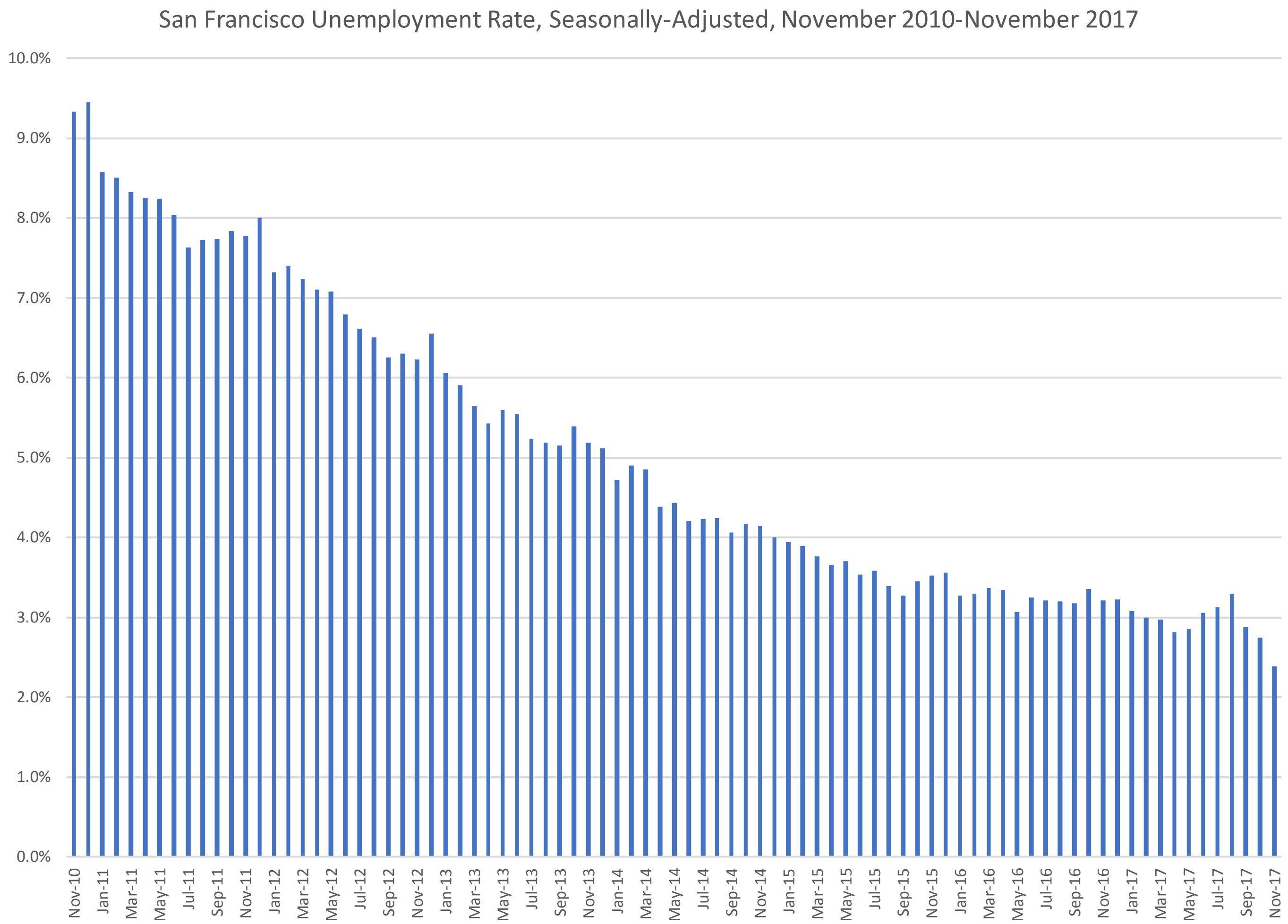
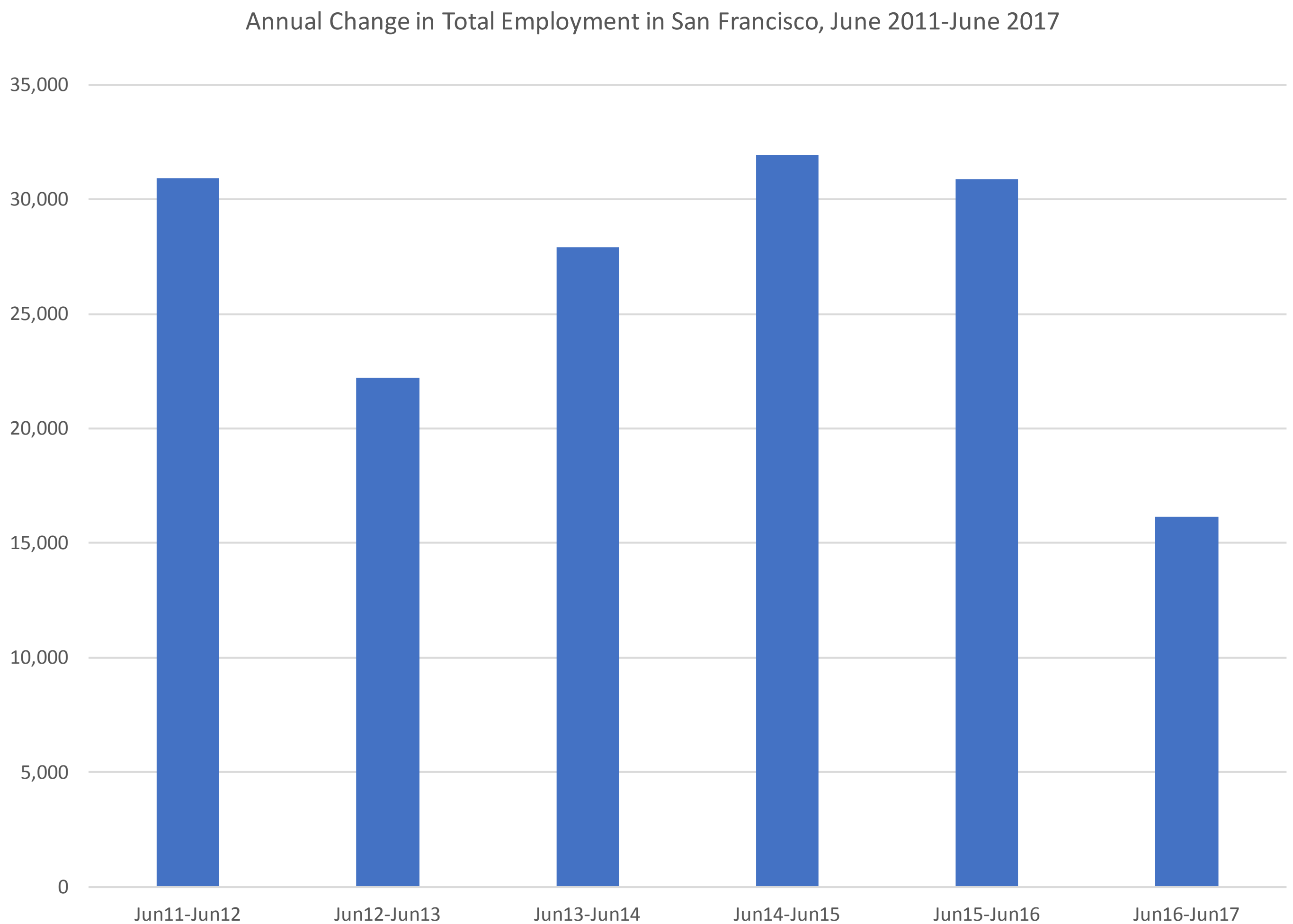
Economic and Fiscal Update

Ben Rosenfield, Controller
Ted Egan, Ph.D., Chief Economist
City and County of San Francisco
January 23, 2018

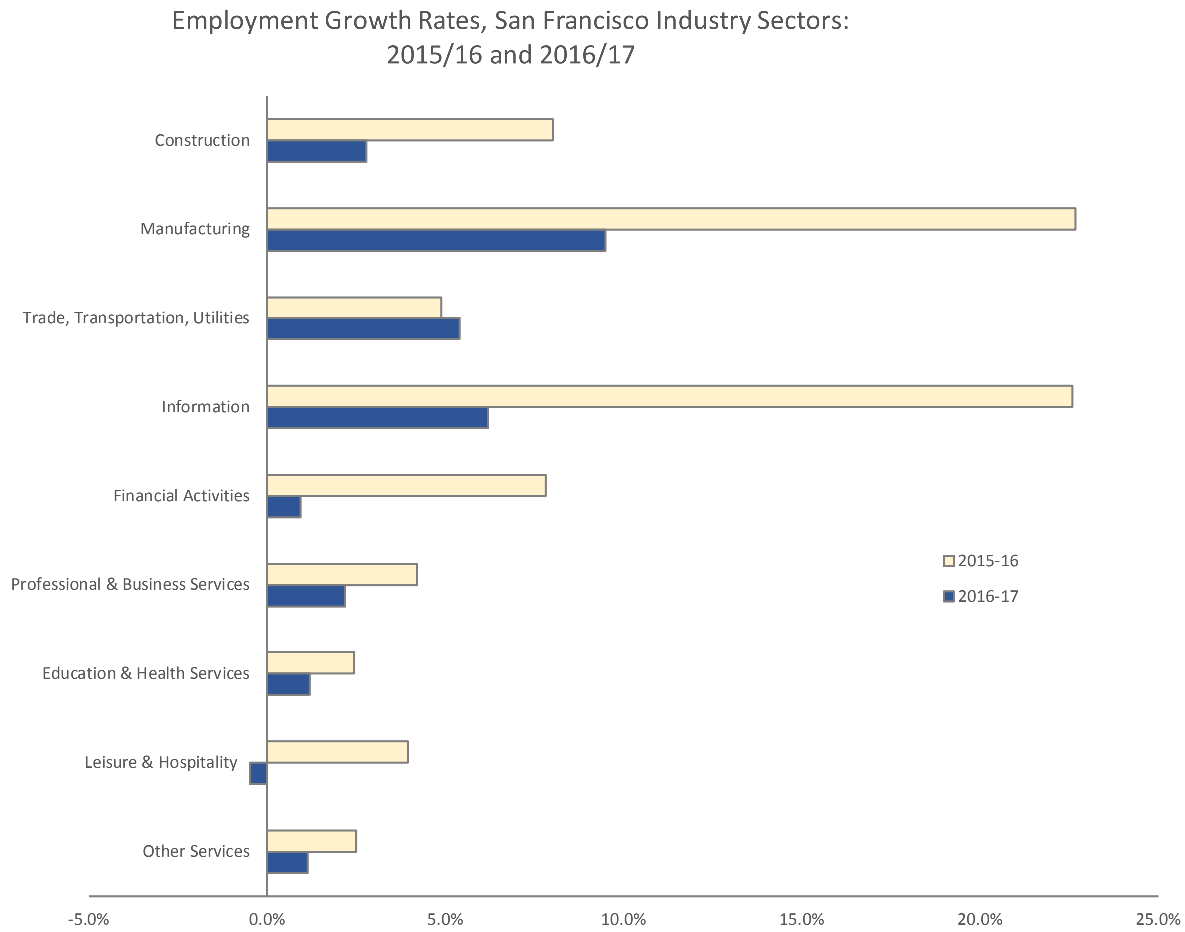
San Francisco Unemployment Rate Continues to Find New Lows Now Down to 2.4%, on a Seasonally-Adjusted Basis



As the Pool of Available Labor Dries Up, Employment Growth Will Inevitably Slow – Growth Through June 2017 was Half the Previous Year

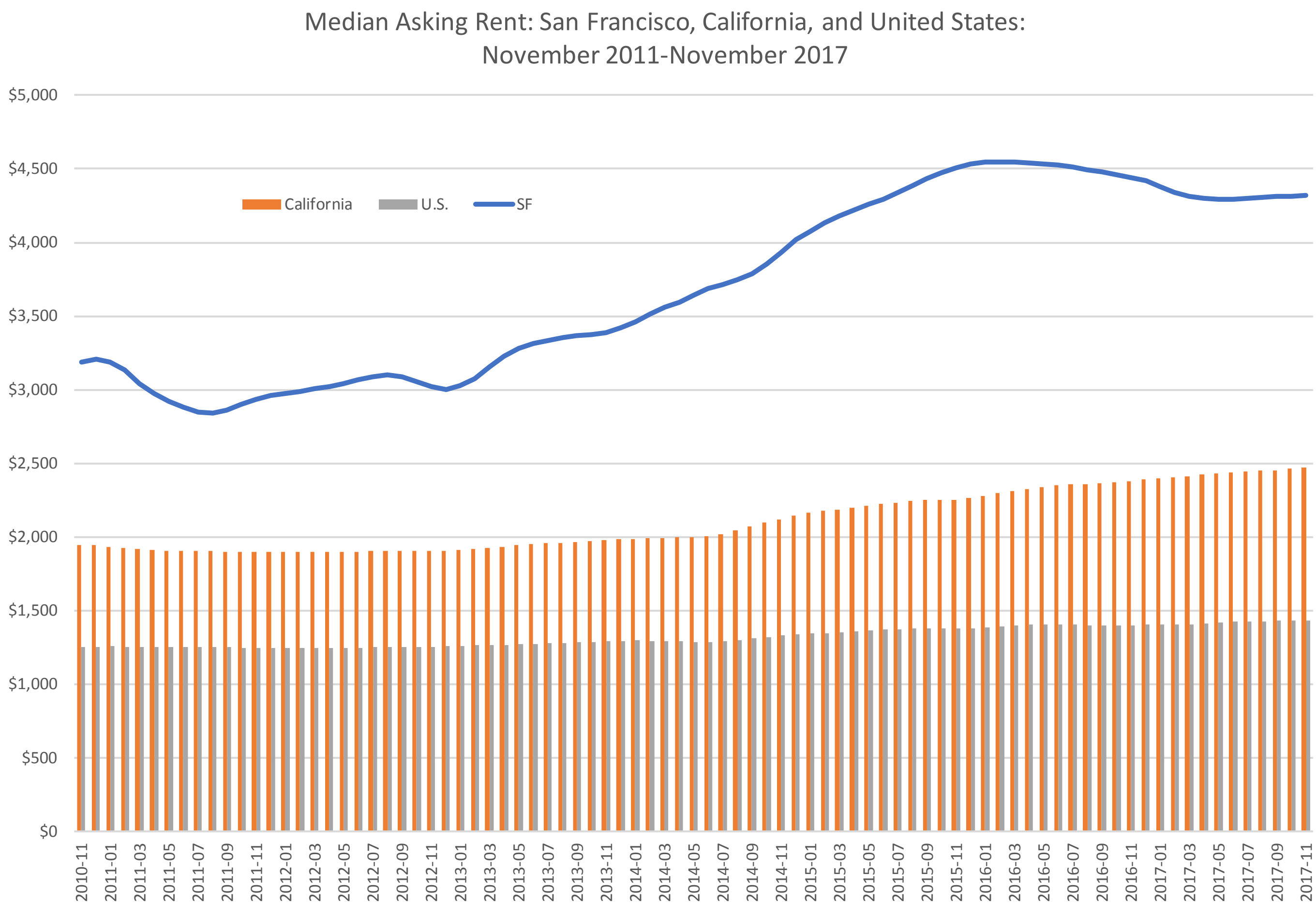


Employment Growth Continues, at a Slower Pace, Across Most Sectors

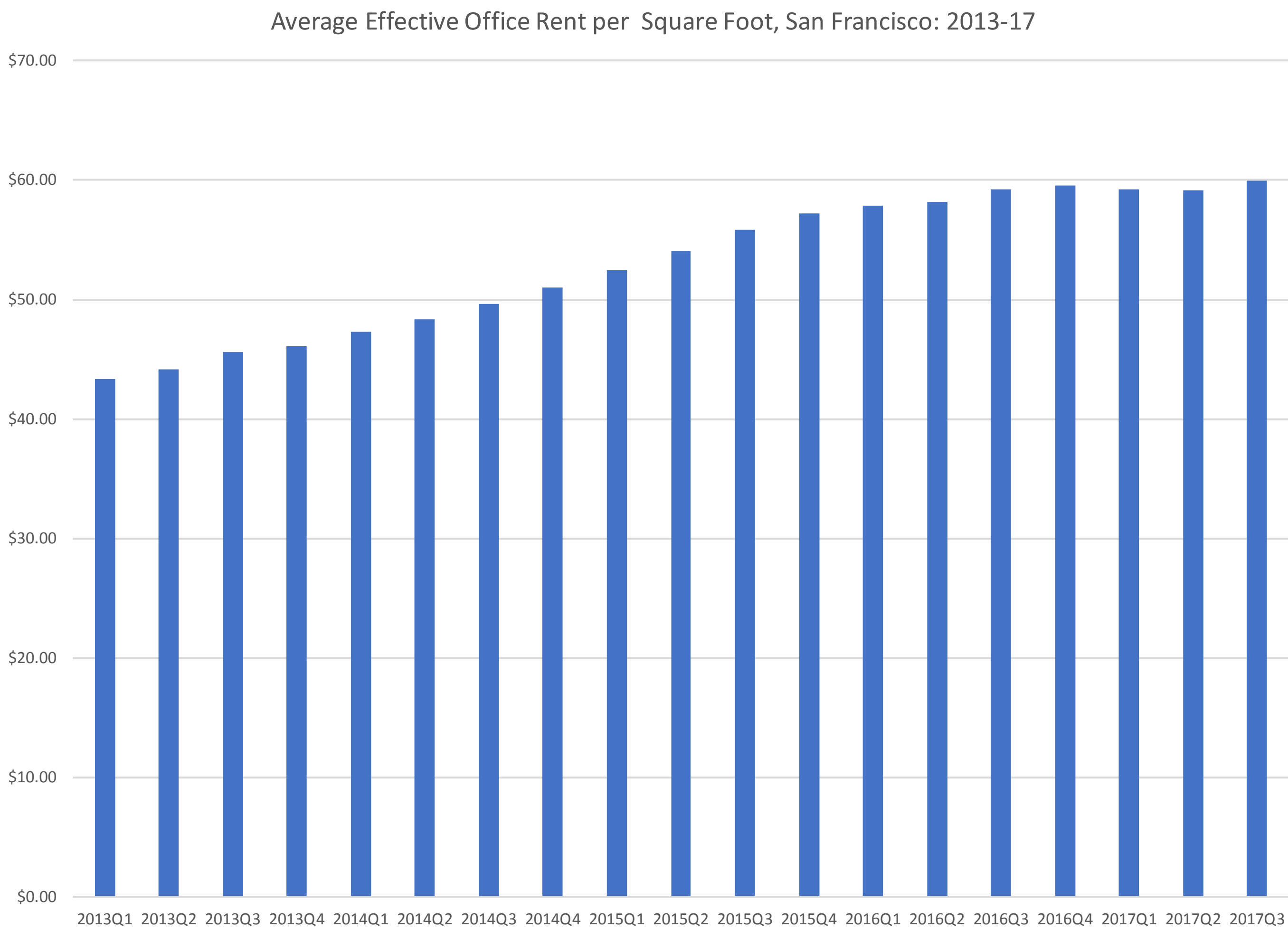


With Low Unemployment, In-Commuting Becomes More Important. 49% of All SF Jobs Were Held by In-Commuters in 2016

According to Zillow, Residential Asking Rents in the City Are 5% off the Peak from 2 Years Ago, While Still Rising Across the State and Nation



San Francisco Office Rents Have Similarly Stalled Since Mid-2016



December 2017 Joint Report Projections Are Similar to Last Year's

Short term fiscal picture similar to one year ago

- No recession projected. Revenue growth rate slowing; some declines
- Constraints to growth: housing, transportation

Medium to long term concerns

- Growing employee costs for pension and health
- Cost shift from state for IHSS (In Home Supportive Services)
- Growing cost of baselines and set asides

Areas of uncertainty and risk

- Economic cycle: 8.5 year duration of current economic expansion is third longest since 1945
- Federal risks: tax reform, Affordable Care Act, and budget

Revenue Growth in Near Term Tapers Off

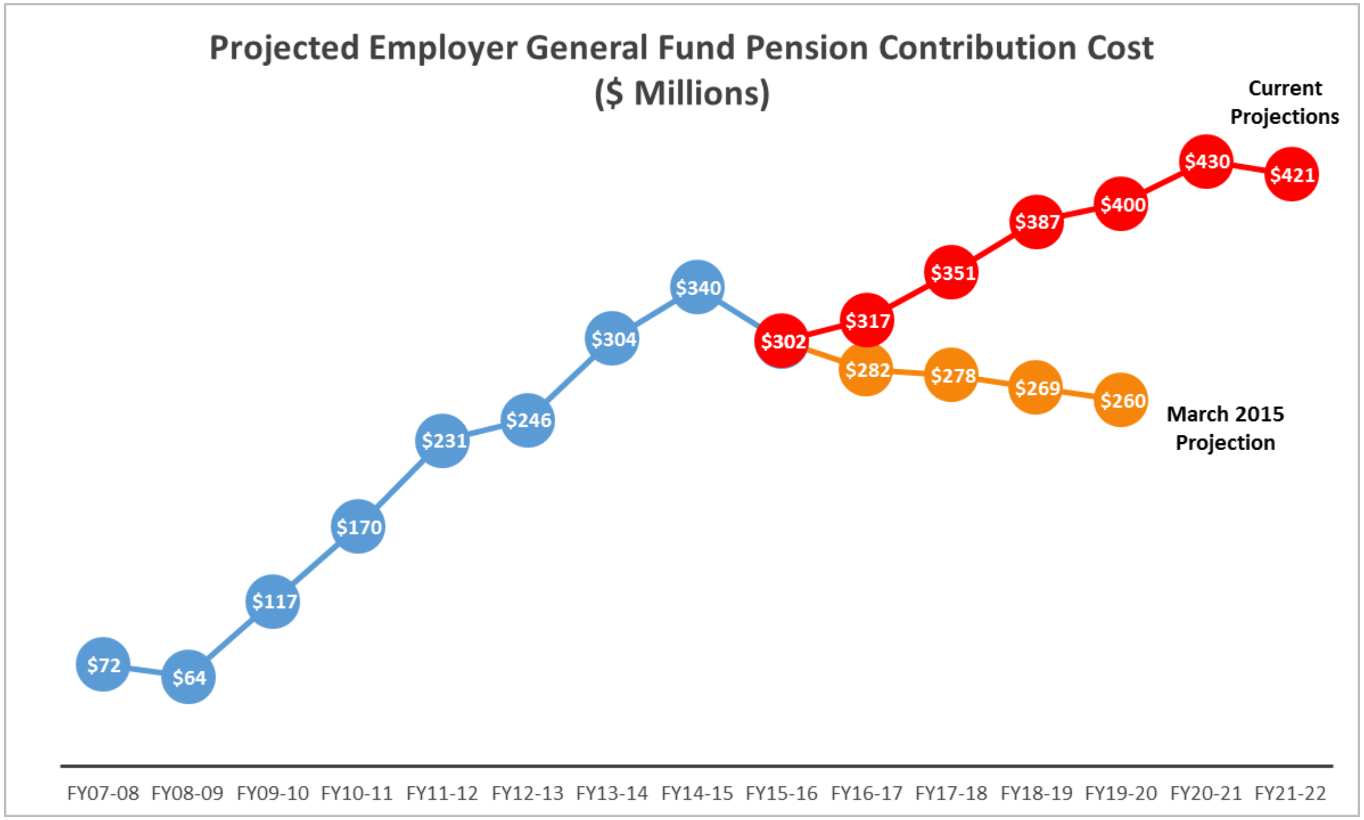
	FY 17-18 ($m)	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Property Tax	1,614	3%	4%	4%	3%
Business Taxes	800	10%	3%	2%	1%
Sales Tax	192	2%	1%	1%	1%
Hotel Room Tax	365	6%	3%	3%	2%
Utility Users Tax	100	2%	1%	1%	1%
Parking Tax	84	0%	0%	0%	0%
Real Property Transfer Tax	260	-6%	0%	0%	0%
Sugar-Sweetened Beverage Tax	8	n/a	0%	0%	0%
Access Line Tax	49	0%	3%	3%	3%

Near-term growth assumes robust business and property tax returns, and continues weakness in sales, hotel, and parking tax.

Projected Deficits Are Driven by Expenditure Growth

	FY 18-19	FY 19-20	FY 20-21	FY 21-22	% of Uses
Total - Sources	**189.9**	**450.7**	**330.3**	**436.8**	
Uses					
Baselines & Reserves	(78.2)	(117.0)	(158.1)	(180.3)	16%
Salaries & Benefits	(132.7)	(290.8)	(437.8)	(559.0)	49%
Citywide Operating Budget Costs	(50.6)	(152.5)	(208.8)	(282.0)	25%
Departmental Costs	(16.6)	(63.8)	(86.8)	(124.9)	11%
Subtotal - Uses	**(278.1)**	**(624.1)**	**(891.4)**	**(1,146.0)**	100%
Projected Cumulative Surplus / (Shortfall)	**(88.2)**	**(173.4)**	**(561.2)**	**(709.3)**	

Expenditure Growth is Driven by Personnel Costs, Which Have Grown at Twice the Rate of Inflation During the Past Decade



- In FY 17-18, pension payments accounted for 7% of General Fund expenditures – up from 2.5% in FY 07-08.
- Major cost drivers include:
  - Past investment performance below target
  - Changes in retiree longevity
  - Supplemental COLAs