San Francisco Financial Overview

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Controller

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Presentation Outline

Economic update

City financial update

Risks
This Decade Has Brought Unprecedented Growth to San Francisco


- 17k jobs per year
- 25k jobs per year
Technology Industry Has Emerged as the City’s Primary Economic Driver


- Technology Industry Share of Payroll
- Technology Industry Share of Employment
Yet Employment Growth Has Continued Across the Board

Employment Growth By Sector,
San Francisco and the United States, 2014-15

- Construction
- Manufacturing
- Trade, Transportation, Utilities
- Information
- Financial Activities
- Business & Professional Services
- Education & Health Services
- Leisure & Hospitality
- Other Services

San Francisco
United States

Controller's Office ● City and County of San Francisco
Labor Market Has Found Full Employment – In the 3.0 - 3.3% Range for Nearly all of 2016 on a Seasonally-Adjusted Basis

San Francisco Monthly Unemployment Rate, Seasonally-Adjusted, 1990 - November 2016
Cost of Commuting Becoming an Ever-Larger Economic Drag on the City

Aggregate Value of Time Spent Commuting by Workers in San Francisco, 2011-2015 ($B)
12-month Trend in NASDAQ is Slower Relative to Earlier in the Decade, Venture Capital Funding is Declining
Tech Slowdown Led to Slowdown in the Broader Economy Last Year

Annual Growth Rates in Tech and Private Non-Farm Employment,
January 2011 - November 2016

Controller’s Office • City and County of San Francisco
Depending on Sources and Metrics, the Local Housing Market Has Either Slowed Down or Begun a Downturn
Some National Economic Scenarios for the Next Few Years

• Baseline assumptions (50% chance the economy will be better, 50% worse).
  – Full employment in 2017, continuing until 2020
  – Fed funds rate gradually rising to 4%
  – Inflation gradually rising to 3%
  – Fiscal stimulus - $1.5 trillion in more-than-expected deficits in 10 years.
  – Despite this, US Dollar rises against Euro, Yen, Sterling
  – Slow rise in energy prices
  – Real GDP growth of 2.7% in 2017 and 3.0% in 2018

• A 90% Scenario (90% chance the economy will be worse in the near term):
  – Better-than-expected stock market and consumer confidence fuel more growth, and inflation, in the near term
  – Interest rates rise faster, lead to an earlier slow-down compared to the baseline
  – Real GDP growth of 3.7% in 2017 and 3.2% in 2018

• And a 10% Scenario (10% chance the economy will be worse):
  – Stock market turns pessimistic on Trump, Brexit fears, Europe returns to recession
  – Mild recession begins this quarter, ends by the end of 2017
  – -0.4% GDP growth this year, 0.2% in 2018.
Diverse City revenue base captures broad array of economic activities

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Budget ($ Millions)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$1,412</td>
<td>29.1%</td>
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<tr>
<td>Other Local Taxes</td>
<td>1,117</td>
<td>23.0%</td>
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<tr>
<td>Intergovernmental - State</td>
<td>700</td>
<td>14.4%</td>
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<tr>
<td>Business Taxes</td>
<td>669</td>
<td>13.8%</td>
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<td>Intergovernmental - Federal</td>
<td>253</td>
<td>5.2%</td>
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<tr>
<td>Charges for Services</td>
<td>236</td>
<td>4.9%</td>
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<tr>
<td>Other Revenues</td>
<td>61</td>
<td>1.3%</td>
</tr>
<tr>
<td>Licenses, Permits &amp; Franchises</td>
<td>29</td>
<td>0.6%</td>
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<tr>
<td>Rents &amp; Concessions</td>
<td>16</td>
<td>0.3%</td>
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<tr>
<td>Other Revenues</td>
<td>14</td>
<td>0.3%</td>
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<tr>
<td>Interest &amp; Investment Income</td>
<td>5</td>
<td>0.1%</td>
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<tr>
<td>Fines and Forfeitures</td>
<td>5</td>
<td>0.1%</td>
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<tr>
<td>Intergovernmental - Other</td>
<td>1</td>
<td>0.0%</td>
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<tr>
<td><strong>Subtotal Regular Revenues</strong></td>
<td>$4,520</td>
<td>93.0%</td>
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<td>Transfers, Net</td>
<td>162</td>
<td>3.3%</td>
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<tr>
<td>Prior Year Fund Balance</td>
<td>172</td>
<td>3.5%</td>
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<td>Prior Year Reserves</td>
<td>6</td>
<td>0.1%</td>
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<tr>
<td><strong>Total Sources</strong></td>
<td>$4,860</td>
<td>100.0%</td>
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Moderating 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 utility user taxes).

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Significant expenditure pressures

- Projected Growth in General Fund Revenues
- Projected Growth in General Fund Expenditures

Growth from FY 16-17, $ millions

Fiscal Year

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Growing structural General Fund budget gaps

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<tr>
<td>5/2011</td>
<td>(283.1)</td>
<td>(457.5)</td>
<td>(619.4)</td>
<td>(745.7)</td>
<td><strong>(829.1)</strong></td>
<td></td>
<td></td>
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<tr>
<td>3/2013</td>
<td></td>
<td>(123.6)</td>
<td>(256.1)</td>
<td>(367.7)</td>
<td>(423.2)</td>
<td><strong>(487.2)</strong></td>
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<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><strong>(417.9)</strong></td>
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<tr>
<td>12/2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(119.0)</td>
<td>(283.4)</td>
<td>(584.7)</td>
<td>(713.4)</td>
<td></td>
<td></td>
<td><strong>(848.4)</strong></td>
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Key drivers: Employee benefits & ballot measures
Revised pension outlook given recent set-backs
## Cost of recent ballot measures

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<tbody>
<tr>
<td>Housing Trust Fund 2011</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(2.8)</td>
<td>(19.6)</td>
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<td>MTA population growth 2014</td>
<td>(25.9)</td>
<td>(12.1)</td>
<td>(2.5)</td>
<td>(4.2)</td>
<td>(5.3)</td>
<td>(7.0)</td>
<td>(3.8)</td>
<td>(60.8)</td>
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<td>Children’s Fund Increase 2014</td>
<td>(8.3)</td>
<td>(12.7)</td>
<td>(11.8)</td>
<td>(9.9)</td>
<td>(3.4)</td>
<td>(3.2)</td>
<td>(3.4)</td>
<td>(52.7)</td>
</tr>
<tr>
<td>Minimum Wage 2014</td>
<td>(11.5)</td>
<td>12.8</td>
<td>(6.7)</td>
<td>(10.3)</td>
<td>(3.2)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>(20.1)</td>
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<td>Recreation &amp; Parks Baseline 2016</td>
<td>-</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(18.0)</td>
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<tr>
<td>Street Trees Set-Aside 2016</td>
<td>-</td>
<td>-</td>
<td>(12.8)</td>
<td>(0.9)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>(15.4)</td>
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<tr>
<td>Dignity Fund 2016</td>
<td>-</td>
<td>-</td>
<td>(6.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(3.0)</td>
<td>(18.0)</td>
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<tr>
<td><strong>Subtotal:</strong></td>
<td>(48.5)</td>
<td>(17.8)</td>
<td>(45.5)</td>
<td>(34.1)</td>
<td>(21.3)</td>
<td>(20.2)</td>
<td>(17.2)</td>
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<tr>
<td><strong>Cumulative:</strong></td>
<td>(48.5)</td>
<td>(66.2)</td>
<td>(111.7)</td>
<td>(145.9)</td>
<td>(167.2)</td>
<td>(187.4)</td>
<td>(204.6)</td>
<td>(204.6)</td>
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</tbody>
</table>
Other risks & considerations

Economic risks

Federal funding

State funding

Labor costs
Federal funding in the City’s budget

- Federal
  - $1.2B

- All Others
  - $7.9B

- Indirect Grants
  - $103.8M, 9%

- Direct Grants
  - $110M, 9%

- Other
  - $5M, 0%

- Entitlements
  - $976M, 82%
Questions, comments, thoughts?