FY 17-19 Proposed Budget

February 7

- Review of financial outlook and budget instructions
- Goals and strategies for FY 17-19 Budget

February 21

- Balancing plan to meet target including:
  - Initiatives to meet achieve key departmental priorities
  - Revenue-neutral and regulatory initiatives
  - Update on Electronic Health Records initiative
City’s FY17-19 Financial Outlook

- Over the next five years, the City’s revenues are projected to grow by 11% over 5 years, while expenditures are projected to grow by 29%.

- City facing growing $119 and $283.4 M deficits for FY 17-18 and FY 18-19, respectively.

- Five Year Financial Projects a deficit of $848.4 by FY 21-22, if left unchecked.
Slowing Revenue Growth

General Fund Revenue Growth
FY 1999-00 to FY 2021-22 (projected)

Note: Includes local sales tax (adjusted for 1% Triple Flip, parking, business, and
### Five Year Projection:

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</thead>
<tbody>
<tr>
<td><strong>SOURCES Increase / (Decrease)</strong></td>
<td></td>
<td></td>
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<tr>
<td>Baselines and Reserves</td>
<td>(46.7)</td>
<td>(116.1)</td>
<td>(150.3)</td>
<td>(188.9)</td>
<td>(212.3)</td>
<td>15%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits</td>
<td>(145.8)</td>
<td>(273.1)</td>
<td>(428.2)</td>
<td>(574.0)</td>
<td>(698.0)</td>
<td>50%</td>
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<tr>
<td>Citywide Operating Budget Costs</td>
<td>(48.5)</td>
<td>(193.8)</td>
<td>(274.7)</td>
<td>(350.2)</td>
<td>(450.1)</td>
<td>32%</td>
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<tr>
<td>Departmental Costs</td>
<td>(21.9)</td>
<td>(29.1)</td>
<td>(43.8)</td>
<td>(42.7)</td>
<td>(48.0)</td>
<td>3%</td>
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<td><strong>USES Increase / (Decrease)</strong></td>
<td>(262.9)</td>
<td>(612.1)</td>
<td>(897.1)</td>
<td>(1,155.8)</td>
<td>(1,408.3)</td>
<td>100%</td>
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<td><strong>Projected Surplus / (Shortfall):</strong></td>
<td>(119.0)</td>
<td>(283.4)</td>
<td>(584.7)</td>
<td>(713.4)</td>
<td>(848.4)</td>
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Approx $400 million for the upcoming two year budget. Mayor must submit a balanced budget by June 1, 2017.
Projected revenue growth of 11% and expenditure growth 29% over the period.

In other words, expenditures are projected to grow almost three times as fast as revenues.
## Historical Deficit Projections

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<tbody>
<tr>
<td>5/2011</td>
<td>(283.1)</td>
<td>(457.5)</td>
<td>(619.4)</td>
<td>(745.7)</td>
<td>(829.1)</td>
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<td>3/2013</td>
<td></td>
<td>(123.6)</td>
<td>(256.1)</td>
<td>(367.7)</td>
<td>(423.2)</td>
<td>(487.2)</td>
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<tr>
<td>12/2014</td>
<td></td>
<td></td>
<td>(15.9)</td>
<td>(88.3)</td>
<td>(274.8)</td>
<td>(366.1)</td>
<td>(417.9)</td>
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<tr>
<td>12/2016</td>
<td></td>
<td></td>
<td></td>
<td>(119.0)</td>
<td>(283.4)</td>
<td>(584.7)</td>
<td>(713.4)</td>
<td>(848.4)</td>
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Historical Deficit Projections

Why are deficits on the rise again? 3 main reasons:

1. Rising employee costs (largely related to pension)
2. New baselines and set asides
3. Increases in services, positions, on-going costs that grow
New Services Lead to Higher On-Going Costs

Drivers of FTE Growth since FY 11-12

- The City has added 5,090 FTE (18% growth) since FY 2011-12
- 86% of FTE growth is in:
  - Transportation, public works and commerce
  - Public health and human welfare and neighborhood development
  - Public protection
- New FTEs also contribute to overall future deficits as employee benefits are rising faster than inflation
- We must take a disciplined approach to future growth to ensure this level of total FTEs is sustainable
Deficit projection for the upcoming two fiscal years is approximately $400 million.

FY 2017-18 & FY 2018-19: Propose on-going reductions and revenues equal to 3% of adjusted General Fund support in each year (growing to 6% in the second year of the budget).

- DPH Targets are $18.4 million in FY 2017-18 and $36.9 million in FY 2016-17.

Departments should not grow budgeted and funded FTE count.

- New positions approved in last year’s budget process will remain.

Enterprise / self supporting must absorb all known cost increases.
Citywide Strategic Initiatives — reflect the strategic vision (outlined below), derived from the Citywide Strategic Planning process, in budget submissions:

1. Residents and families that thrive
2. Clean, safe and livable communities
3. A diverse, equitable and inclusive City
4. Excellent City services
5. A City and region prepared for the future
Risks

Key factors that could affect the forecast:

- Federal funding uncertainty
- Changes in the economy
- Labor costs
- Any new budgetary commitments made
Since 1900, average length of time between recessions has been 47 months. The current economic expansion has lasted over 89 months.

No recession projected during forecast period of FY 2017-18 through FY 2021-22.

No recession through FY 2021-22 would mark the longest expansion since 1900 and exceed it by three years!
Risks: Recession Scenario

Cumulative Projected Change to General Fund Revenue in Recession
For five General Fund revenues – Business, Hotel, Sales, Transfer and Parking tax
DPH’s 17-19 Budget Priorities

- Strengthen core services through realignment of existing resources
- Support Mayor’s Office priorities on homelessness, public safety
- Creating a department wide Lean infrastructure for continuous improvement
- Focus on revenue maximization
DPH’s 17-19 Budget Issues

- Electronic Health Record
- 15 bed Addiction/mental health program at Behavior Health Center ZSFG Campus (Hummingbird navigation center)
- Whole Person Care Program
- Adjustments to ZSFG budget based on operating experience
- Transfer of EMS Program from Dept. of Emergency Management
- Harm Reduction and syringe access/cleanup
## DPH’s 17-19 Financial Targets

<table>
<thead>
<tr>
<th>DPH Target</th>
<th>FY 17-18 (Savings)/Cost</th>
<th>FY 18-19 (Savings)/Cost</th>
<th>Two-Year Total</th>
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<tbody>
<tr>
<td>3% General Fund Reduction Target</td>
<td>$18,435,530</td>
<td>$36,871,061</td>
<td>$55,306,591</td>
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<td>Revenue Growth Assumed in Deficit</td>
<td>$5,364,032</td>
<td>$12,622,163</td>
<td>$17,986,195</td>
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<td>Electronic Health Records Operating Costs</td>
<td>$-</td>
<td>$15,000,000</td>
<td>$15,000,000</td>
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<td>$23,799,562</td>
<td>$64,493,224</td>
<td>$88,292,786</td>
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Next Steps

- February 21 – Additional Health Commission Budget Hearing
- June 1 – Mayor’s Balanced Budget Submission
- June – Board of Supervisors Budget (BOS) Hearings
- Mid-July – Final BOS approval of Budget