



Budget Outlook & Department Instructions

December 2020



Agenda

- Five Year Financial Plan & Fiscal Outlook
- Mayoral Priorities & Budget Instructions for Departments



Overview

- Overcame historically high, pandemic-induced budget shortfall, all while preserving jobs and services, and making progress on key priorities
- Use of one-time sources and “easy” reductions helped to stem the dramatic impacts, but those solutions will be harder to come by as the City deals with the lingering economic effects of COVID and as one-time solutions go away
- Need to prioritize economic recovery, programs that produce meaningful, equitable outcomes, mental health and homelessness, and continued COVID response



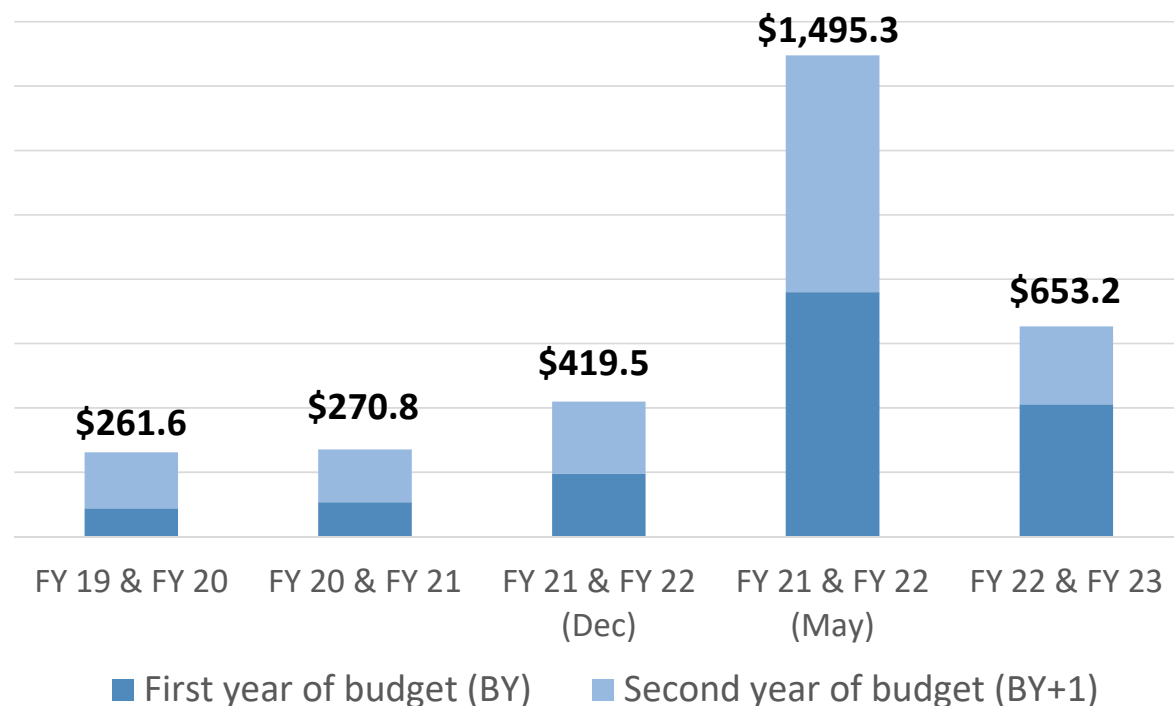
Overview: Fiscal Outlook

FY 2021-22 and FY 2022-23 deficit projection: **\$653.2 million over two years**

Key Drivers:

- Revenue declines
- Unbudgeted labor costs
- Ongoing COVID expenses

Deficit at Time of Budget Instructions (\$M)





Overview: Budget Instructions

- Mandatory departmental reduction proposals of 7.5% in adjusted General Fund support, with an additional 2.5% contingency should fiscal conditions worsen
- Prioritize core services and programs, and present clear tradeoffs
- Emphasis on Mayoral priorities of recovery and equity



Five Year Financial Plan & Fiscal Outlook



Five-Year Financial Plan – Assumptions

- Base case projection
- Key assumptions
 - Revenue – slower growth in FY 2021-22, and accelerated growth in subsequent years; Propositions I and L
 - Salary and Benefits – assumes MOU wage increases, CPI in open years; no recession trigger
 - Citywide Costs – COVID-19 response, debt & capital, inflation on non-personnel
 - No additional federal relief

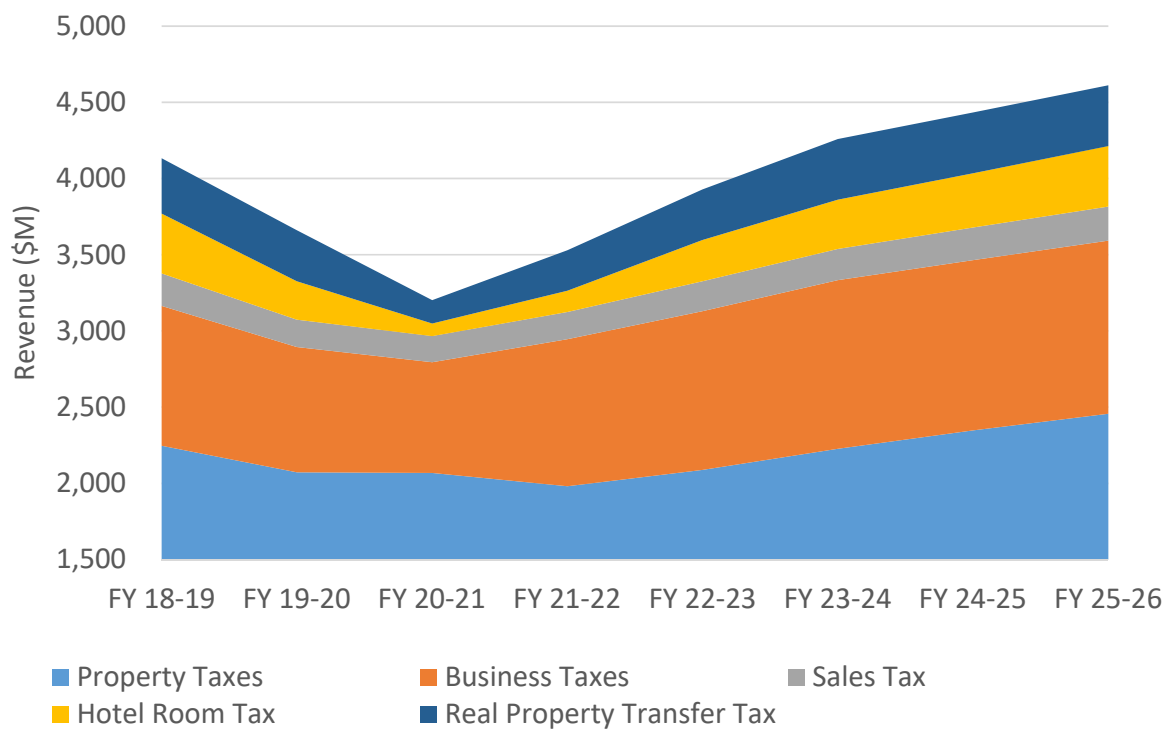


Five-Year Financial Plan Projection

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
<i>SOURCES Increase / (Decrease)</i>	(117.6)	268.5	487.2	732.1	963.4
	-	-	-	-	-
Uses	-	-	-	-	-
Baselines & Reserves	(54.4)	(157.7)	(242.1)	(293.2)	(354.6)
Salaries & Benefits	(150.8)	(233.4)	(318.0)	(433.8)	(565.1)
Citywide Operating Budget Costs	(21.4)	(8.2)	(94.2)	(219.4)	(304.8)
Departmental Costs	(67.0)	(111.2)	(156.5)	(198.9)	(242.2)
<i>USES (Increase) / Decrease</i>	(293.6)	(510.6)	(810.9)	(1,145.4)	(1,466.8)
Projected Cumulative Surplus / (Shortfall)	(411.1)	(242.1)	(323.7)	(413.3)	(503.3)
Two Year Deficit	(653.2)				



Local Tax Revenues



- Transfer, hotel, sales, and business taxes most impacted by COVID, while property tax remains the most stable
- New revenues assumed to offset General Fund shortfall



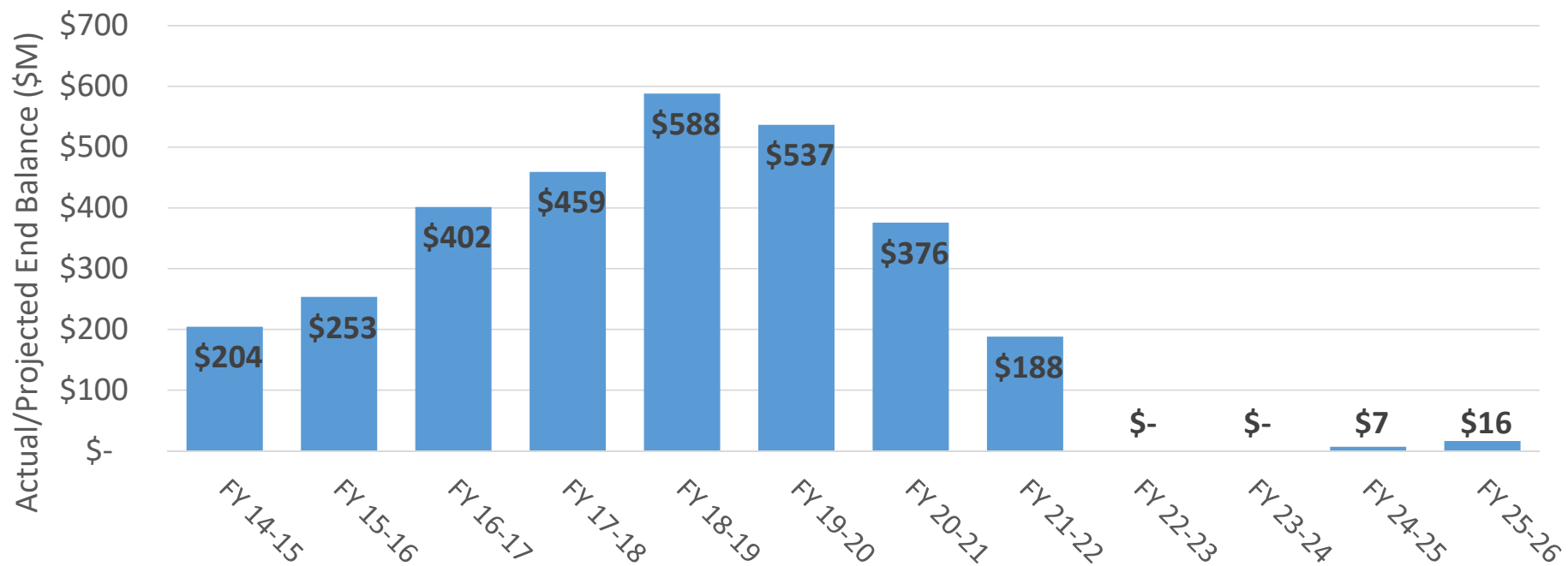
Use of One-Time Sources

- Reliance on one-time sources in short-term drives up deficit in out-years
- Will have used **\$1.3 billion** in one-time sources from FY 2020-21 through FY 2022-23:
 - Economic Stabilization Reserve - \$537 million
 - Prior Year Fund Balance - \$370 million
 - General Fund repayments related to Prop F - \$300 million
 - Public Health Federal Relief & Prior-Year Settlements - \$51.5 million



Drawdown of Economic Stabilization Reserve

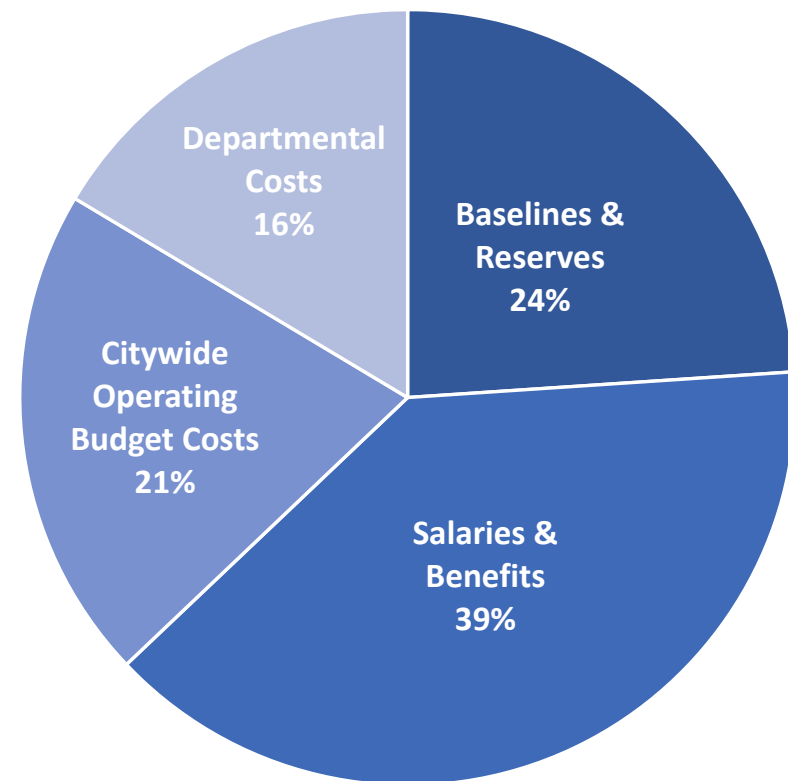
Balance in City's Economic Stabilization Reserve Fund





Projected Expenditure Growth

- Total projected expenditure growth over the five year period is \$1.5 billion
- Salary and benefit costs driven by growth in wages and health cost, offset by pension savings
- Baseline contributions continue to be a major cost driver as revenues rebound
- Citywide operating costs assumes COVID response, inflation on non-personnel & grants to nonprofits, rebuilding Pay-Go Capital Program
- Departmental costs, nearly half of the growth is related to Public Health





Impacts in Enterprise Departments

- Non-General Fund and Enterprise Departments also facing significant budget challenges
- Most departments have managed to absorb shortfalls using similar methods as General Fund departments
- Prolonged economic impacts and loss of one-time sources will exacerbate budget challenges
- MTA projecting a current year shortfall of \$68 million and budget year shortfall of \$168 million, which may result in loss of service and layoffs



Uncertainties and Risks Remain

- Further downgrade of revenues due to slower than expected economic recovery, prolonged telecommute, and slow return of tourism
- Federal support
- Outcome of State Controller's Excess ERAF guidelines



Policy Priorities & Department Budget Instructions



Mayoral Policy Priorities

- Supporting small business and economic recovery
- Prioritizing programs with demonstrated outcomes centered around equity
- Implementing homelessness and mental health programming
- Continuing to respond to COVID



Budget Instructions to Departments

- Mandatory reduction proposals of 7.5% in adjusted General Fund support, with an additional 2.5% contingency should fiscal conditions worsen
- Departments should prioritize core services, and present clear tradeoffs
- Reduction proposals can include contract savings, efficiencies, new revenue sources, and reduction in personnel costs, including reduction in filled positions
- Non-General Fund departments and funds must balance within their own revenue projections



Additional Budget Instructions

- Emphasis on racial equity in departmental proposals
 - Describe budget proposals through an equity lens
 - Internal racial equity work should be prioritized within existing budget
- Engage COVID departments in January for a COVID-specific budget planning process
- Communicate work order reductions that may have a General Fund impact



Budget Process Legislation

- Goal is to provide greater transparency and public input at all points along the budget process
- Requires two public meetings before February 14
 1. Public input meeting (designated depts exempt from this requirement)
 2. Proposed budget meeting for all departments
- Centralization of all budget documents on a single website
- Formalized budget priority setting processes for Mayor and Board
(Ordinance File No. 191072 & Motion File No. 191088)



Current Year Rebalancing

- Controller's 3-month budget status report projected \$116 million current year shortfall
 - Slower than expected economic recovery
 - Departmental shortfalls
 - Good news at FY 2019-20 year-end
- Path to close current year shortfall includes:
 - Utilize unexpected reserve balance
 - Departments manage shortfalls
 - Other citywide and departmental savings



Conclusion

- Projected shortfall for upcoming two-year budget is \$653.2 million
- Loss of one-time sources and continued cost growth highlights the need to constrain expenditures
- Mandatory reduction proposals of 7.5% in adjusted General Fund support, with 2.5% contingency
- Must prioritize recovery, equity, and top policy priorities in upcoming budget



Calendar / Key Dates

Dec 16	Budget Outlook & Instructions issued
Early Jan	Budget system opens to departments / CON budget system trainings
January 15	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
June 1	Mayor proposes balanced budget to Board of Supervisors
June	Budget and Finance Committee hearings
July	Budget considered at Board of Supervisors



Questions?