

# SESSION TWO

## Assessment and Disclosure of Changes in Long-Range Financial and Operational Conditions and Challenges



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# Assessment and Disclosure of Changes in Long-Range Financial and Operational Conditions and Challenges

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# Every Organization Needs to Have a Long-range Financial Plan

# Importance Of Long-range Planning

- You have a “fiduciary” duty to your organization
  - If not legally, then definitely professionally
- Without a long-term financial plan, how do you know:
  - Where you are financially
  - What the financial future looks like
  - Is your organization on financially sound ground
  - Do you need to make a course correction

# Do You Have Outstanding Debt?

- You may need to inform the markets
  - This is a legal (contractual) obligation
- Is your variance material?
- What are the service implications?

# Preparing The Financial Plan

- The Plan does not need to be complex
- Should contain key revenue and expenditure components
- Make sure to capture future events
- Labor Agreements
- Facilities coming online
- Known/projected changes to revenues
- Should capture at least a five-year picture
- Clearly discuss your assumptions
- Update at least annually, but monitor monthly/quarterly
- Present annually to your governing board
- **A simple PLAN is better than no PLAN**



# What Do You Need To Pay Close Attention To?

# Revenues

- Know your key drivers (perhaps your top 3 or 4 that could make or break your budget)
  - Property Tax
  - Sales Tax
  - Transient Occupancy Tax
  - Utility User Tax
  - Franchise Fees
  - Etc.
- Understand what moves them
- Monitor them regularly (some more regularly than others)
- Work with your department(s) who may also be monitoring them



# Revenues (cont.)

- **Property Tax**
  - Who are your top 10 - 20 property tax generators?
  - Since Proposition 13, less volatile of a revenue source
- **Sales Tax**
  - Who are your top 10 – 20 sales tax generators?
  - Does it matter if one or more shut down?
- **Franchise Fees**
  - Understand your franchise ordinance and the changing technology
  - Does your ordinance reflect current/changing markets?
- **Transient Occupancy Tax**
  - How much do you rely on tourism/conventions?
  - Do you meet with your tourism authority/folks?

# Revenues (cont.)

In the end...

- All revenue estimates are going to be wrong; it is just a question of by how much and in which direction
- Assessing risk tolerances – Knowing the consequences when your estimates are off
- Be consistent with agency practice/budget standards
- Use "reasonable" assumptions

# Revenues (in millions) (cont.)

GENERAL FUND REVENUES	Fiscal Year 2025 Adopted Budget	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
Property Tax	\$ 808.9	\$ 844.4	\$ 880.6	\$ 918.5	\$ 957.5	\$ 998.2
Sales Tax	393.5	392.8	403.0	416.6	430.7	445.3
Transient Occupancy Tax	172.8	176.4	185.1	194.4	204.0	214.2
Franchise Fees	123.7	120.8	117.0	120.4	126.8	134.7
Property Transfer Tax	10.1	10.9	11.3	11.8	12.3	12.8
Licenses and Permits	28.0	23.3	29.3	24.1	30.2	24.9
Cannabis Business Tax	19.4	18.2	19.0	19.7	20.4	21.1
Fines, Forfeitures and Penalties	31.2	31.6	32.1	32.6	33.1	33.5
Revenue from Money and Property	81.8	78.3	79.8	81.3	82.9	84.6
Revenue from Federal and Other Agencies	12.2	10.8	10.8	10.8	10.8	10.8
Charges for Services	281.7	267.5	276.0	284.1	288.9	295.8
Other Revenue	1.6	1.6	1.6	1.6	1.6	1.6
Transfers In	111.6	98.0	100.3	102.4	104.5	106.7
<b>BASELINE GENERAL FUND REVENUES</b>	<b>\$ 2,076.5</b>	<b>\$ 2,074.7</b>	<b>\$ 2,146.1</b>	<b>\$ 2,218.4</b>	<b>\$ 2,303.8</b>	<b>\$ 2,384.4</b>

# Expenditures

- Again, know your key drivers (perhaps your top 2 or 3 that could make or break your budget)
  - Salary
  - Overtime
  - Pension Payments
- Know which departments could have the biggest impact
  - Public Safety
- Understand your labor agreements
- Are any new facilities coming online in the near future?
- Are there any significant projects under construction?

# Expenditures (cont.)

- Salaries
  - Memorandum of Understanding
    - Is someone from Finance at the table?
    - Do you use your financial plan to evaluate proposals?
    - Are you paying attention to the impact on salary related costs?
- Overtime
  - Harder to control
  - Public Safety is the primary violator of the overtime budget
- Benefits
  - What is happening to your pension liability?
  - What is happening to your OPEB liability?
  - Do you even understand how these liabilities are calculated?

# Expenditures (in millions) (cont.)

GENERAL FUND EXPENDITURES	Fiscal Year 2025 Adopted Budget	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
Salaries & Wages (Current Negotiated MOUs; Annualized Positions; Step Increases; DROP Payments)	\$ 925.7	\$ 986.9	\$ 988.9	\$ 989.1	\$ 989.4	\$ 989.6
Salaries & Wages (Assumed General Wage Increases at 2.73% annually)		0.1	24.9	50.5	76.7	103.6
Retirement Actuarially Determined Contribution (ADC) <sup>1</sup>	357.2	364.3	369.7	381.4	328.6	332.7
Estimated Increase in ADC due to Investment Losses <sup>2</sup>		0.0	0.0	0.0	0.0	0.0
Estimated Amortization of Proposition B Unfunded Liability		0.0	0.0	0.0	0.0	0.0
Employee Flexible Benefits	104.6	106.9	107.4	107.4	107.4	107.4
Other Post Employment Benefits (OPEB)	32.2	31.6	30.9	30.3	29.7	29.1
Workers' Compensation	33.0	39.2	42.7	46.5	50.6	55.0
Supplemental Pension Savings Plan (SPSP)	10.9	10.9	10.9	10.9	10.9	10.9
Other Fringe Benefits	39.7	40.8	41.6	41.9	42.3	42.8
<b>Personnel Expenditures</b>	<b>\$ 1,503.2</b>	<b>\$ 1,580.6</b>	<b>\$ 1,617.1</b>	<b>\$ 1,658.1</b>	<b>\$ 1,635.6</b>	<b>\$ 1,671.2</b>

# Expenditures (cont.)

- Non-Personnel
  - Contractual Services
  - Debt Service
  - New facilities
  - Emergencies

# Expenditures (in millions) (cont.)

GENERAL FUND EXPENDITURES	Fiscal Year 2025 Adopted Budget	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
Supplies	\$ 31.5	\$ 39.5	\$ 40.3	\$ 41.1	\$ 42.0	\$ 42.8
Contracts & Services	387.6	394.0	409.0	420.7	438.1	449.3
Information Technology	59.2	60.2	61.0	61.7	65.4	71.9
Energy and Utilities	70.9	74.5	78.5	83.1	88.9	96.0
Reserve Contributions	0.0	63.2	24.3	24.7	24.8	30.5
Charter Section 77.1 - Infrastructure Fund Contribution	21.1	8.8	11.1	16.7	22.6	28.8
Other Expenditures	87.5	112.2	122.4	129.2	158.4	163.2
Non-Personnel Expenditures	\$ 657.7	\$ 752.3	\$ 746.6	\$ 777.2	\$ 840.3	\$ 882.6
BASELINE GENERAL FUND EXPENDITURES	\$ 2,160.9	\$ 2,332.9	\$ 2,363.7	\$ 2,435.3	\$ 2,475.9	\$ 2,553.8



# Expenditures (in millions) (cont.)

Table 1.1 - Fiscal Year 2026-2030 Financial Outlook  
Summary of Key Financial Data (\$ in Millions)

	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
Property Tax	\$844.4	\$880.6	\$918.5	\$957.5	\$998.2
Sales Tax	\$392.8	\$403.0	\$416.6	\$430.7	\$445.3
Transient Occupancy Tax	\$176.4	\$185.1	\$194.4	\$204.0	\$214.2
Franchise Fees	\$120.8	\$117.0	\$120.4	\$126.8	\$134.7
All Other Revenue Categories	\$540.4	\$560.3	\$568.5	\$584.7	\$592.0
<b>BASELINE GENERAL FUND REVENUES</b>	<b>\$2,074.7</b>	<b>\$2,146.1</b>	<b>\$2,218.4</b>	<b>\$2,303.8</b>	<b>\$2,384.4</b>
Salaries & Wages (Current MOUs)	\$986.9	\$988.9	\$989.1	\$989.4	\$989.6
Salaries & Wages (Assumed General Wage Increases at 2.73% Annually)	\$0.1	\$24.9	\$50.5	\$76.7	\$103.6
Retirement Actuarially Determined Contributions (ADC)	\$364.3	\$369.7	\$381.4	\$328.6	\$332.7
All other Personnel Expenditures	\$229.4	\$233.6	\$237.1	\$241.0	\$245.3
Non-Personnel Expenditures	\$680.4	\$711.2	\$735.8	\$792.9	\$823.3
Charter Section 77.1 - Infrastructure Fund Contribution	\$8.8	\$11.1	\$16.7	\$22.6	\$28.8
<b>BASELINE GENERAL FUND EXPENDITURES (LESS RESERVE CONTRIBUTIONS)</b>	<b>\$2,269.8</b>	<b>\$2,339.4</b>	<b>\$2,410.5</b>	<b>\$2,451.1</b>	<b>\$2,523.2</b>
<b>BASELINE (SHORTFALL)/ SURPLUS (LESS RESERVE CONTRIBUTIONS)</b>	<b>(\$195.0)</b>	<b>(\$193.4)</b>	<b>(\$192.2)</b>	<b>(\$147.3)</b>	<b>(\$138.8)</b>
Reserve Contributions	\$63.2	\$24.3	\$24.7	\$24.8	\$30.5
<b>BASELINE (SHORTFALL)/ SURPLUS</b>	<b>(\$258.2)</b>	<b>(\$217.6)</b>	<b>(\$216.9)</b>	<b>(\$172.1)</b>	<b>(\$169.4)</b>

# Expenditures (in millions) (cont.)

GENERAL FUND EXPENDITURES	Fiscal Year 2025 Adopted Budget	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
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NEW FACILITIES	\$ 9.3	\$ 13.9	\$ 14.6	\$ 20.9	\$ 21.4
PLANNED COMMITMENTS	\$ 61.8	\$ 71.0	\$ 75.9	\$ 80.9	\$ 85.5

(AMOUNT TO BE MITIGATED) / AVAILABLE RESOURCES <sup>3</sup>	\$ (329.3)	\$ (302.6)	\$ (307.4)	\$ (273.9)	\$ (276.3)
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# Assess the Risk Tolerance

- What if you are off by 5%, 10%, 20%, etc.?
- Make sure you understand what is causing the variance
- How easily can you make a mid-term budget adjustments?

# So Now You Have An Idea Of Where You Are And Where You're Going

- What do you do now?
  - Annually present this plan/forecast to your governing board
  - Post it on your website (investor page)
  - Update at least annually
  - Monitor monthly/quarterly
- Recognize your obligation to publicly disclose (specifically to investors) any “material” variances
  - EMMA



# When and How Should You Disclose What You Know?

# Outline

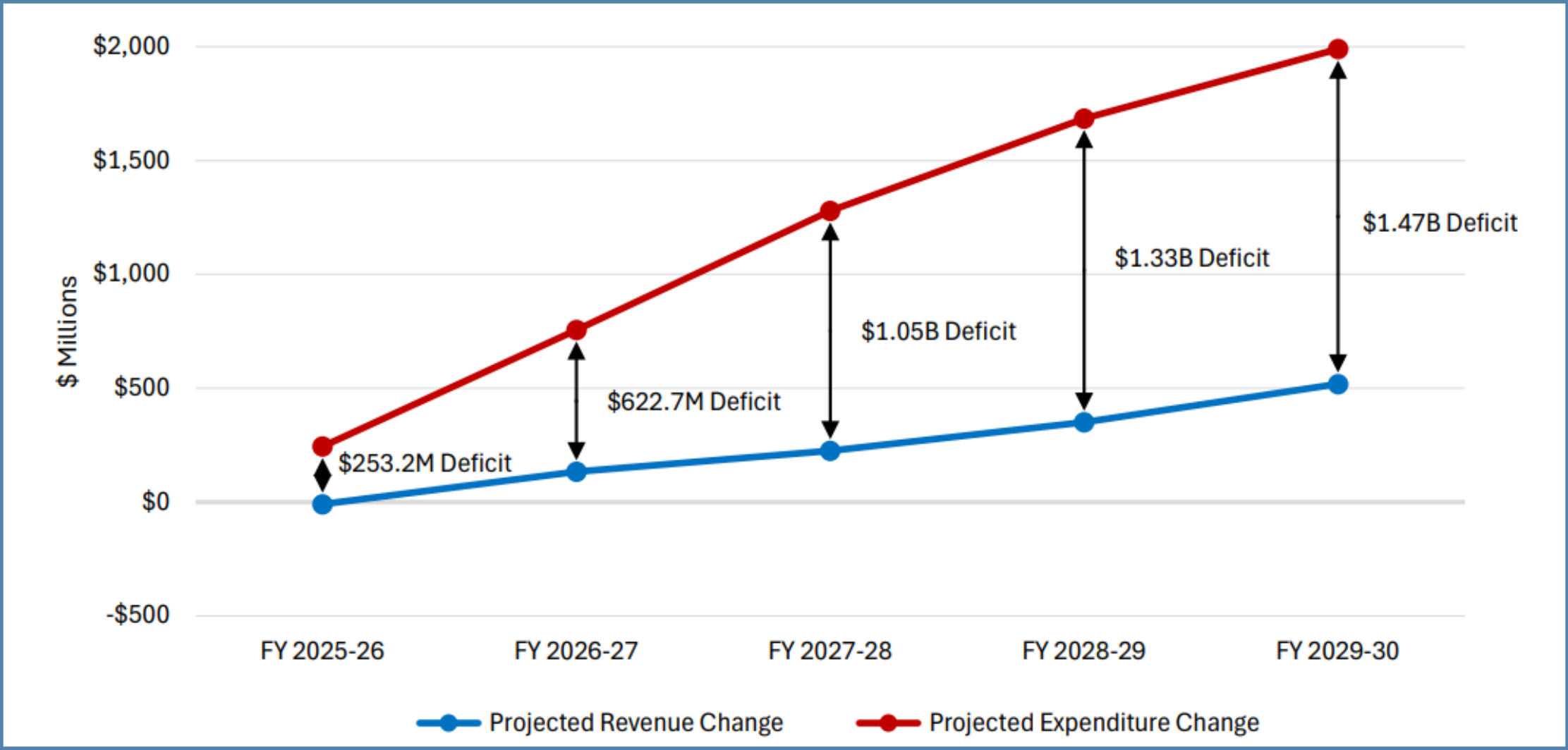
- Background on San Francisco
  - Financial Planning
  - Fiscal Reports
  - Frequency of reporting
- New Issuance Disclosure
- Ongoing Investor Communications

# San Francisco – Financial Planning

- The 5-Year Financial Plan
  - Required under Prop A charter amendment (November 2009)
  - Impact of current service levels and policies on revenues and expenditures
- Longer Term Planning
  - Pension (10-year projections) and OPEB
  - Capital and Deferred Maintenance

# San Francisco – Financial Planning (cont.)

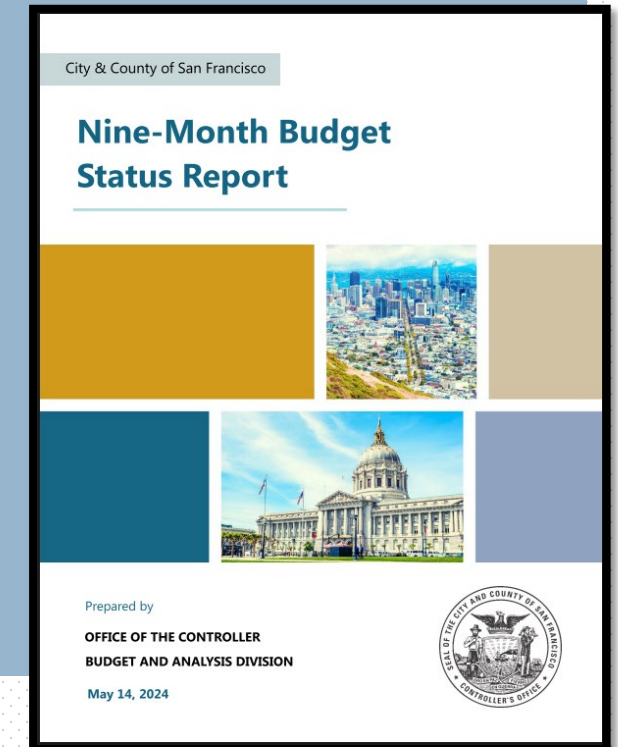
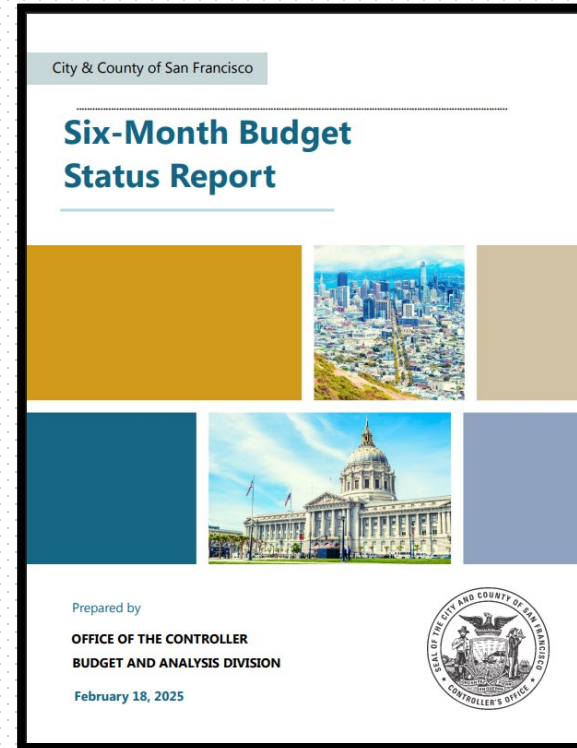
## Projected Growth in General Fund Expenditures & Revenues





# San Francisco – Fiscal Reports


- Regular reporting cycle
  - Five-Year Financial Plan with periodic updates
  - Annual Comprehensive Financial Report
  - Budget Status Updates
    - Six-Month Report
    - Nine-Month Report
  - Budget and Revenue Letter



# Pandemic Example #1

- During extraordinarily high levels of uncertainty, more frequent updates may be needed/helpful
  - 3-month report published in November of 2020

Changes from Adopted Budget (\$ in M)	FY 2020-21
FY 2019-20 estimated fund balance	21.3
Citywide Revenue	-143.5
Baseline Offsets	46.4
Departmental Revenues and Expenses	-51.3
November 2020 Local Ballot Measures	11.3
<b>Surplus/ (Shortfall)</b>	<b>-115.9</b>



**OFFICE OF THE CONTROLLER**  
 CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield  
 Controller  
 Todd Rydstrom  
 Deputy Controller

TO: Mayor London Breed  
President Norman Yee and Members of the Board of Supervisors

FROM: Ben Rosenfield, Controller

DATE: November 10, 2020

SUBJECT: FY 2020-21 3-Month Budget Status Report

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**EXECUTIVE SUMMARY**

The Controller's Office provides periodic budget status updates to the City's policy makers during each fiscal year, as directed by Charter Section 3.105. The level of uncertainty of both City revenues and expenditures is historically high due to the operational and economic effects brought on by the COVID-19 pandemic.

In summary, our projection of General Fund revenues and expenditures indicates a General Fund shortfall of \$115.9 million in the current fiscal year. This is predominantly comprised of weakness in key tax and fee revenues driven by a slower economic recovery than was anticipated in the adopted budget. This weakness is partially offset by a higher than projected balance available from the prior year. Required reserve deposits in the prior year are expected to be higher than previously expected, as detailed in the appendix to this report, and could be used to offset a portion of the current year projected shortfall or retained for challenges in future fiscal years.

The level of uncertainty regarding city revenues and expenditures remains extraordinarily high, driven by the economic and financial impacts of the public health emergency. We will continue to provide regular budget updates throughout the year as conditions change.

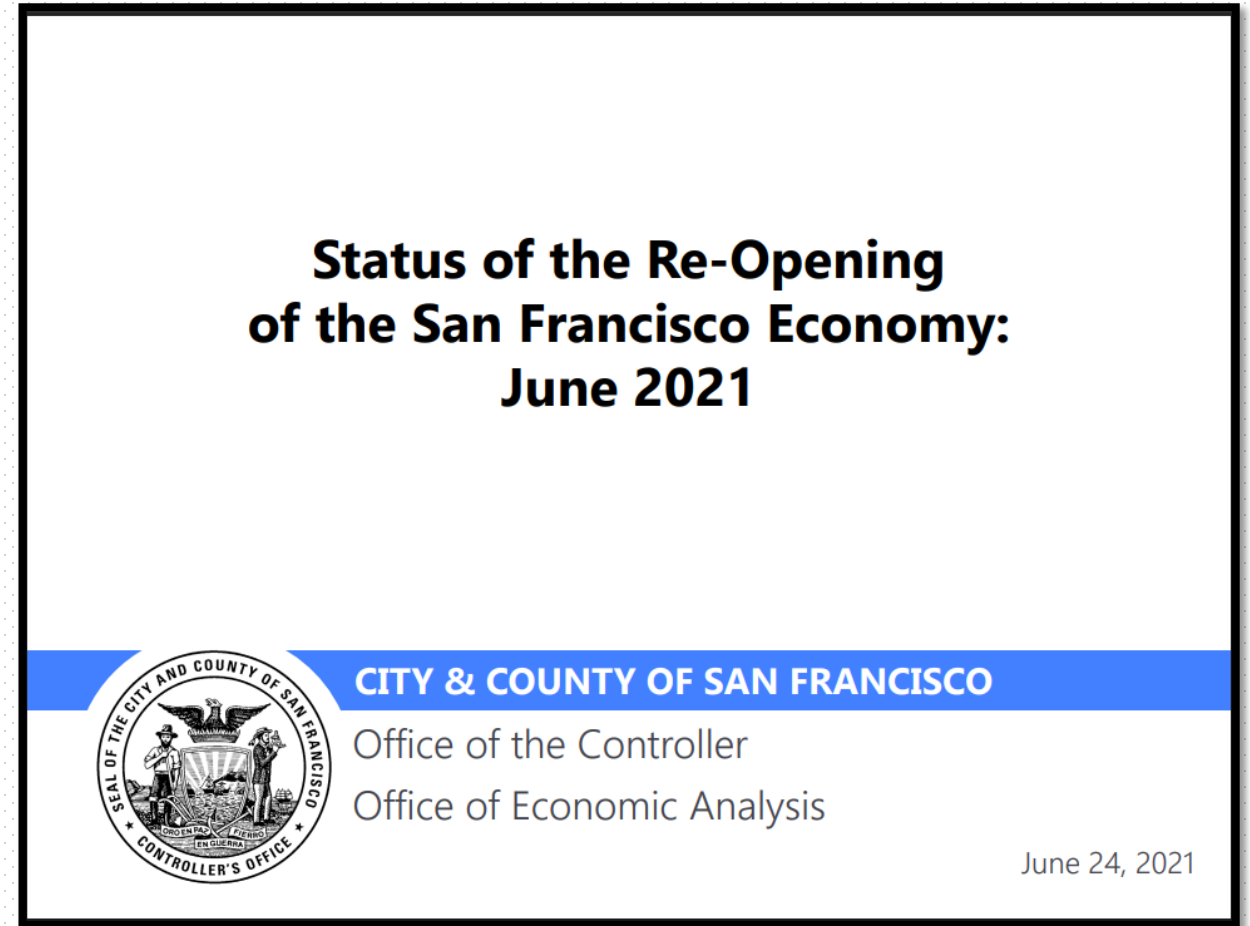
**Table 1. FY 2020-21 Projected General Fund Variances to Budget (\$ million)**

Changes from Adopted Budget	FY 2020-21
A. FY 2019-20 estimated fund balance (pre-audit)	21.3
B. Citywide Revenue	(143.5)
C. Baseline Offsets	46.4
D. Departmental Revenues and Expenditures	(51.3)
E. November 2020 Local Ballot Measures	11.3
F. COVID Emergency Response	-
<b>Surplus / (Shortfall)</b>	<b>(115.9)</b>

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# Pandemic Example #2

- Monthly reports published from June 2021 through July 2023
- Bi-monthly reports published currently



# Types of Investor Disclosure

- New Issuance Disclosure
- Official Statement / Appendix A
- Ongoing Investor Disclosures
- Annual Continuing Disclosure Report
- Investor Relations Website

# New Issuance Disclosure

- Appendix A
  - City Financial Challenges upfront
  - Budgetary Risks section
    - Threat of Recession
    - Impact of Commuting Pattern Changes on Business Taxes
    - Office Vacancy in San Francisco; Impact on Property Taxes and Other Revenues
    - Business Tax Litigation
    - Impact of the State of California Budget on Local Finances
    - Impact of Federal Government on Local Finances
    - Etc.,....

# Appendix A

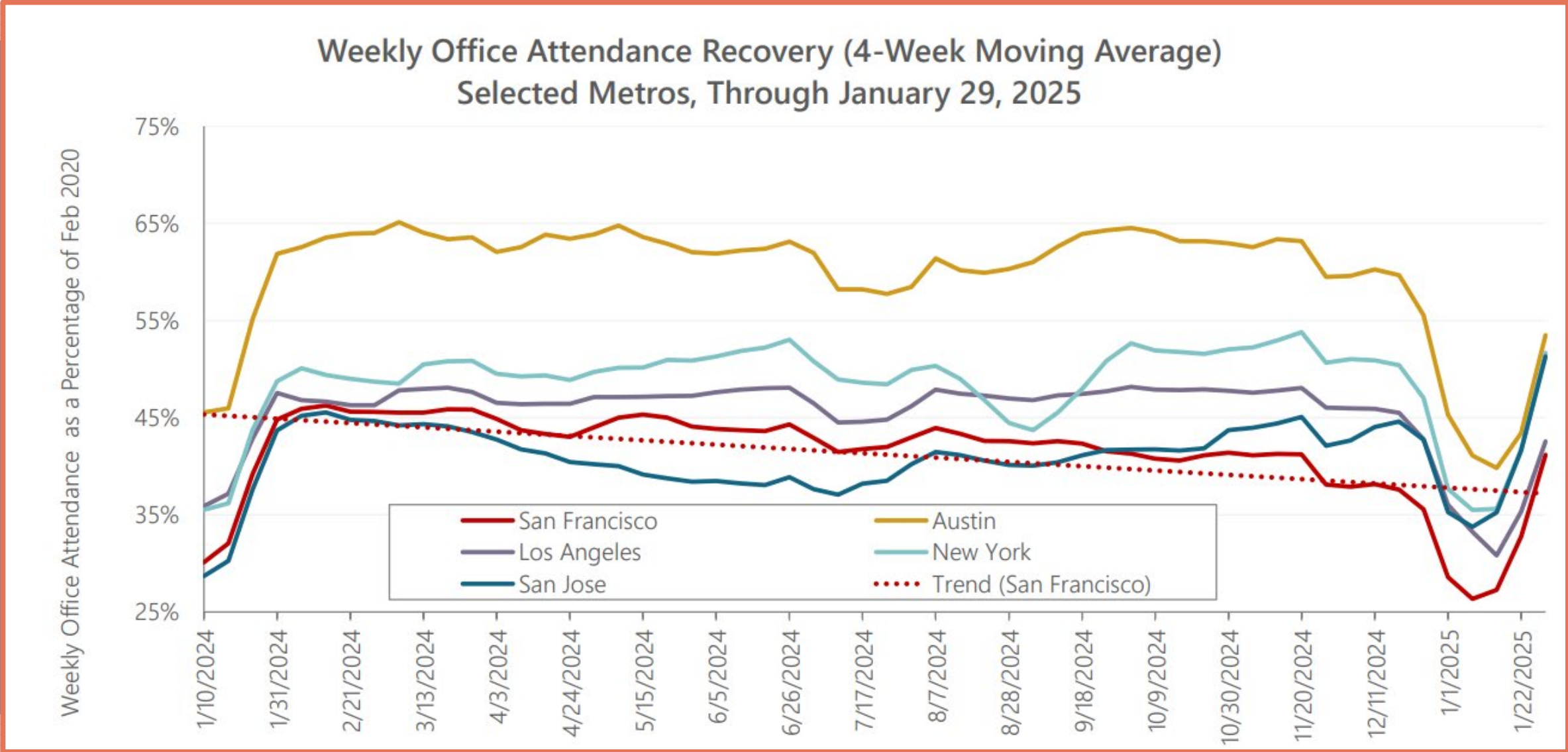
*New introductory paragraph, followed by highlights from recent reports*

## **City Financial Challenges**

The City continues to face material financial challenges, including actual and projected revenue losses, resulting from a variety of factors, including continuing remote work by a significant portion of the workforce (which has led to vacancies and declining property taxes for certain office buildings, lower real estate property transfer taxes, and reductions in taxes based on employees physically located in the City), continued weakness in the local hospitality and convention industries (resulting in declines in hotel and sales taxes from pre-pandemic levels), reduced funding to the City in State budgets, potential losses from litigation challenging the City's business taxes, uncertainty about receipt of outstanding FEMA reimbursements and general economic conditions. The City has experienced the largest increase in office vacancy among major urban office markets in the United States, from 5.6% in the fourth quarter of 2019 to 34.5% in the third quarter of 2024. As further described in APPENDIX A hereto, the conditions discussed above have contributed to projected budget deficits (absent corrective actions) in the hundreds of millions of dollars in future fiscal years, rising to approximately \$1.47 billion in fiscal year 2029-30.



# Appendix A –Post Pandemic Impacts



# Ongoing Investor Disclosures

- Annual Continuing Disclosure Report

## II. Recent Events

### **Public Health Emergency – COVID-19**

On February 11, 2020 the World Health Organization (“WHO”) announced the official name for the outbreak of a new disease (“COVID-19”) caused by a strain of novel coronavirus, an upper respiratory tract illness which has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City and County of San Francisco (“City”). The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

As of March 1, 2021, there were over 34,000 confirmed cases of COVID-19 in the City, and health officials expect the number of confirmed cases to continue grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread closings of businesses, universities and schools (including the San Francisco Unified School District) throughout the United States. On June 8, 2020 the National Bureau of Economic Research announced that the U.S. officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.



# Investor Relations Website

## Controller's Office of Public Finance



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[Read our disclaimer here](#)

# Investor Relations Website (cont.)

## Market Disclosure and Reports

<a href="#">Primary Market Disclosure (Official Statements)</a>	→	<a href="#">Annual Secondary Market Disclosure</a>	→
<a href="#">Outstanding Debt &amp; Long Term Obligations</a>	→	<a href="#">City Credit Ratings</a>	→
<a href="#">Annual Comprehensive Financial Reports (ACFR)</a>	→	<a href="#">Special Tax District Reports</a>	→
<a href="#">Citywide Fiscal Reports</a>	→	<a href="#">Search all Controller's Office reports</a>	→
		Find audits, budgets, whistleblower complaints, performance reports, and Civil Grand Jury status reports.	

# Investor Relations Website (cont.)

Annual Budget and Appropriation Ordinance



Five-Year Financial Plan Update



View the [Five-Year Financial Plan: FY 2025-26 through FY 2029-30](#)

View the [March 29, 2024, Update to the Five-Year Financial Plan](#)

View the [Five-Year Financial Plan Update: FY2024-25 through FY 2027-28](#)

Six-Month Budget Status Report



Revenue Letter



Nine-Month Budget Status Report



# DISCUSSION

# QUESTIONS?



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