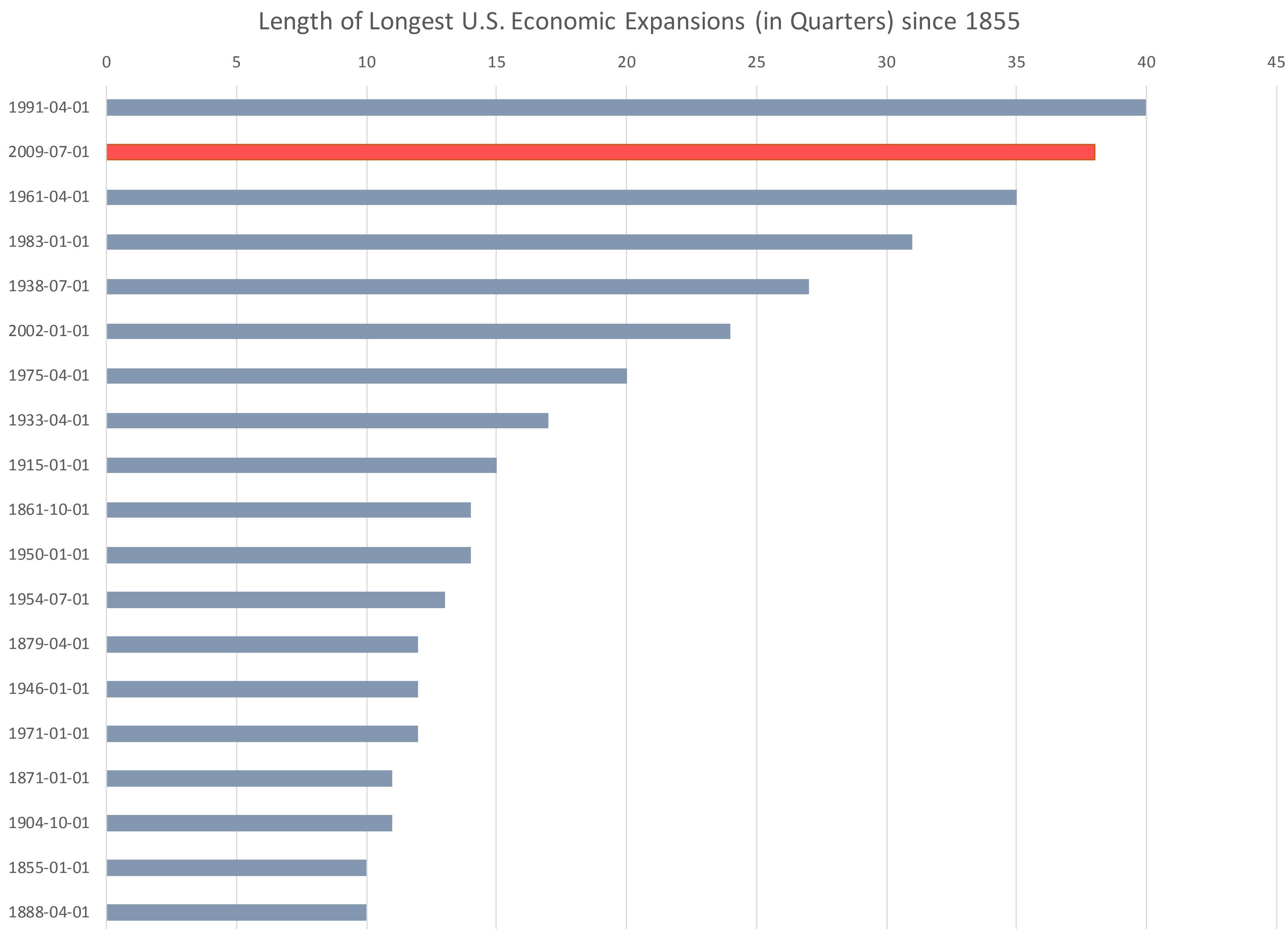
San Francisco Fiscal and Economic Update

CITY & COUNTY OF SAN FRANCISCO

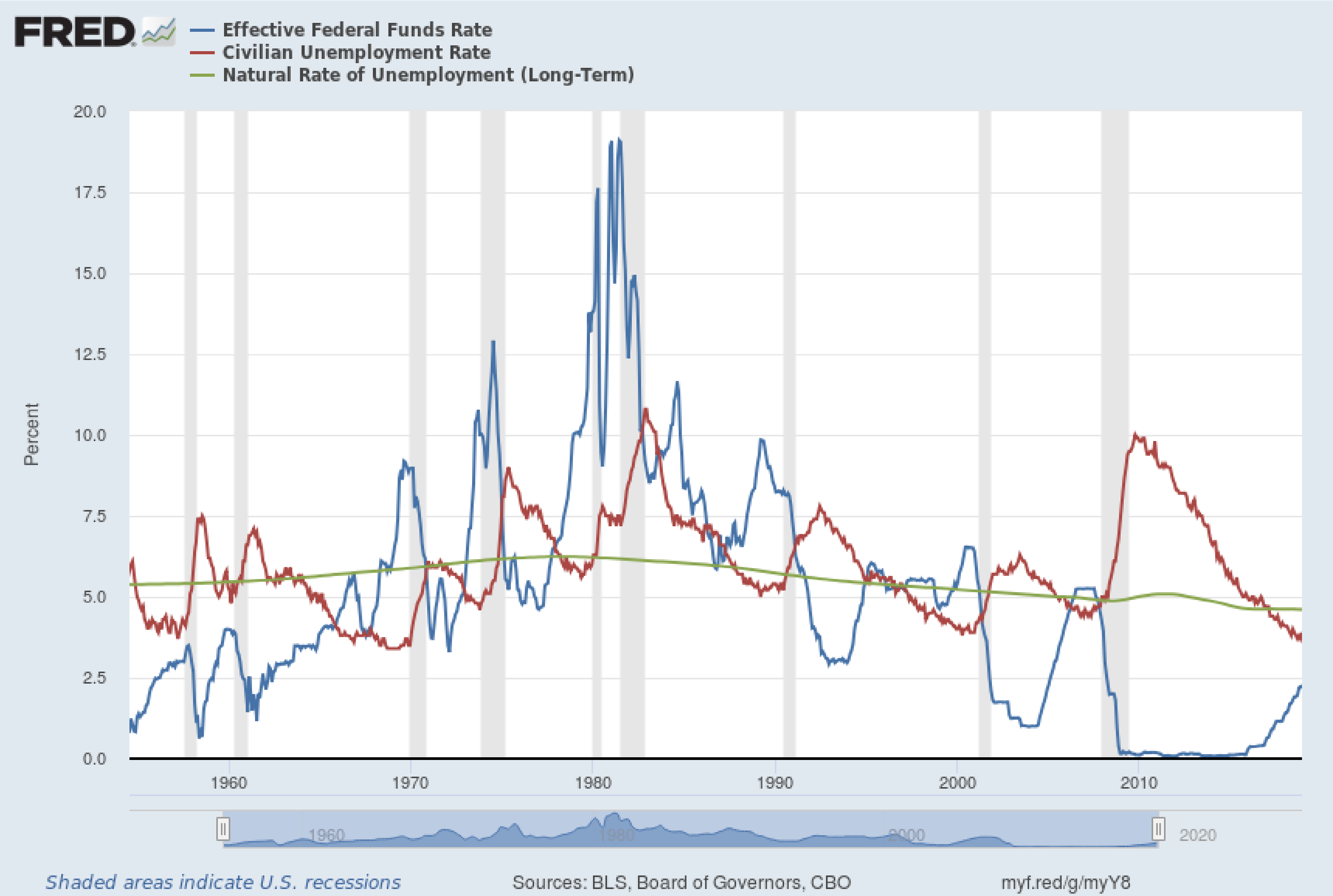
Office of the Controller

01.29.2019

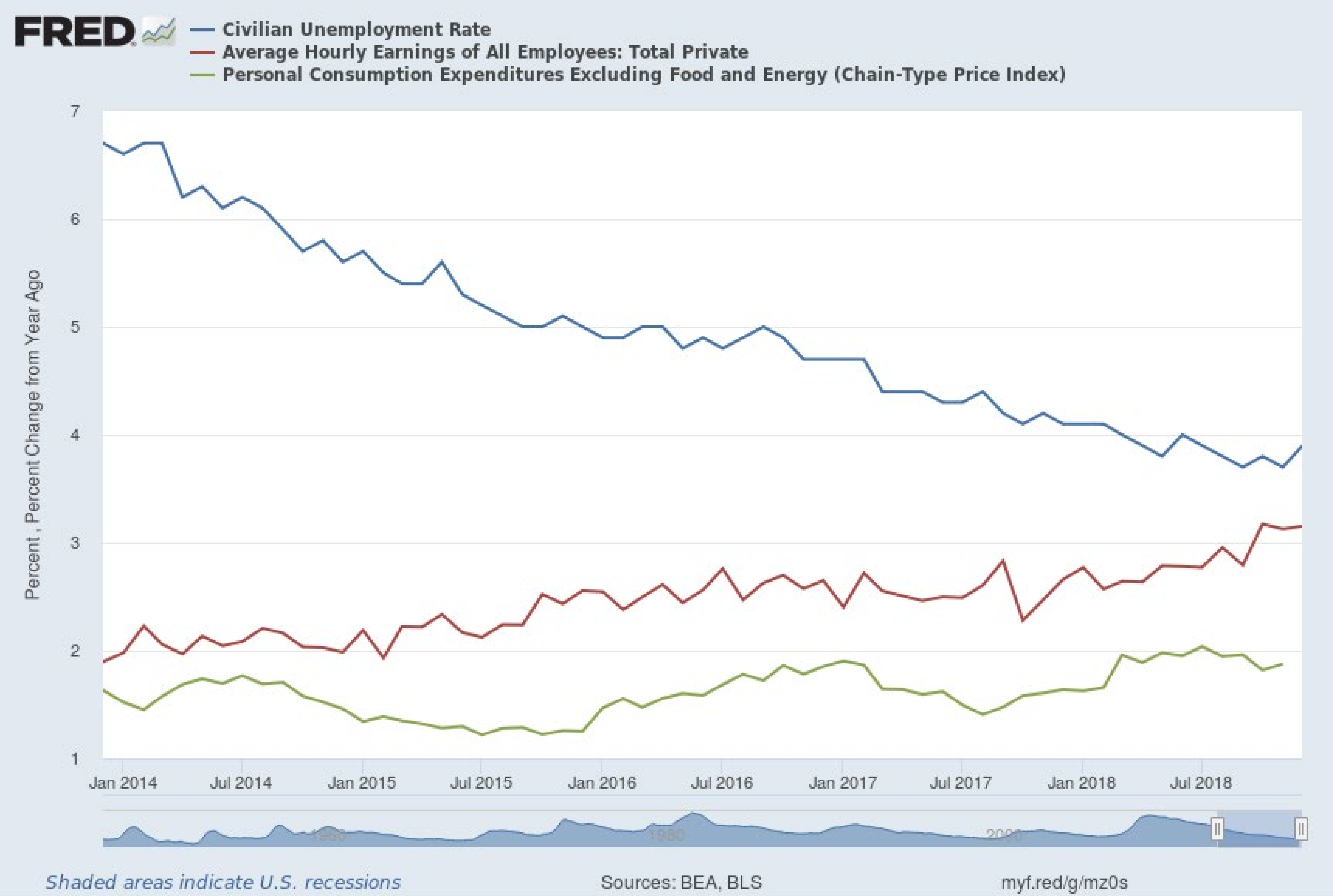
6 Months from the Longest Expansion Ever



Unemployment, Interest Rates, Recessions

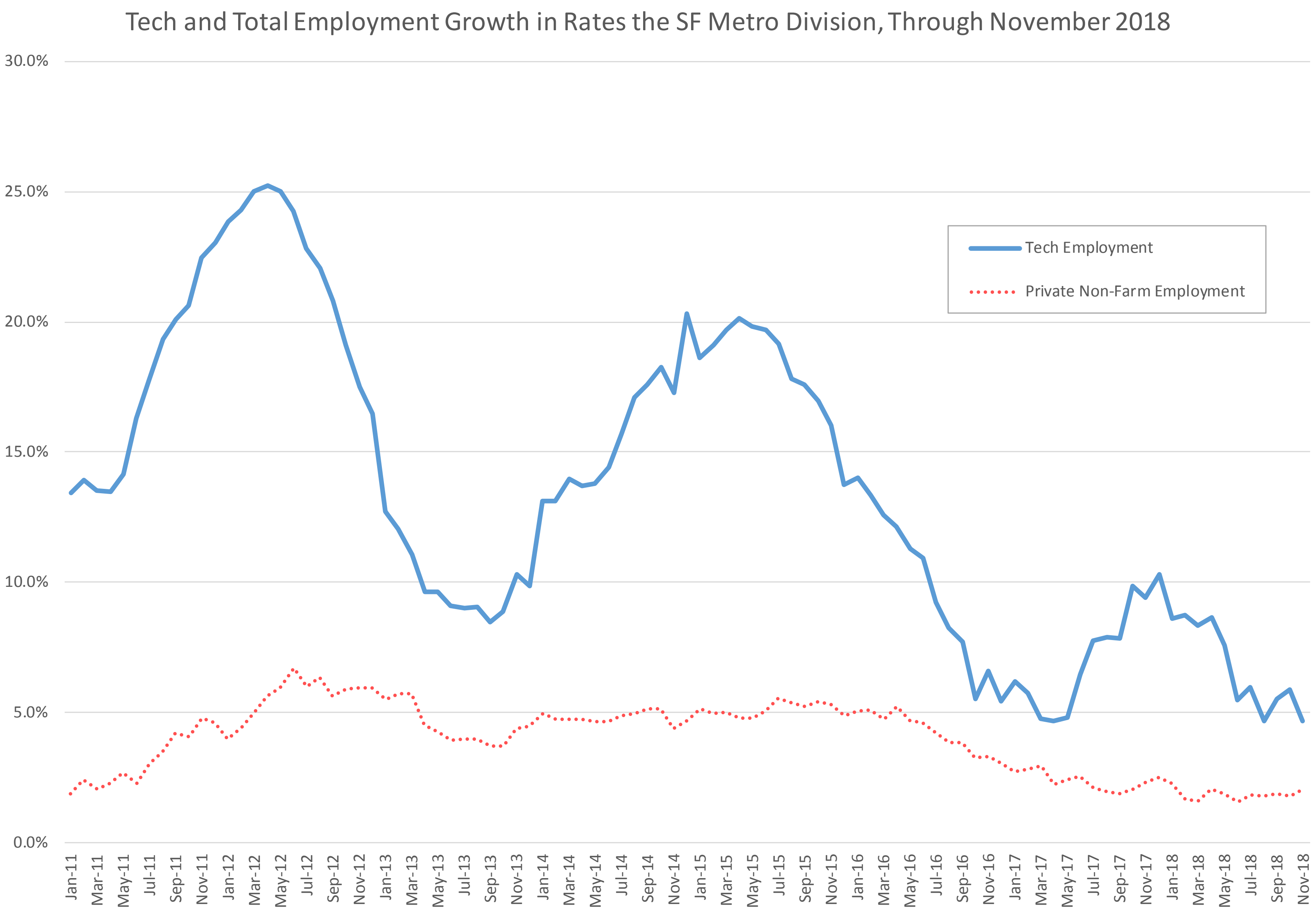


Earnings Rising as Unemployment Falls; Inflation OK

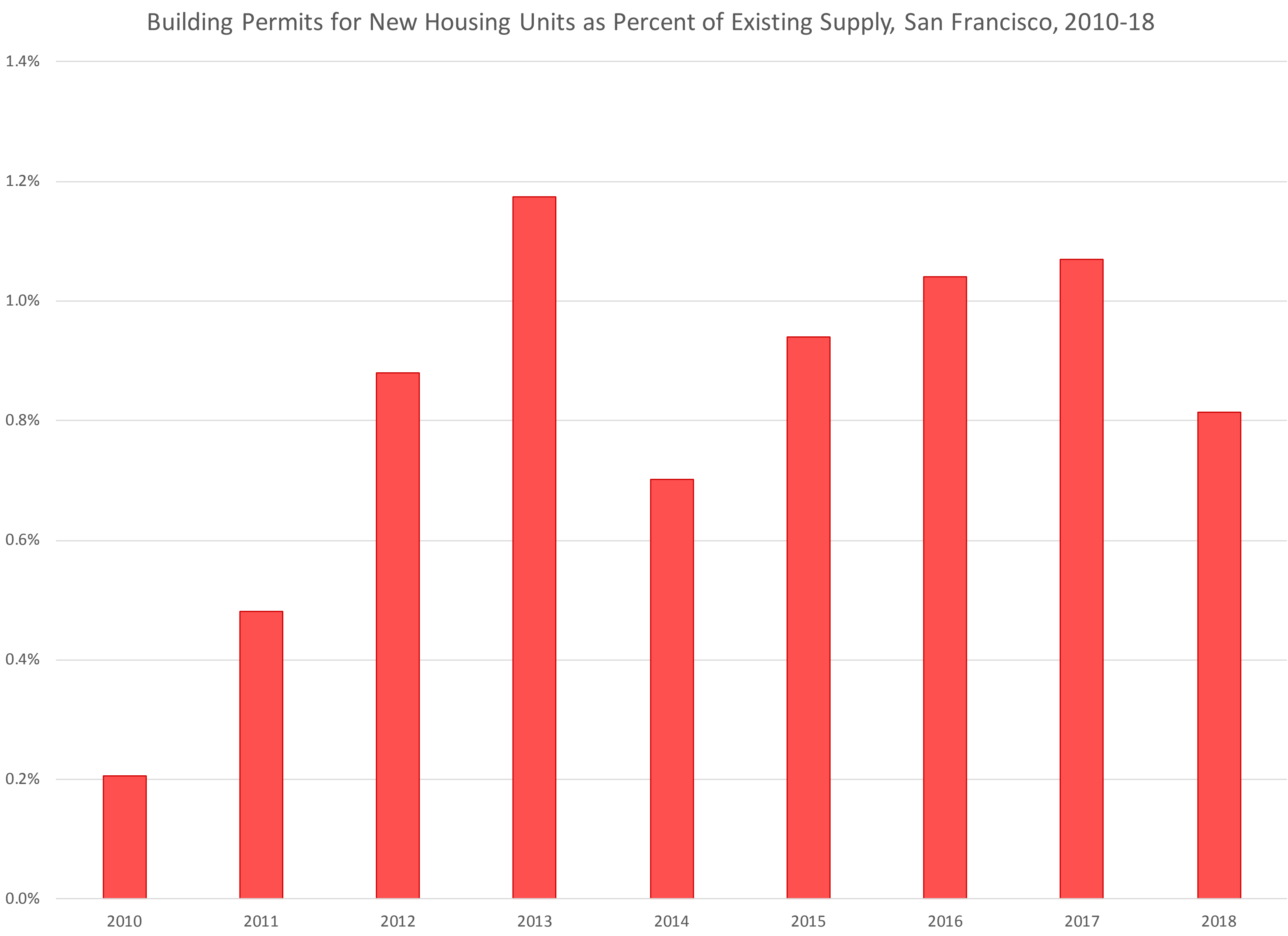


Locally – A Slowing of Growth is Inevitable

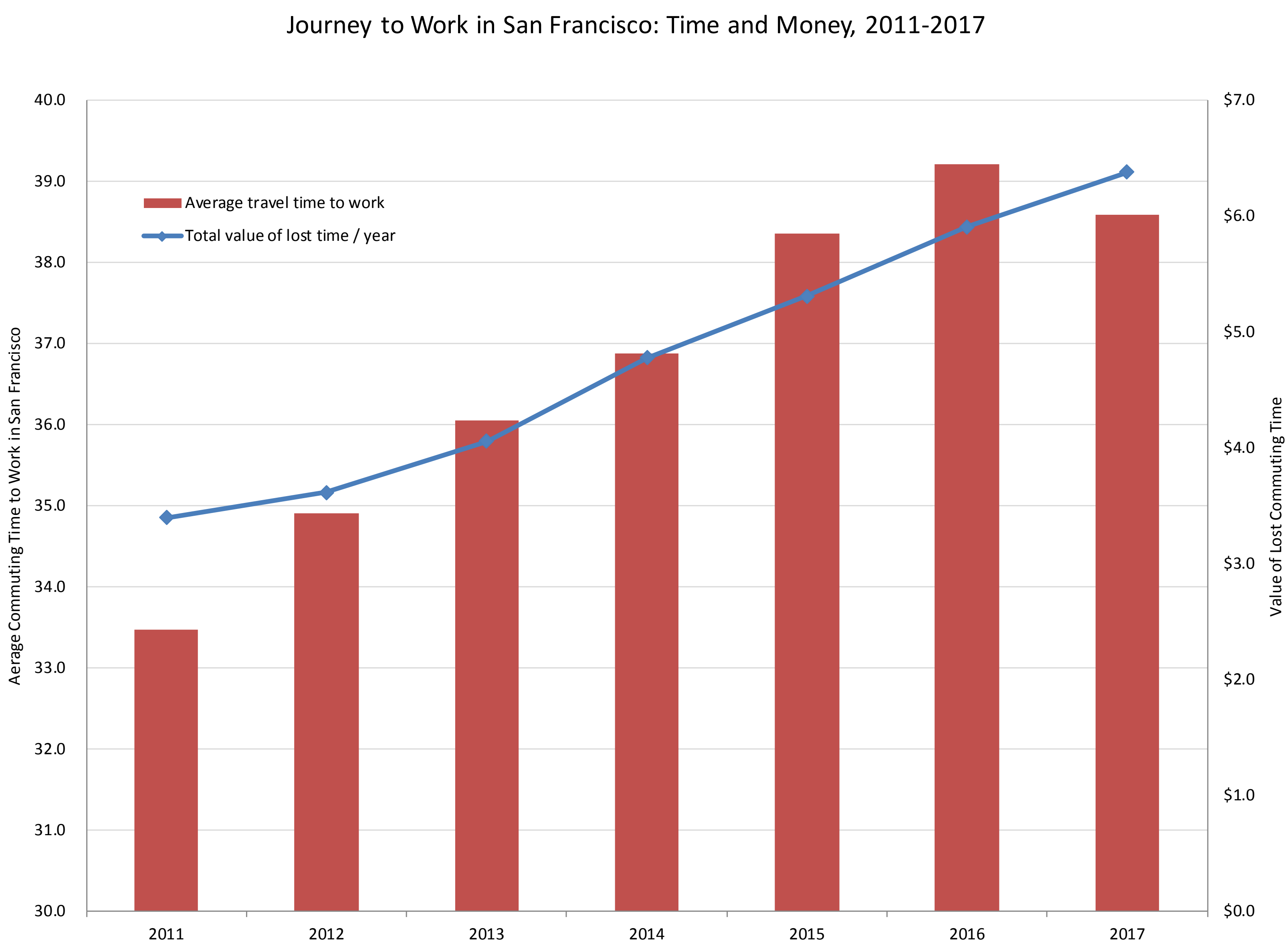
Tech is Still Driving Things, but More Slowly



Housing Still a Constraint to Job Growth…



…As is Transportation



Why We're Likely to See Slower Growth in 2019

- Interest Rates Rising
- Dampening of Fiscal Stimulus from the 2017 Tax Cut
- Labor Market Tightening
- Slowdown in Europe and China
- Government debt could crowd out private investment
- Trade War Fears

2019 Recession Unlikely– But Risks Rising

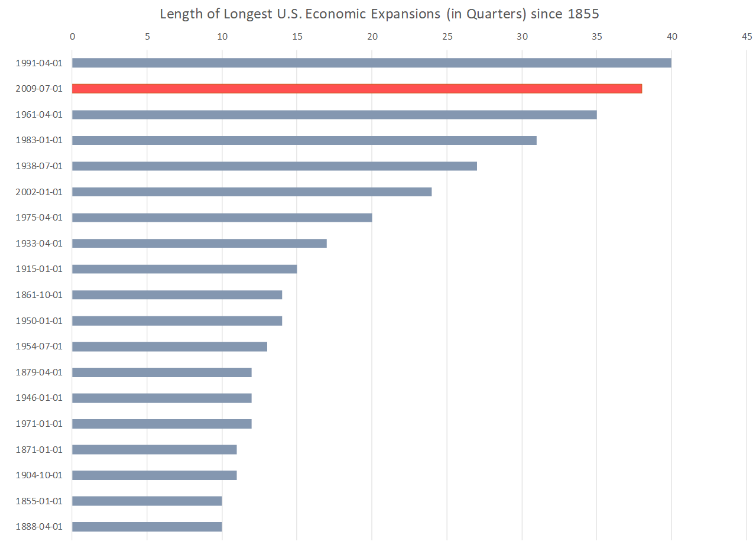
- Fed has no compelling reason to be aggressive on rates
- Labor market still very strong
- Consumer spending still strong and consumer debt is reasonable
- Locally – our economy is very strong and tech does not seem unusually vulnerable to today's macroeconomic risks
- Beyond 2019, recession risks are higher. Periods of full employment generally lead to higher interest rates, and "soft landings" are unusual.
- When the next recession hits, the Fed's and Federal Government's scope for monetary, and to some extent fiscal, stimulus may be more limited than it was in 2008. This could raise the severity and length of the next recession.

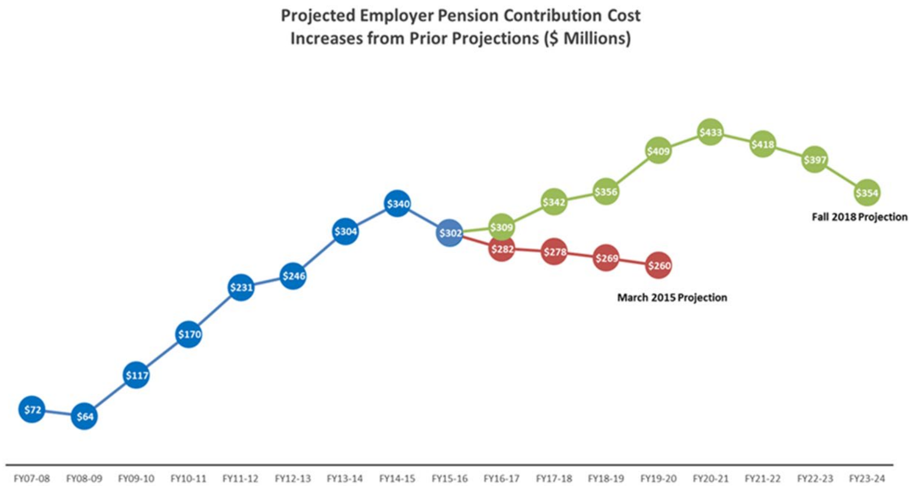
City Budget – Key Questions

How long will the boom last?
Short-term outlook remains strong, with current year revenues performing at or above budgeted levels. But likelihood of a recession in the next two to three years high given risks and historical cycles.

Federal and State actions?
Federal and State revenues account for 20% of City revenues. In the shorter-term, upside risk with the State (IHSS, housing, homelessness) and downside risk with the Feds (infrastructure, health care, others).

Employee cost trends?
Benefit costs driving employee cost growth above inflation. Major CA court cases involving pensions decided in the year ahead. Outcoming of labor negotiations will drive costs, with terms likely to carry into the next recession.



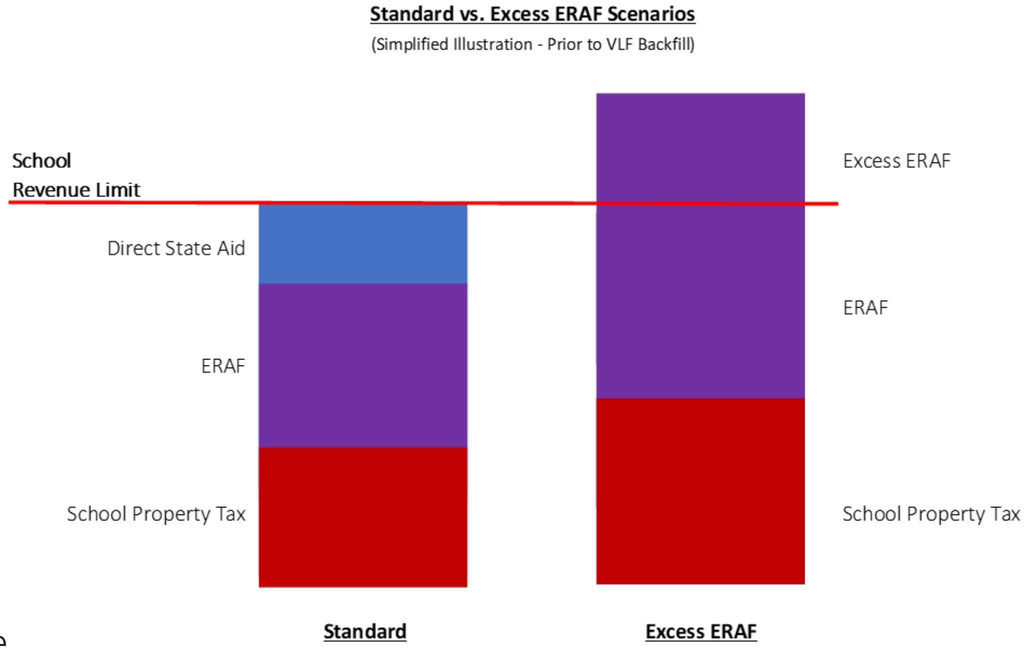


City Budget – Key Questions

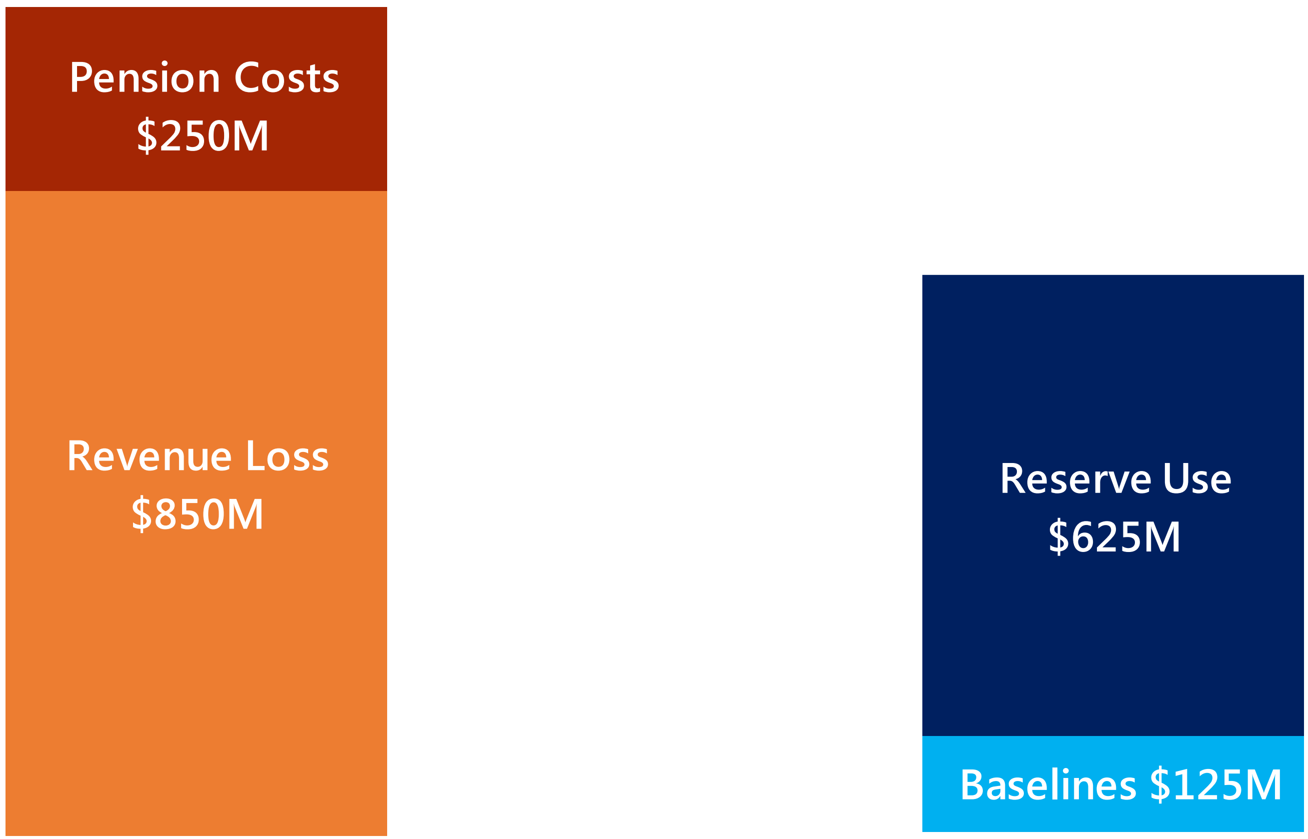
How will we treat "ERAF windfall"?
Property tax surplus in current year approaches 8% of revenues. Choices on how to utilize the benefit – ranging from reserves to new ongoing programs – will be a key determinate of the City's financial position in coming years.

Will it recur?
Absent changes in State law, this benefit will reoccur in future years. But other counties in this situation tread cautiously, with many devoting some or all spending to one-time purposes given State legislative risk.

Dependence on one-time sources?
The City's General Fund gap in out years of the financial forecast is driven largely by the loss of one-time and volatile revenues. How we situate ourselves for these losses– which will occur in a recession – are key to ability to manage through it.



Recession Prep: Losses vs. Reserves



Recession Shortfall = $1.1B

Balancing Solutions = $750M