



# Revised Budget Outlook & Department Instructions

May 18, 2020



# Agenda

- Deficit Projection – Joint Report Update
  - Projected Shortfalls – Current Year & Future Years (FY 20-21 through FY 23-24)
  - COVID Emergency Spending & Revenues
  - Risks & Uncertainty
- Mayoral Priorities & Budget Instructions for Departments



# May Shortfall Projections

## Projected shortfalls through FY 2021-22

- March projection: \$1.1B - \$1.7B
- **May projection: \$1.7B**



# Forecast Through FY 2023-24

|                               | <u>FY2019-20</u> | <u>FY2020-21</u> | <u>FY2021-22</u> | <u>FY2022-23</u> | <u>FY2023-24</u> |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| I. Current fiscal year        | (246.2)          |                  |                  |                  |                  |
| II. Future fiscal years       |                  | (753.9)          | (735.4)          | (1,016.4)        | (1,088.5)        |
| III. Projected shortfalls     | <u>(246.2)</u>   | <u>(753.9)</u>   | <u>(735.4)</u>   | <u>(1,016.4)</u> | <u>(1,088.5)</u> |
| FY 2019-20 - FY 2021-22 Total |                  |                  | (1,735.5)        |                  |                  |



# Forecast Through FY 2023-24

|                            | FY19-20      | FY20-21      | FY21-22        | FY22-23        | FY23-24        |
|----------------------------|--------------|--------------|----------------|----------------|----------------|
| <b>Sources</b>             |              |              |                |                |                |
| General fund sources       |              | (487)        | (306)          | (110)          | 89             |
| Public health revenues     |              | (132)        | (32)           | (12)           | 8              |
| Other                      |              | (31)         | 150            | (67)           | (93)           |
|                            |              | <b>(650)</b> | <b>(188)</b>   | <b>(190)</b>   | <b>4</b>       |
| <b>Uses</b>                |              |              |                |                |                |
| Baselines & reserves       |              | 93           | 21             | (29)           | (86)           |
| Salaries & benefits        |              | (125)        | (307)          | (415)          | (495)          |
| Citywide operating costs   |              | (66)         | (162)          | (234)          | (315)          |
| Department costs           |              | (6)          | (100)          | (148)          | (197)          |
|                            |              | <b>(104)</b> | <b>(547)</b>   | <b>(827)</b>   | <b>(1,093)</b> |
| <b>Projected shortfall</b> | <b>(246)</b> | <b>(754)</b> | <b>(735)</b>   | <b>(1,016)</b> | <b>(1,089)</b> |
| <i>Through FY21-22</i>     |              |              | <i>(1,735)</i> |                |                |



# Key Assumptions

- Labor wage delay triggered by March Joint Report
- Revised CPI assumptions – Moody’s - SF
- No additional COVID-related costs in the budget years
- No additional support or loss of state and federal revenues
- ERAF not assumed in the deficit



# COVID Spending & Revenues

## Current fiscal year

- Projected spending of \$373M in the current year will likely be offset by federal & other revenues
- But the City will largely deplete the CARES Act allocations available to support sustained response costs after July 1<sup>st</sup>

## Next fiscal year and beyond

- Spending needs for FY 2020-21, are largely unknown at this time, but are likely to be significant
- Will be shaped by unknown ongoing community health risk
- Duration of FEMA reimbursement a key financial risk. Additional federal aid packages for local response?



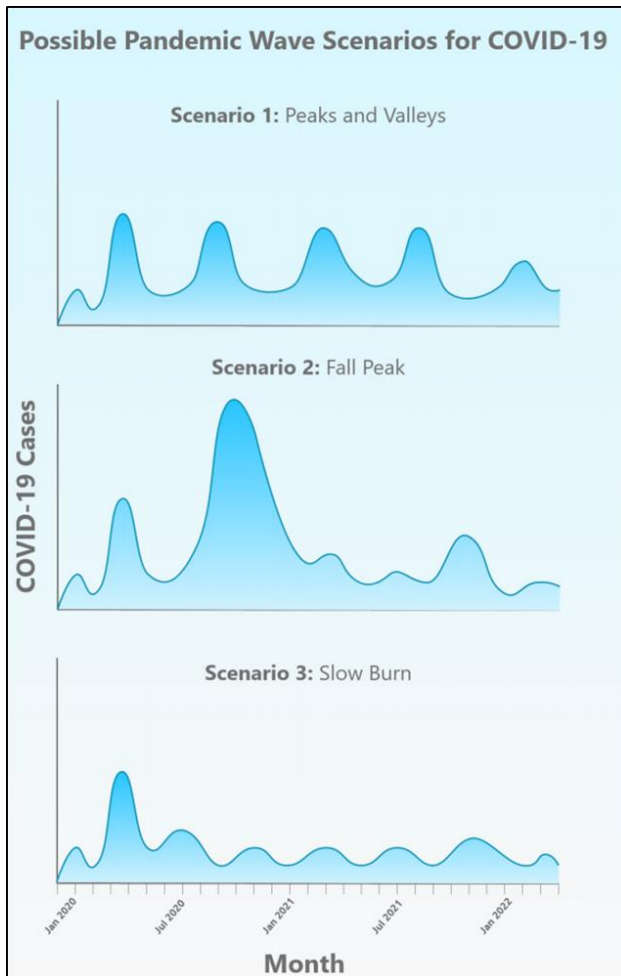
# Risks & Uncertainty

- Duration and intensity of public health risks
- Slower or later recovery than assumed
- Level of City response sustained in coming years
- Federal & State revenue risks





# Duration and intensity of public health risks?



## Center for Infectious Disease Research & Policy (CIDRAP)

1. Because of a longer incubation period, more asymptomatic spread, and a higher reproductive rate, COVID-19 appears to spread more easily than flu.
2. Based on the most recent flu pandemics, this outbreak will likely last 18 to 24 months.
3. Depending on control measures and other factors, cases may come in waves of different heights (with high waves signaling major impact) and in different intervals.



# Slower or later recovery?

## Local Tax Base (\$M)

|                       | FY20-21      |   |                                |
|-----------------------|--------------|---|--------------------------------|
| Property tax          | 2,026        | } |                                |
| Business taxes        | 980          |   |                                |
| Hotel tax             | 164          |   | Additional 5% decline = (189)  |
| Parking tax           | 85           |   | Additional 10% decline = (379) |
| Sales tax             | 173          |   |                                |
| Other local taxes     | 361          |   |                                |
| <b>Local tax base</b> | <b>3,789</b> |   |                                |



# Federal and State revenue risks & unknowns?

## Projections assume no changes of Federal or State revenues

### Key Federal Risks

- Duration of national emergency (FEMA)
- Additional Federal aid packages?

### Key State Risks

- CalOES emergency match
- State budget shortfall of \$54B



# Reserves

## City reserve position better than prior two recessions

- Rainy day & stabilization reserves = \$630M
- General reserve = \$150M
- Other reserve balances available to offset some reductions in one-time program spending

**Reserves will soften the budget impact but will not be sufficient to carry the City through multi-year revenue losses**



# Prior Recessions - Local Revenue Loss

|                    | Dot Com    |            |            | ... | Financial Crisis |            |            | ... | Coronavirus Pandemic |            |            |
|--------------------|------------|------------|------------|-----|------------------|------------|------------|-----|----------------------|------------|------------|
|                    | FY 2000-01 | FY 2001-02 | FY 2002-03 |     | FY 2007-08       | FY 2008-09 | FY 2009-10 |     | FY 2019-20           | FY 2020-21 | FY 2021-22 |
| Property           | 14%        | 10%        | 2%         |     | 5%               | 8%         | 4%         |     | -1%                  | 1%         | 0%         |
| Business           | 4%         | -1%        | 1%         |     | 17%              | -2%        | -9%        |     | -8%                  | 16%        | 2%         |
| Sales              | 8%         | -23%       | 4%         |     | 3%               | -9%        | -5%        |     | -20%                 | 2%         | 6%         |
| Hotel              | 7%         | -45%       | 3%         |     | 16%              | -2%        | -16%       |     | -39%                 | -31%       | 58%        |
| Transfer           | -11%       | -24%       | 9%         |     | -40%             | -43%       | 71%        |     | -12%                 | -33%       | 17%        |
| <b>Total Top 5</b> | <b>8%</b>  | <b>-6%</b> | <b>2%</b>  |     | <b>5%</b>        | <b>1%</b>  | <b>0%</b>  |     | <b>-9%</b>           | <b>-1%</b> | <b>5%</b>  |

Compared to the last two recessions, current projected revenues are significantly lower than the Dot Com and Financial Crisis

- Pandemic revenue declines are driven by steep drop offs of hotel, sales, and transfer tax



# Prior Recession Impacts

Balancing measures in prior recessions included:

- Service reductions across City services – health, street cleaning, social services, and recreation
- Reducing labor costs through hiring freezes for public safety, eliminating vacant positions, and employee furloughs
- Significant reductions in capital
- Reduction in contracting costs
- Spend down of reserves
- Heavy reliance on federal stimulus



# Department Budget Instructions



# Budget Priorities

- Meet General Fund reduction requirements
- Prioritize core services that provide critical government functions
- Evaluate current operations for realignment with City outlined COVID operating measures and guidelines
  - What operations can and should be performed remotely?
  - What services need to be provided in person? And how?
  - What services can be moved online?
- Prioritize services for vulnerable populations and providing equitable services for underserved populations





# Department Reduction Plans

Mandatory budget reductions to help close the deficit

- Required reduction of General Fund support
  - Equivalent to 10% of adjusted GFS in FY 20-21
  - Growing to 15% in in FY 21-22 (an additional 5%)
  - Additional 5% in second year – contingency in FY 20-21 if fiscal conditions worsen
- Non-General Fund departments and funds must balance within their own revenue projections



# Department Reduction Plans

When developing reduction plans, prioritize solutions that maintain core functions – at modified levels. Consider:

- Contract savings – reduce or cancel underperforming contracts, services that do not conform to physical distancing, or those supporting non-essential activities
  - For necessary contracts, consider re-bidding at reduced rates
- Reduction of personnel costs - including elimination of vacant positions, attrition savings, or project suspensions
- Streamlining operations and consolidation
- New revenue options



# Reduction Plan – Timeline & Logistics

- Mandated reduction plans are due to the Mayor's Budget Office by June 12, 2020
- Departments will provide mandatory reduction plans from the base budget
  - Provide technical plan to implement reductions
- Provide clear, written description of service and staffing impacts of reductions



# Future Planning - Re-opening

Make budget decisions based on the following re-opening considerations

- Identify core services – critical government functions
- Incorporate public health guidance for re-opening operation planning
- Equity principles and considerations need to guide any service changes to ensure people can still access needed services in a safe manner
- Citywide guidance to follow – do not implement or communicate changes until guidance is issued



# Future Planning - Re-opening

Make budget decisions based on the following re-opening considerations

- Workforce
  - City employees who can work from home, should work remotely
  - How will physical space and supply needs change for work that must continue in person and work that can happen remotely?
- Required public services - in-person & online considerations
  - What are services, or that must be delivered in person - statutory, regulatory, equity?
    - How should they be delivered differently – queuing, appointments, & space needs
  - What services can be moved online and how would that impact different residents?



# Additional Budget Directions

- No new hiring – except for direct COVID response and essential workforce
- Communicate with other departments & MBO analyst on work order reductions that may have a General Fund impacts

For the remainder of the current fiscal year (FY 2019-20):

- Only those cash-funded, general fund supported capital projects necessary to address legal, life-safety issues, and other essential needs may proceed from design into construction for now - with approval from the Capital Planning and DPW
- Contracts –
  - RFP schedules – do not issue new RFPs until pending guidance
  - Contract continuity across fiscal years process – guidance forthcoming
- Do not move forward with new programs currently on pause, until rebalancing plan decisions are made and communicated



# Interim Budget

Allow department operations to continue from July 1, 2020 until Mayor's Proposed budget is adopted by the Board of Supervisors (October 2020)

- FY 2020-21 & FY 2021-22 base budget
- Policy choices reserved for August 1 Mayor's Budget
- Introduced by June 1; needs to be approved by the Board by July 1
- Controller guidance on contract continuity forthcoming



# Public Input & Process

- Departments should provide updates to commissions and advisory bodies of reduction plans
- Where feasible, share budget proposals in an online format or forum prior to submission to the Mayor's Office in order to receive feedback
- Discussing fiscal picture with labor partners & CBO partners in the coming week





# Budget Priorities

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  - What services can be moved online?
- Prioritize services for vulnerable populations and providing equitable services for underserved populations



# Calendar / Key Dates

|           |   |
|-----------|---|
| May 12    | Revised Joint Report, 9-Month Report, & COVID Spending  |
| May 14    | Governor's May Revise Budget  |
| May 18    | Revised department budget instructions issued   |
| Late May  | Current fiscal year rebalancing plan introduced   |
| June      | Interim budget introduced to the Board of Supervisors & adopted for FY 20-21 fiscal year continuity |
| June 12   | Department budget reduction plans due to the Mayor's Office   |
| August 1  | Mayor proposes balanced budget to Board of Supervisors  |
| August    | Budget and Finance Committee hearings   |
| September | Budget considered at Board of Supervisors   |
| October 1 | Mayor signs budget  |



# Questions?