

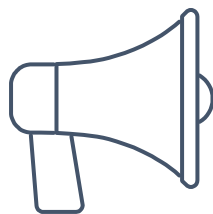


Nonprofit Policy Forum: Revised Budget Outlook & Instructions

June 5, 2020

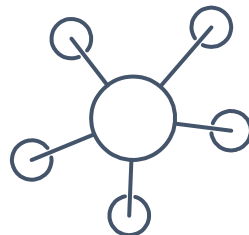


Introduction – Why We Are Here



Update

Share new policy developments



Coordinate

Work together to improve City services



Listen + Learn

Ask and answer questions



Agenda

Budget Outlook

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

Ben Rosenfield
Controller's Office

Budget Timeline and Instructions

- Mayoral Priorities & Budget Instructions for Departments

Kelly Kirkpatrick
Mayor's Budget Director

Nonprofit Contracting Policy Updates

Marnie Purciel-Hill
Controller's Office

Q&A

Laura Marshall
Controller's Office



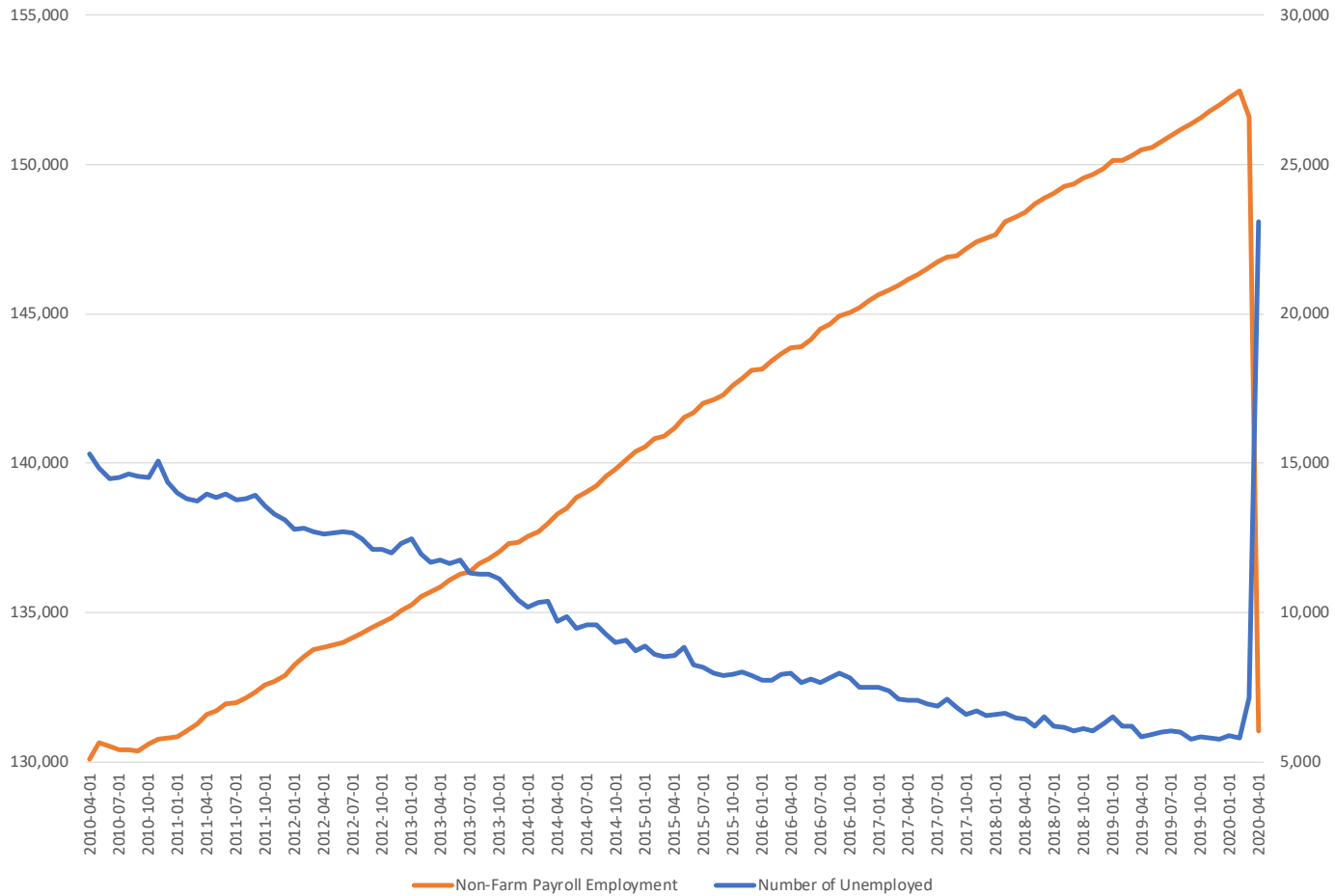
Revised Budget Outlook



Economic Context

Ten Years Of U.S. Job Growth Erased In April

U.S. Non-Farm Unemployment, and Number of Unemployed, April 2010 to April 2020

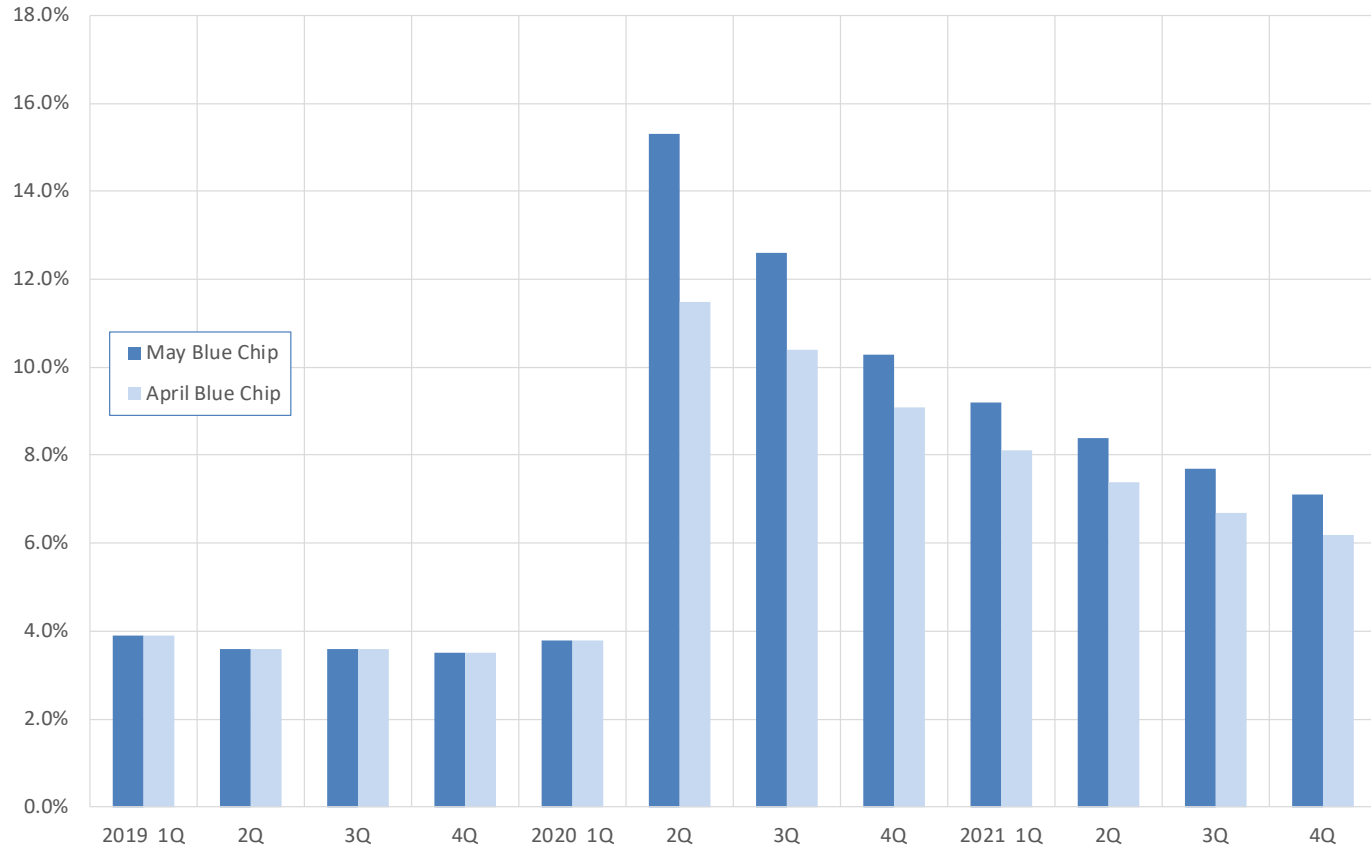




Economic Context

Unemployment 2x Pre-COVID Through 2021

Blue Chip Consensus Forecasts for U.S. Unemployment:
Quarterly Through 2021





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
Sources					
General fund sources		(487)	(306)	(110)	89
Public health revenues		(132)	(32)	(12)	8
Other		(31)	150	(67)	(93)
		(650)	(188)	(190)	4
Uses					
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)
		(104)	(547)	(827)	(1,093)
Projected shortfall	(246)	(754)	(735)	(1,016)	(1,089)
<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 1st

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?

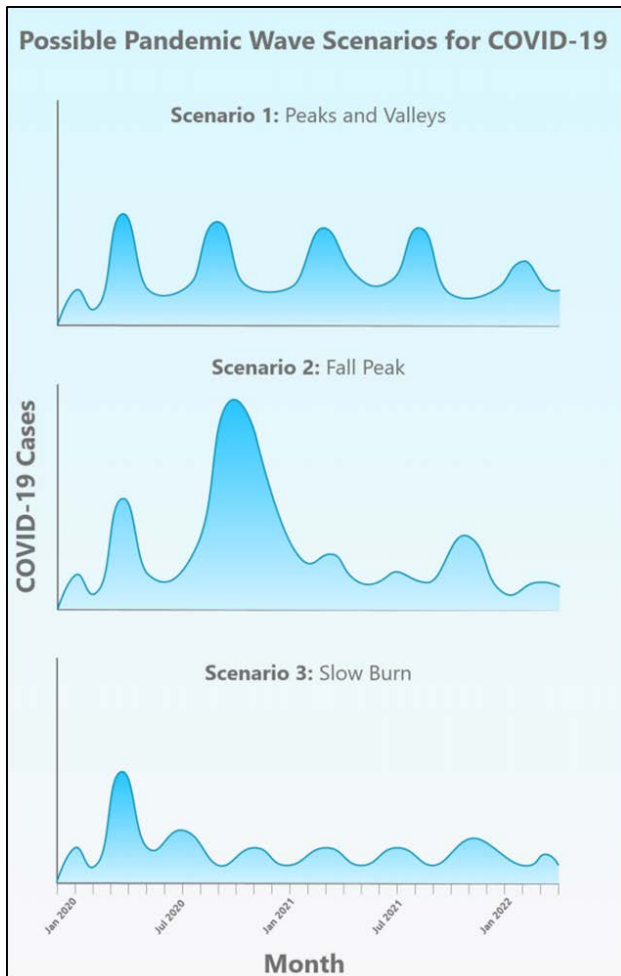


Risks & Uncertainty

- 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		
Local tax base	3,789		



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%
Total Top 5	8%	-6%	2%		5%	1%	0%		-9%	-1%	5%

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



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 with three key assumptions:
 - Wage delay for city employees, as triggered by the March Joint Report Update
 - No July 1 implementation of \$1.00 per hour increase for IHSS MCO – ability to fund a wage increase in FY 20-21 to be contemplated with August budget discussion
 - No July 1 implementation 2.5% for CBO COLA for FY 2020-21 – ability to fund COLA in FY 20-21 to be contemplated with August budget discussion
- Policy choices reserved for August 1 Mayor's Budget
- Introduced on June 1; needs to be approved by the Board by July 1
- Controller guidance on contract continuity published May 22



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



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



Nonprofit Contracting Policy Updates



Nonprofit Policy Coordination Overview

The Controller's Office helps standardize how departments work with nonprofit contractors

Example Policy Areas include:

- COVID-19-Related Policies, Minimum Compensation Ordinance (MCO), Cost Categorization in Nonprofit Contracts, Indirect Rate Pilot

Coordinated through the Citywide Nonprofit Monitoring and Capacity Building Program

- Consolidates contract monitoring requirements to promote efficient monitoring that uses consistent standards and methods
- Provides workshops and individualized coaching to support nonprofits to have strong, sustainable financial management



COVID-19-Related Policies

Continuity of Payment for Nonprofit Suppliers

Goal: Support the sustainability of nonprofit suppliers by continuing to provide full or partial payment in the event of programmatic closures in line with the Public Health Order.

Guidance

- Ensure continued payment and budgeting flexibility for all nonprofit contractors from March 7 through June 30, even those that could not provide planned services due to the Shelter in Place order.



COVID-19-Related Policies

Expedited Contract Modification Policy

Goal: Expedite contract modifications to streamline continuity of service into FY20-21 while departments and nonprofits are responding to the public health emergency.

Guidance

- Allows departments to extend agreements expiring on or before September 30, 2020 until December 31, 2020.
- Waives solicitation requirements, expedites approval processes, delegates departments signature and approval authority with limited exceptions.
- Extension budgets based on prorated FY19-20 budget amounts.



Questions?