<td>9.3%</td>
<td>$395.2</td>
<td>7.0%</td>
</tr>
<tr>
<td>2017</td>
<td>$262.7</td>
<td>5.8%</td>
<td>$415.0</td>
<td>5.0%</td>
</tr>
<tr>
<td>2018</td>
<td>$273.4</td>
<td>4.1%</td>
<td>$433.7</td>
<td>4.5%</td>
</tr>
<tr>
<td>2019</td>
<td>$279.0</td>
<td>2.0%</td>
<td>$448.9</td>
<td>3.5%</td>
</tr>
<tr>
<td>2020</td>
<td>$284.6</td>
<td>2.0%</td>
<td>$464.6</td>
<td>3.5%</td>
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</table>
Real Estate Property Transfer Taxes
Property Transfer Tax: Revenues are driven by transactions >$10M
Property Transfer Tax: Projections depend on the number of $10M transactions.
Property Transfer Tax: Assumptions

- FY 2015-16 projections reflect an expected reduction in commercial inventory that will drive a slow-down of high-value transactions from FY2016-17 to FY 2019-20.

- Projections of transactions of properties <$10M (based on trend line) are expected to maintain current pace. Levels of these transactions are less volatile though the last three years have seen a marked increase in $5M to $10M properties.

<table>
<thead>
<tr>
<th>Fiscal Year-End</th>
<th>Actual/Projection</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>261.9</td>
<td>12.5%</td>
</tr>
<tr>
<td>2015</td>
<td>314.6</td>
<td>20.1%</td>
</tr>
<tr>
<td>2016</td>
<td>275.3</td>
<td>-12.5%</td>
</tr>
<tr>
<td>2017</td>
<td>250.0</td>
<td>-9.2%</td>
</tr>
<tr>
<td>2018</td>
<td>237.5</td>
<td>-5.0%</td>
</tr>
<tr>
<td>2019</td>
<td>225.0</td>
<td>-5.3%</td>
</tr>
<tr>
<td>2020</td>
<td>225.0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
Property Taxes
Property Tax Overview: Secured Local Assessment Roll Growth

Actual Change in Local Secured Roll
Projected Change in Local Secured Roll

Fiscal Year-End

Property Tax Overview: Residential Parcels by Assessed Value

Thousands of parcels

Assessed (Taxable) Values

- $0 - $300k: 70% (FY 2011), 83% (FY 2016)
- $300k - $600k: 17% (FY 2011), 13% (FY 2016)
- $600k - $900k: 21% (FY 2011), 21% (FY 2016)
- $900k - $1,200k: 49% (FY 2011), 41% (FY 2016)
- $1,200k - $1,500k: 54% (FY 2011), 53% (FY 2016)
- $1,500k - $1,800k: 60% (FY 2011), 58% (FY 2016)
- $1,800k and up: 58% (FY 2011), 58% (FY 2016)
Property Tax: Assumptions for the Secured Local Roll

- FY 2017 Secured Local Assessment Roll growth well-informed by the Assessor’s Secured Working Roll data.
- FY 2018 and forward consider typical annual roll value increases plus roll growth expectations based upon high-value new construction or changes in ownership.

<table>
<thead>
<tr>
<th>Fiscal Year-End</th>
<th>Prop 13 Inflation</th>
<th>Typical Roll Growth</th>
<th>$20M+ New Construction</th>
<th>$20M+ Changes in Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.525%</td>
<td>4%</td>
<td>$1.4 billion</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>2018</td>
<td>2%</td>
<td>2%</td>
<td>$1.7 billion</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>2019</td>
<td>2%</td>
<td>2%</td>
<td>$3.5 billion</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>2020</td>
<td>2%</td>
<td>2%</td>
<td>$1.6 billion</td>
<td>-</td>
</tr>
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## Property Tax: General Fund Revenue Implications

<table>
<thead>
<tr>
<th>Fiscal Year-End</th>
<th>Projected General Fund Property Tax Revenue (in Millions)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$1,360</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$1,392</td>
<td>2.35%</td>
</tr>
<tr>
<td>2018</td>
<td>$1,448</td>
<td>4.02%</td>
</tr>
<tr>
<td>2019</td>
<td>$1,527</td>
<td>5.46%</td>
</tr>
<tr>
<td>2020</td>
<td>$1,596</td>
<td>4.52%</td>
</tr>
</tbody>
</table>
Thank you.