Update on City's Economy & Finances

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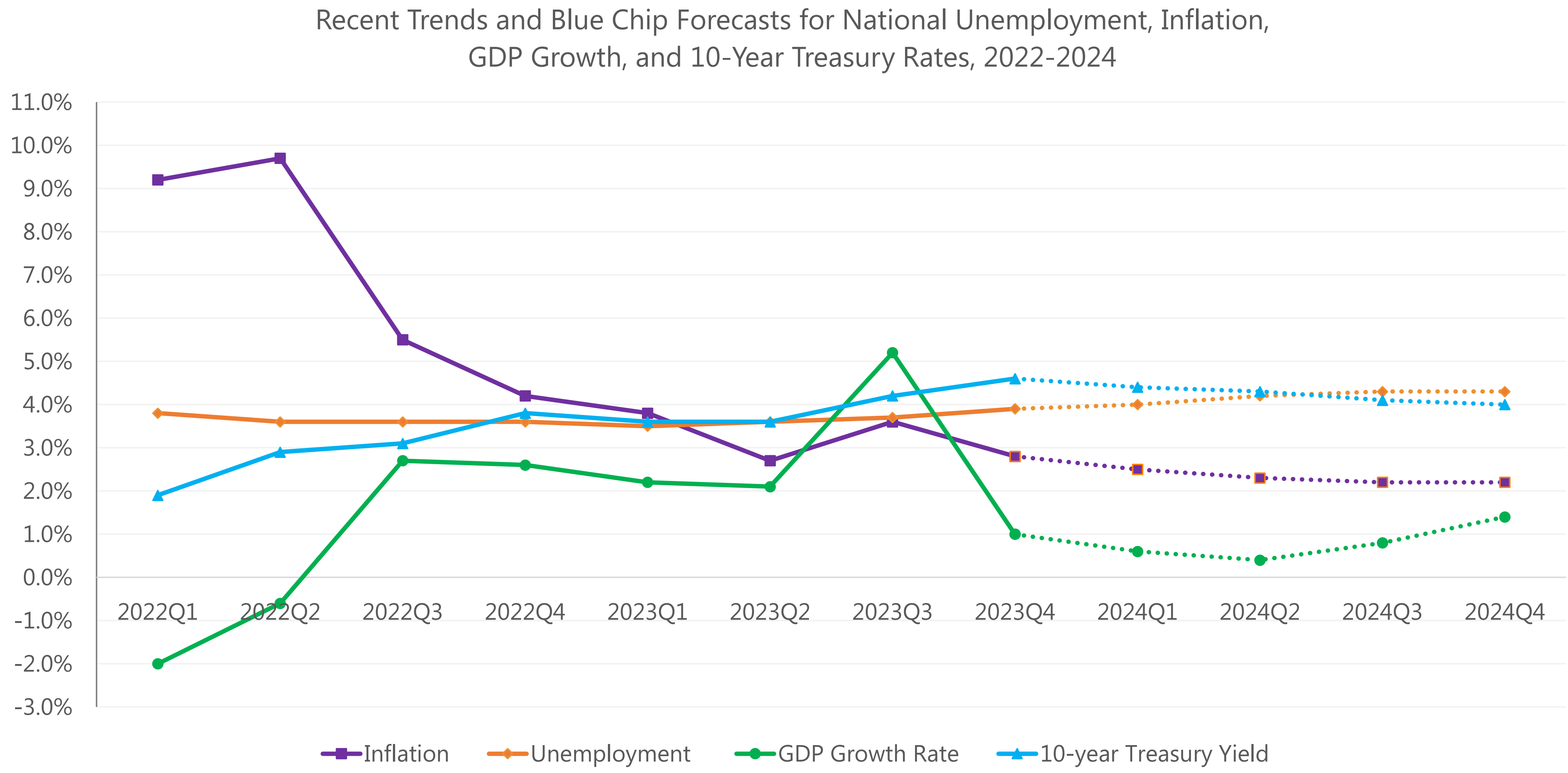
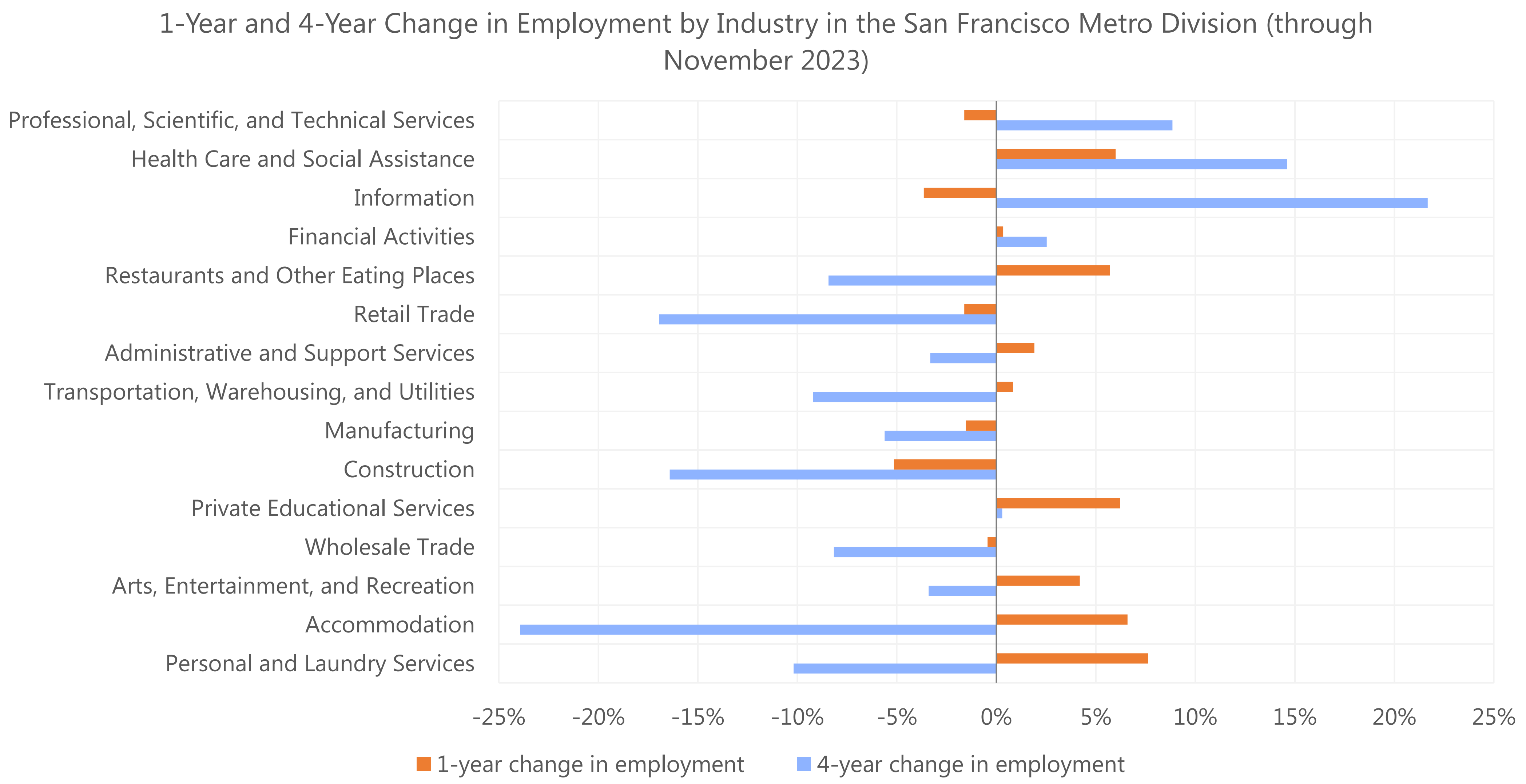
U.S. Macroeconomic Context – "Soft Landing" Likely in 2024



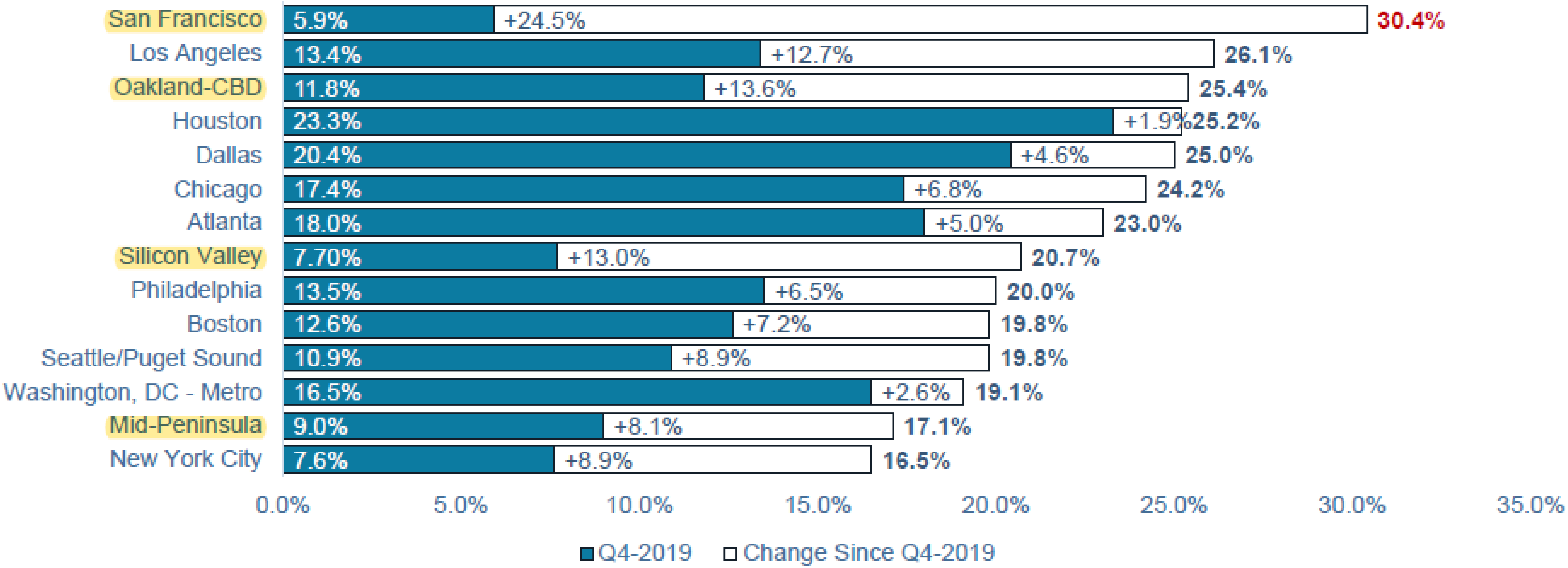
Source: Blue Chip Economic Indicators

Locally – Some Rebalancing in 2023 as Tech Shed Jobs



Source: EDD

Work-from-Home, Office Vacancy Are Lingering Problems

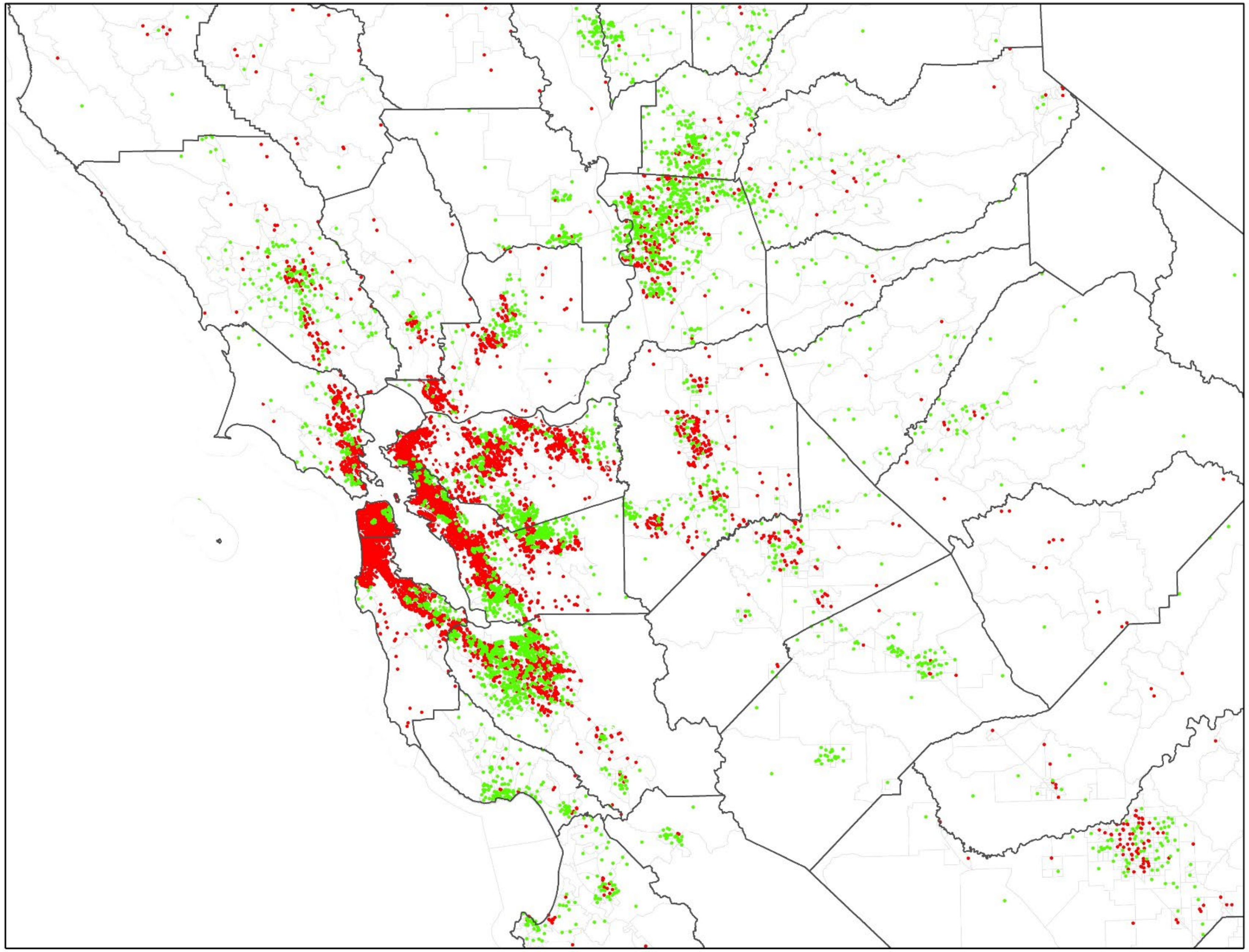


Source: JLL, 2023

COVID Led to a Decentralization of the SF Job Market

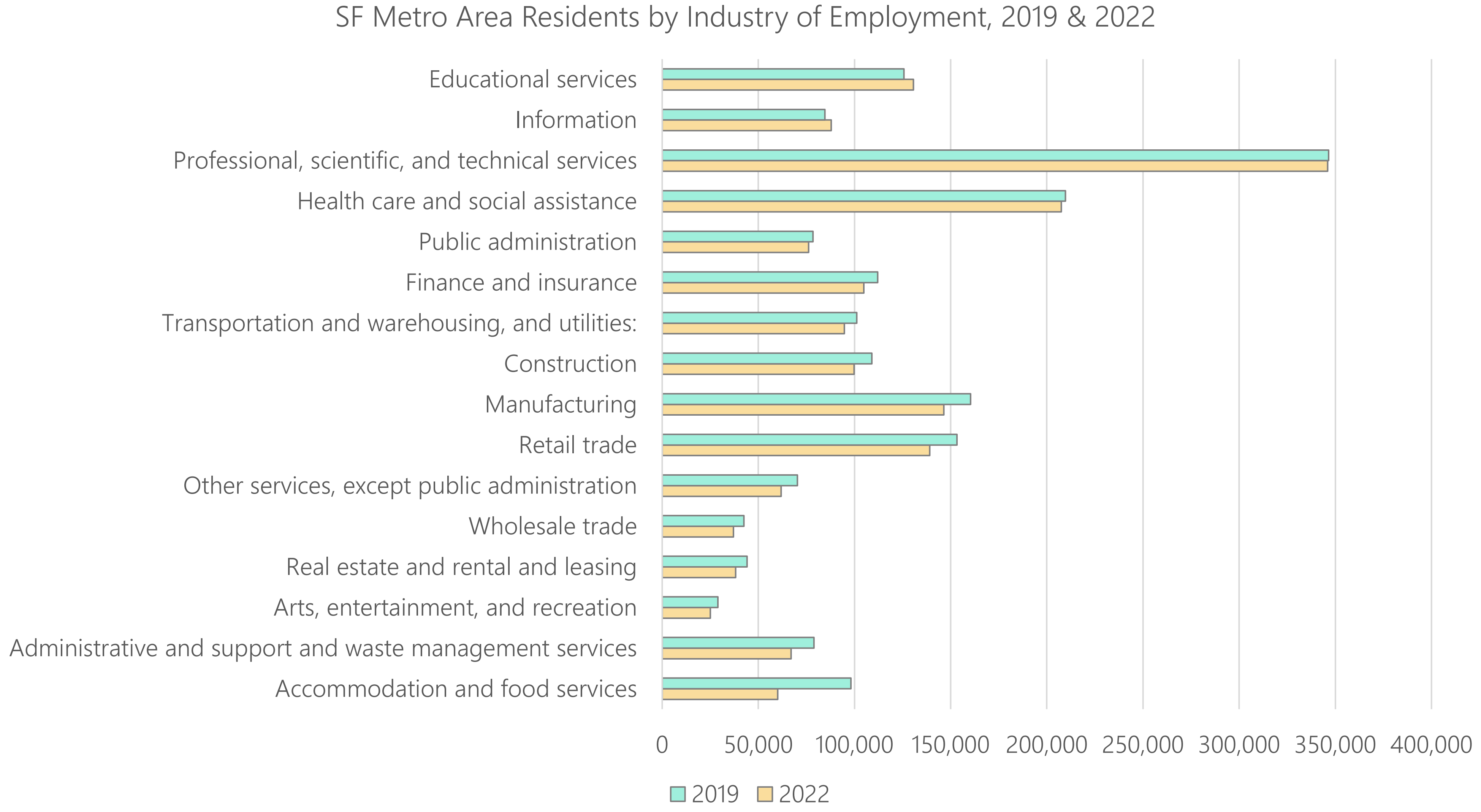
Change in the Number of Census Tract Residents Who Work in San Francisco, 2019-2021

- 1 Green Dot = 5 More People With Jobs in SF
- 1 Red Dot = 5 Less People With Jobs in SF



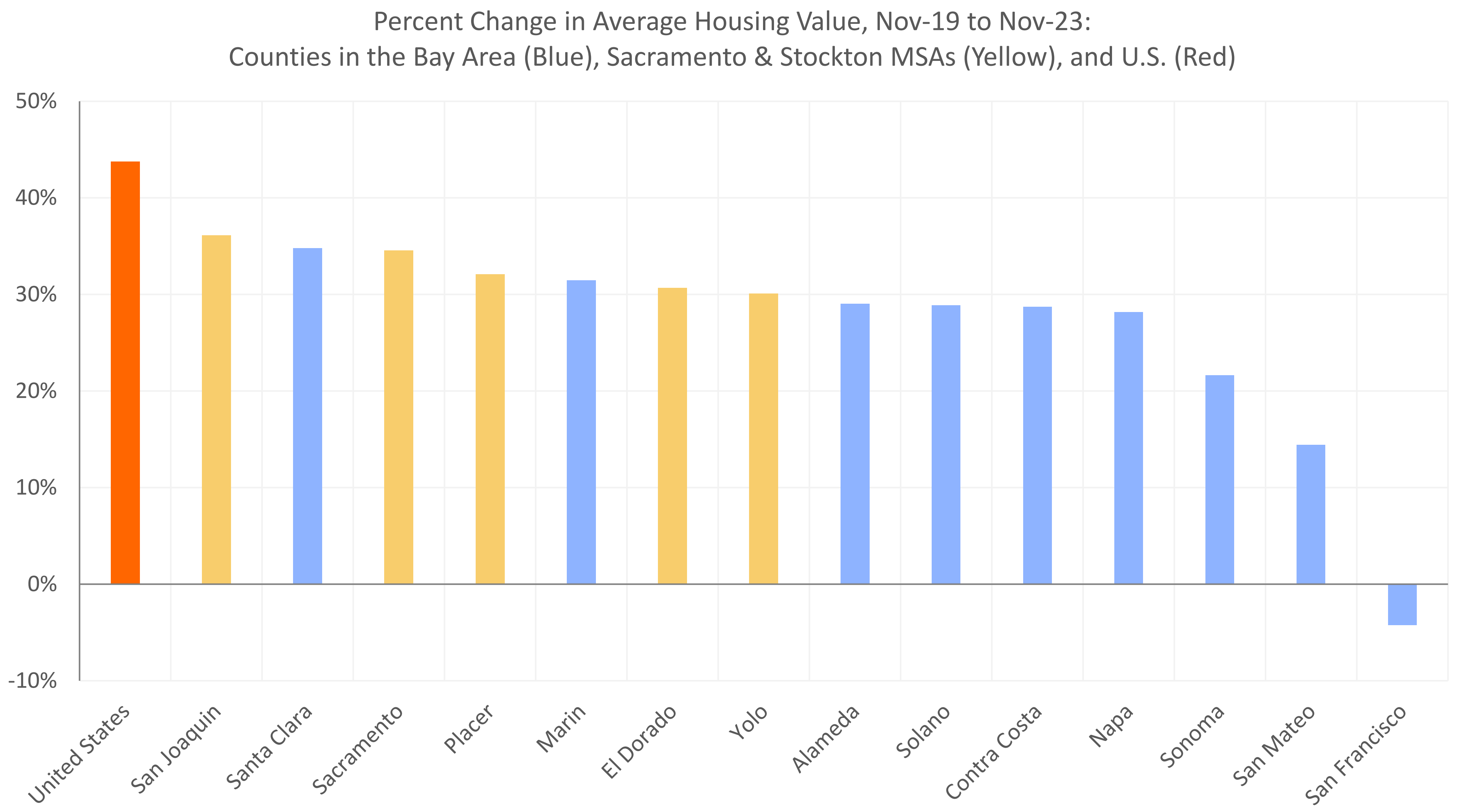
Source: Census LODES data

Despite Work-from-Home, Labor Force Loss Not Mainly in Tech



Source: Census ACS

Like WFH, Housing Market Adjustment May Be Long-Lasting



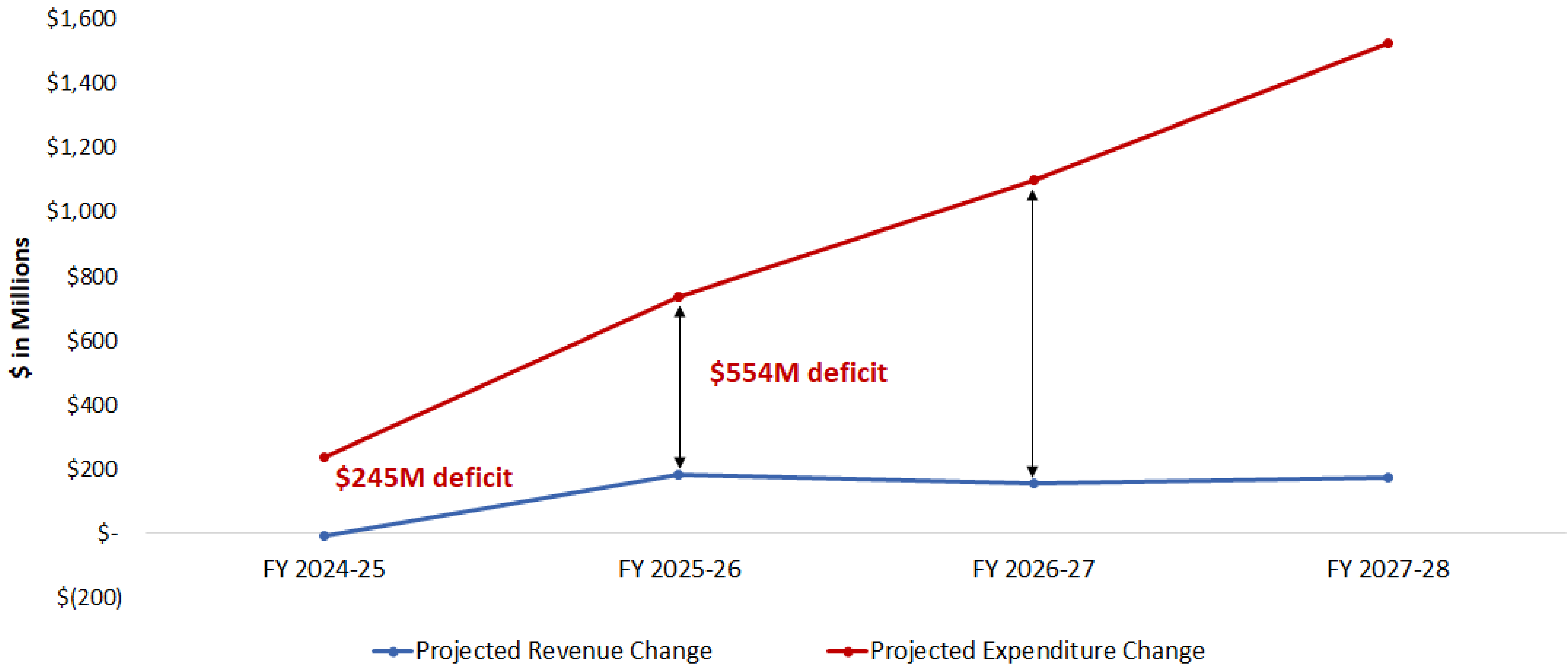
Source: Zillow

Key Local Economic Questions for the Upcoming Year

- End of the Tech Layoffs? Reboot for Venture Capital?
- Does the Office Market finally adjust?
- New Projects and Activities Downtown?
- Who Moves (Back) to SF?

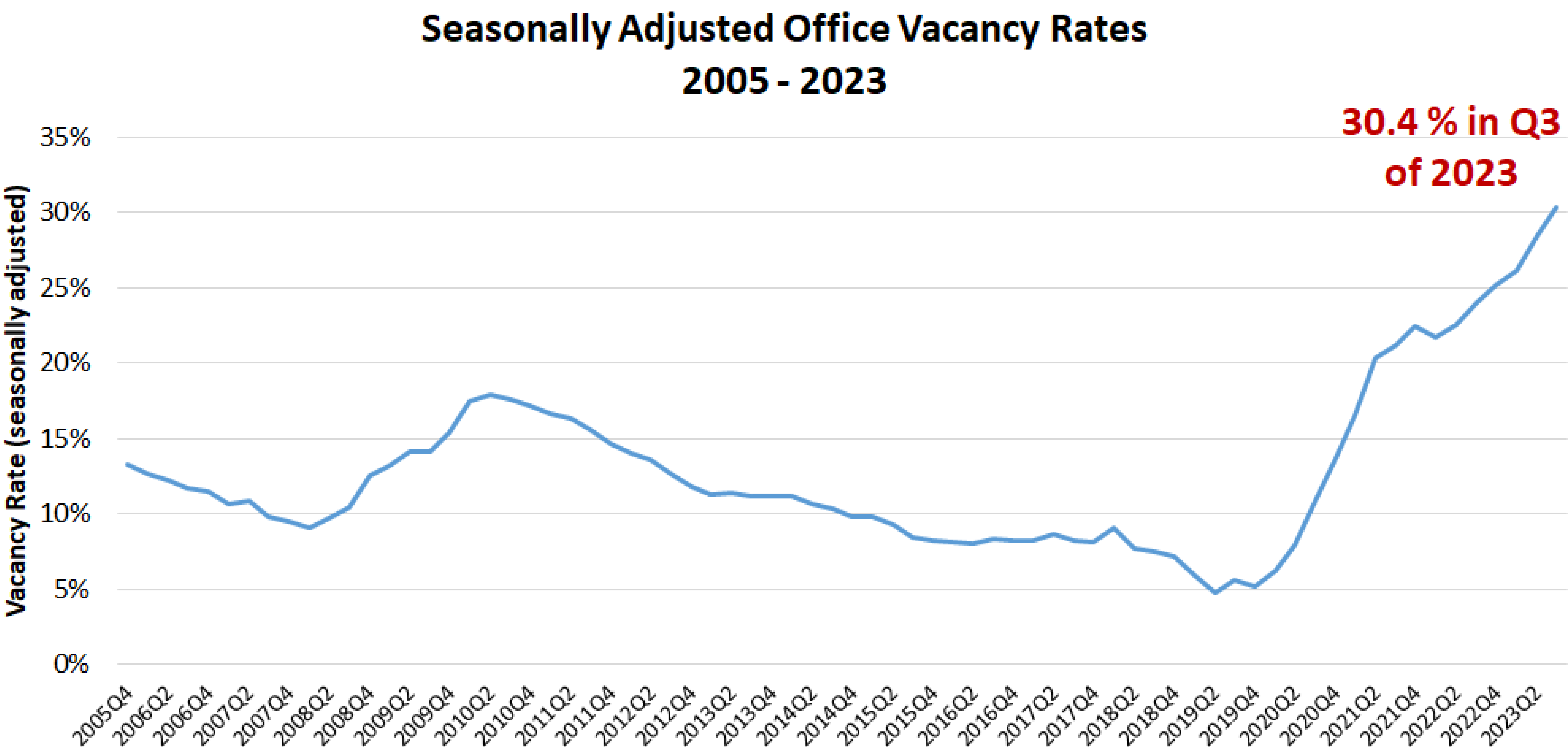
General Fund Budget Forecast

Expenditure growth outpaces revenue growth



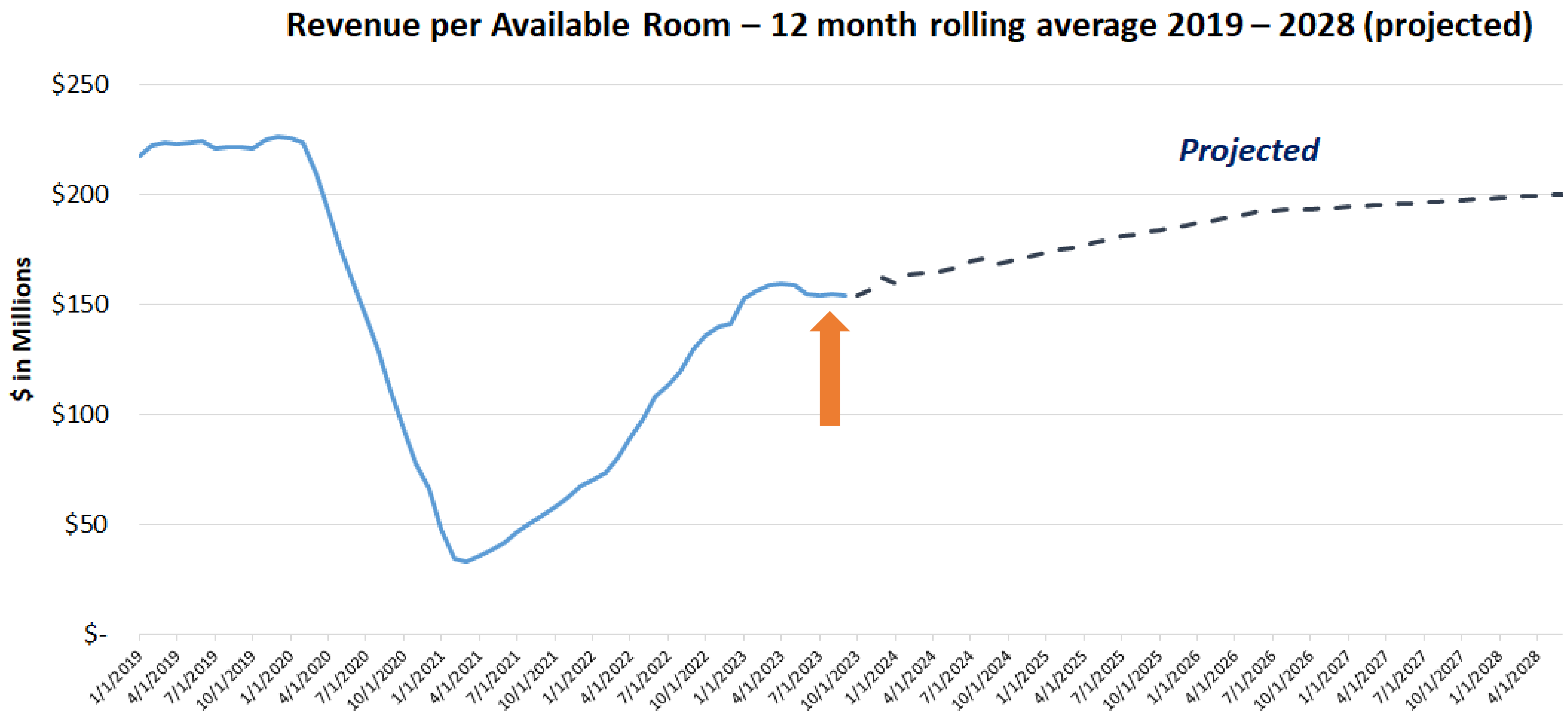
Revenue Trends

Office vacancy rates still climbing, with negative impact on property, business, transfer taxes.



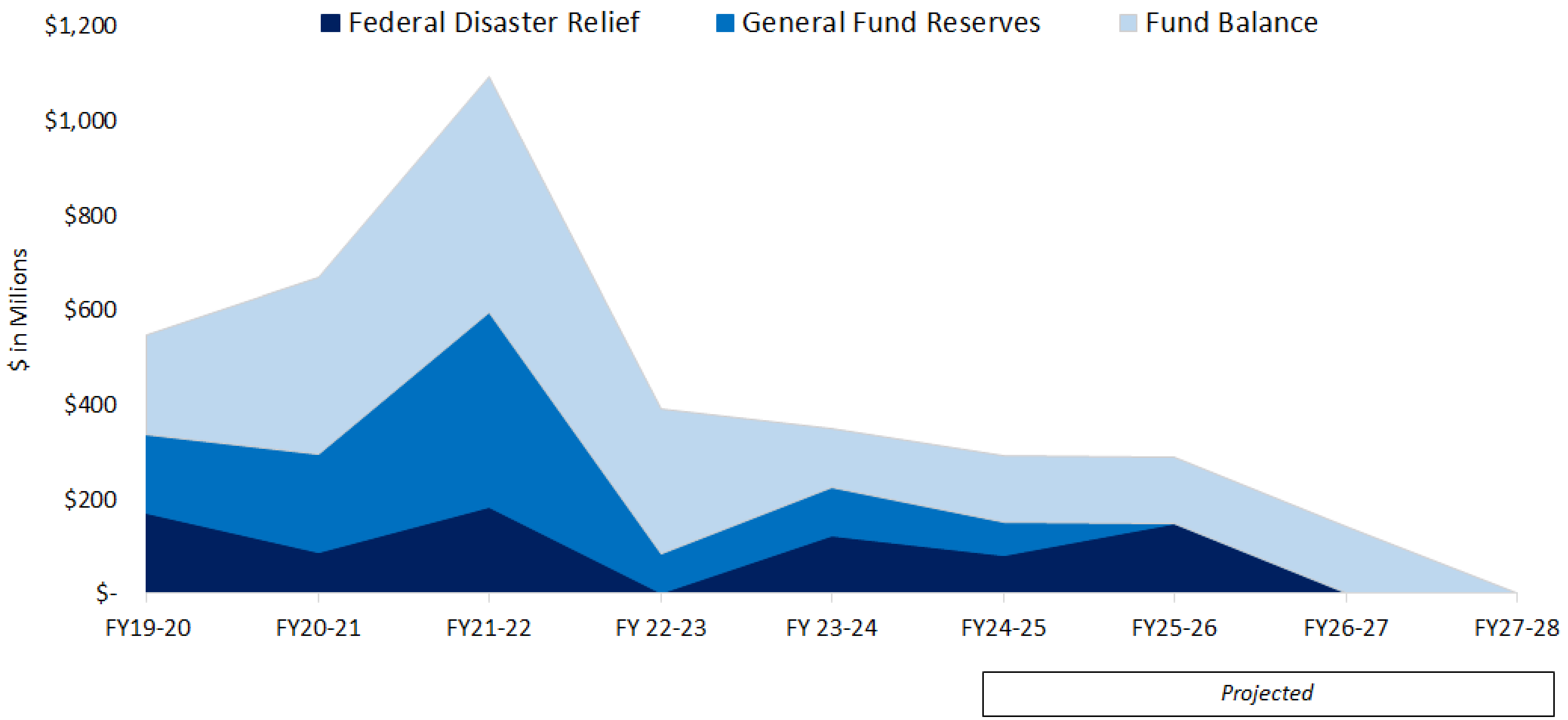
Hospitality Recovery Plateau

Convention attendance 60% of FY 2018-19; weak business travel; tourists from Asia/China not back

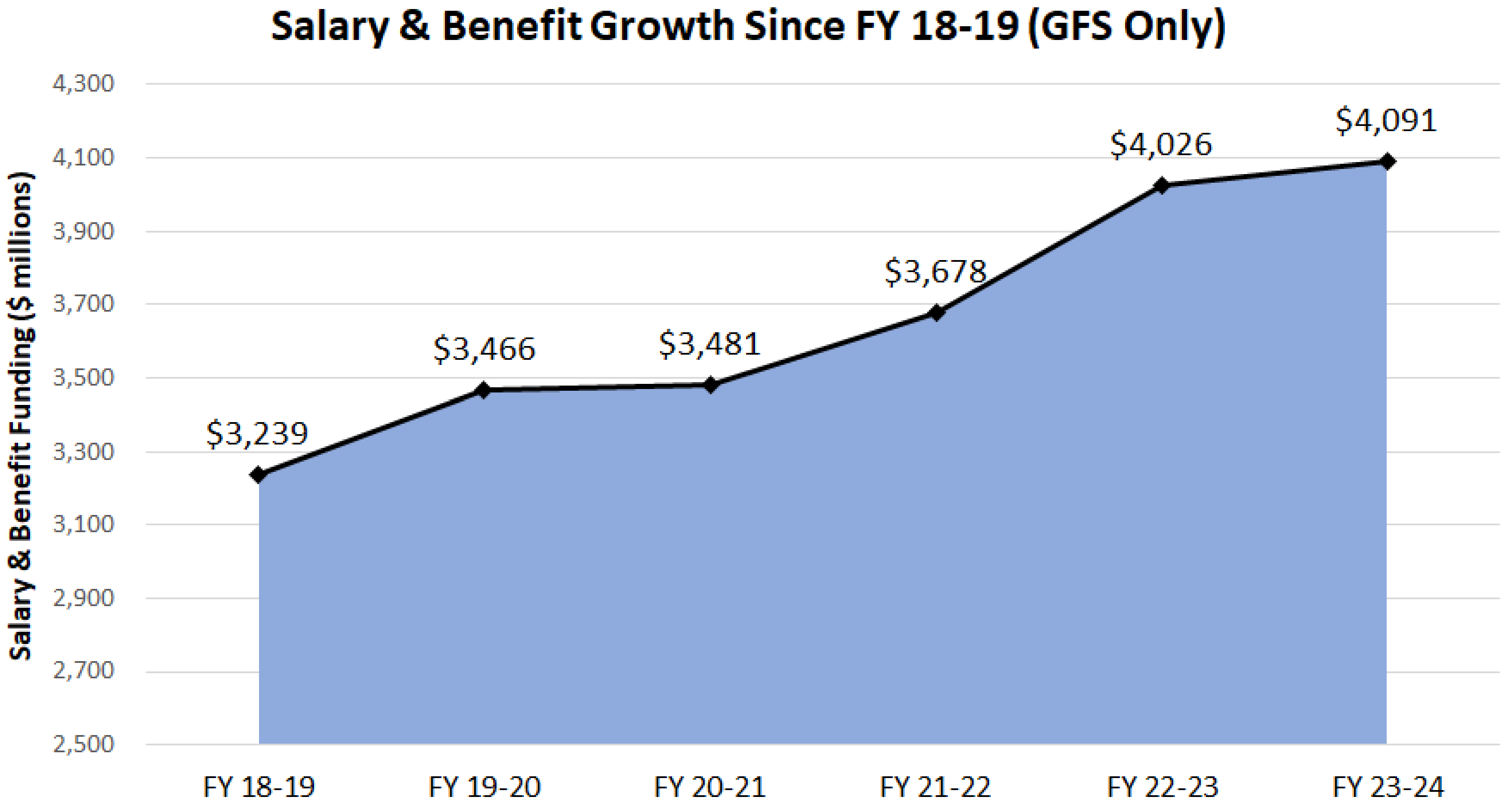


Local & State Sales Tax Growth Slows

Depletion of One-Time Sources



Salary & Benefits: 30% Growth in 5 Years



Risks & Uncertainties

- **Elevated interest rate environment** increases borrowing costs, dampening business and real estate investments.
- **Revenue refunds**:
  - Property tax: volume of property **assessment appeals** has tripled from prior year.
  - **Business tax** litigation
- **State and federal revenue risks**:
  - **State** budget shortfall → proposal to reduce Excess ERAF (>$40M), grants, and funding for other programs.
  - New guidelines would reduce **federal** FEMA reimbursement of COVID shelter costs by > $190M.
- **Retirement contribution rates** subject to high levels of volatility. Returns <7.2% trigger higher employer contributions.

Big Picture Take-Aways

- Major shocks to large City economies (particularly those concentrated in office work) will **play out over many years**. The recovery is underway, but slow.
- City budgets have been held together during the pandemic and since with massive **support from the federal government** and with **record reserves** set aside in the prior decade.
- The pace of economic and financial recovery will **not catch up with those losses** in the short and mid-term. These trends are aggravated by continued **cost pressures**, driven in part by high (but moderating) inflation and high interest rates.
- Steps taken to **manage operating budgets today** will pay off, permitting use of remaining reserves and other one-time measures to position more thoughtfully for future structural gaps and uncertainties, **avoiding more stark cuts later**.

Questions or Comments?

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