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
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 – Structural Deficit

Projected 4th Year Deficit ($M)

<table>
<thead>
<tr>
<th>Date</th>
<th>Deficit ($M)</th>
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<tbody>
<tr>
<td>Pub. Dec 2017</td>
<td>$709</td>
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<tr>
<td>Pub. Jan 2018</td>
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<td>$413</td>
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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 – Pension Contributions

Projected Employer Pension Contribution Cost
Increases from Prior Projections ($M)
FY07-08 to FY21-22 figures were budgeted pension costs

2020 Five Year Financial Plan

2021 Joint Report
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 its own revenue projections
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
Questions?

Thank you!