

Observations from Economists

Municipal Finance Institute 2020

*Moderated by
Michael Coleman
League Fiscal Policy Advisor
CaliforniaCityFinance.com*



Leila Bengali

Economist

UCLA Anderson Forecast

Carolyn Chu

Chief Deputy Legislative Analyst

Legislative Analyst's Office

Ted Egan

Chief Economist

City and County of San Francisco

The 2021-22 Budget: California's Fiscal Outlook



Presented to:
League of California Cities

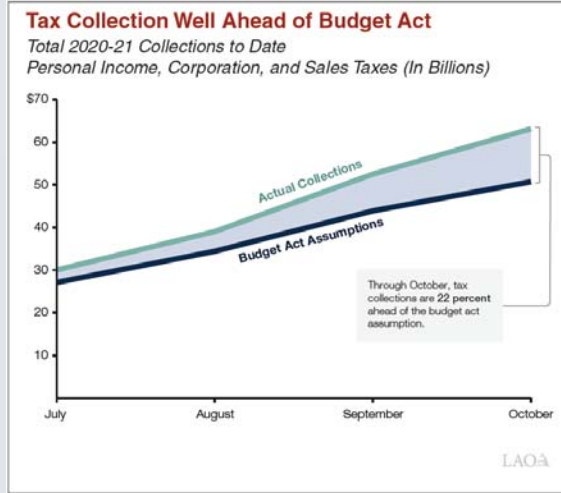
Carolyn Chu
Legislative Analyst's Office

What Has Changed Since the Budget Passed?

- **Rapid Rebound Results in Incomplete, Uneven Recovery**
- **Spike in Unemployment Was Historic, but Less Than Feared**
- **Drop in Consumer Spending Was Very Large, but Short-Lived**
- **Stock Market and Technology Sector Doing Particularly Well**
- **Safety Net Program Caseloads Have Not Materialized as Anticipated**

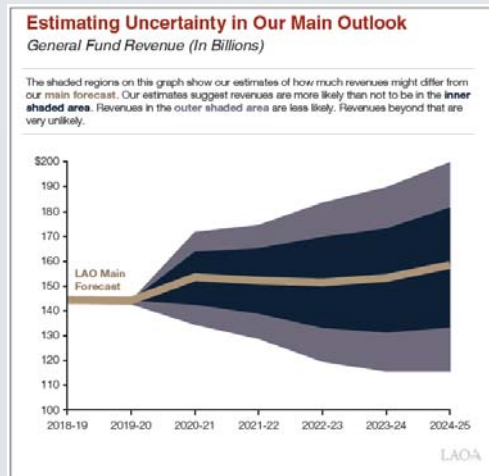
What Has Changed Since the Budget Passed?

(Continued)



Economic Uncertainty Clouds Outlook

Main Forecast Is Our Best Assessment



Likely Significant Windfall in Upcoming Year

General Fund Condition Under Fiscal Outlook			
<i>(In Millions)</i>			
	2019-20	2020-21	2021-22
Prior-year fund balances	\$11,280	\$5,550	\$32,159
Revenues and transfers	141,851	173,464	151,725
Expenditures	147,581	146,855	154,360
Ending fund balances	5,550	32,159	29,523
Encumbrances	3,175	3,175	3,175
SFEU Balances	\$2,375	\$28,984	\$26,348
Reserves			
BSA balances	\$16,489	\$8,683	\$10,871
Safety Net Reserves	450	450	450
Total Reserves	\$16,939	\$9,133	\$11,321

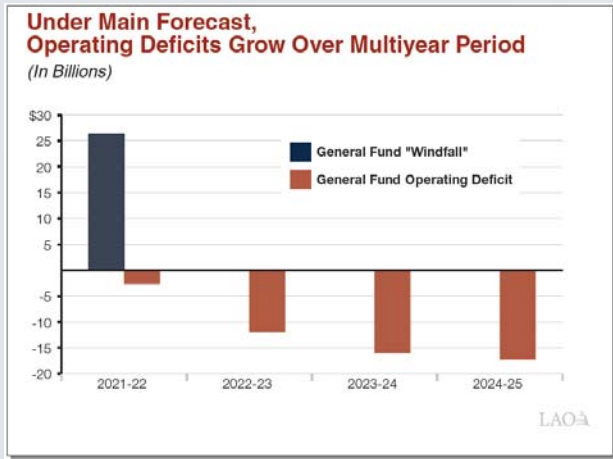
SFEU = Special Fund for Economic Uncertainty and BSA = Budget Stabilization Account.

Despite Windfall, Budget Faces Operating Deficit in 2021-22...

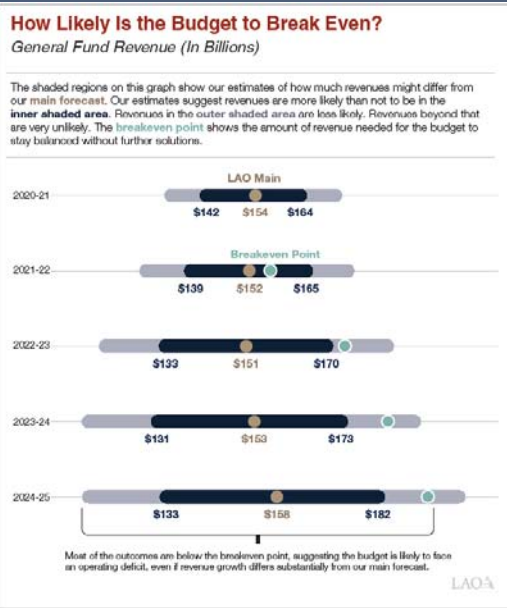
General Fund Condition Under Fiscal Outlook			
<i>(In Millions)</i>			
	2019-20	2020-21	2021-22
Prior-year fund balances	\$11,280	\$5,550	\$32,159
Revenues and transfers	141,851	173,464	151,725
Expenditures	147,581	146,855	154,360
Ending fund balances	5,550	32,159	29,523
Encumbrances	3,175	3,175	3,175
SFEU Balances	\$2,375	\$28,984	\$26,348
Reserves			
BSA balances	\$16,489	\$8,683	\$10,871
Safety Net Reserves	450	450	450
Total Reserves	\$16,939	\$9,133	\$11,321

SFEU = Special Fund for Economic Uncertainty and BSA = Budget Stabilization Account.

...Which Grows in Future Years



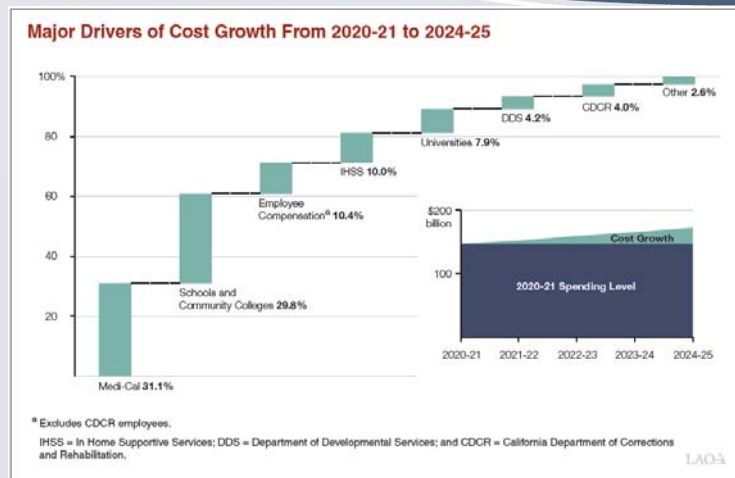
Could the Economy Grow Fast Enough to Overcome Operating Deficits?



Comments and Recommendations

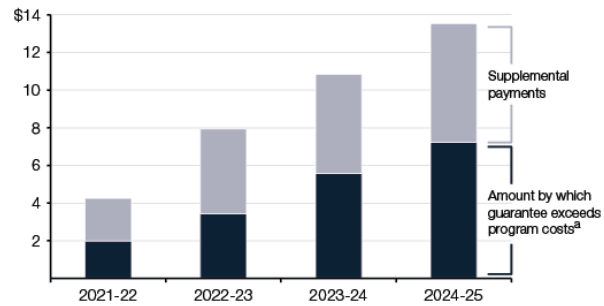
- **Recommend Restoring Budget Resilience**
- **Recommend Using Remainder of Windfall for One-Time, Pandemic-Related Needs**
- **Some Early Actions Would Be Reasonable**
- **Recommend Legislature Begin Multiyear Process to Address Operating Deficit Now**

Sources of Expenditure Growth



In Contrast to the Rest of the Budget, Funding for Schools Grows

Funding for New Commitments Grows Over Time
(In Billions)



^a Assumes existing programs are adjusted for the statutory cost-of-living adjustment and attendance changes.

lao.ca.gov

San Francisco Economic Update



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

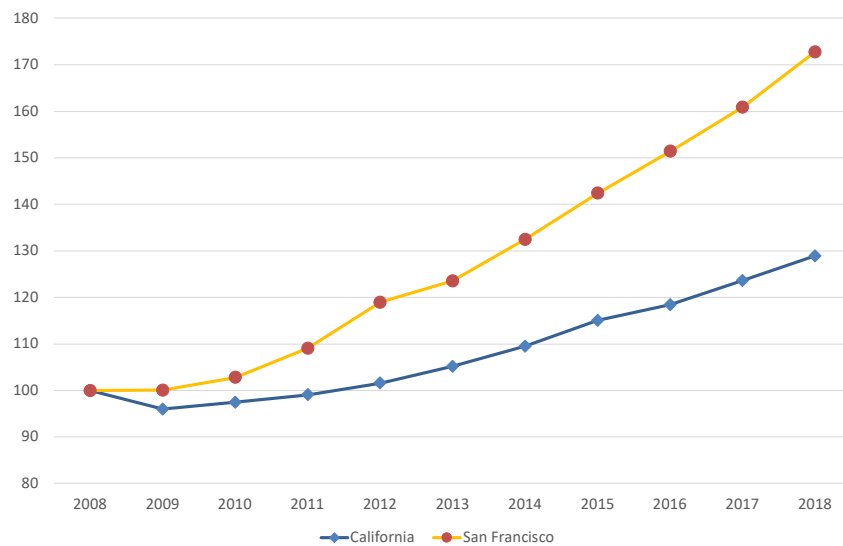
Ted Egan, Ph.D, Chief Economist

December 7, 2020

10 Year of GDP Growth: San Francisco & the State

16

Real GDP in San Francisco and California, 2008-18 (2008=100)

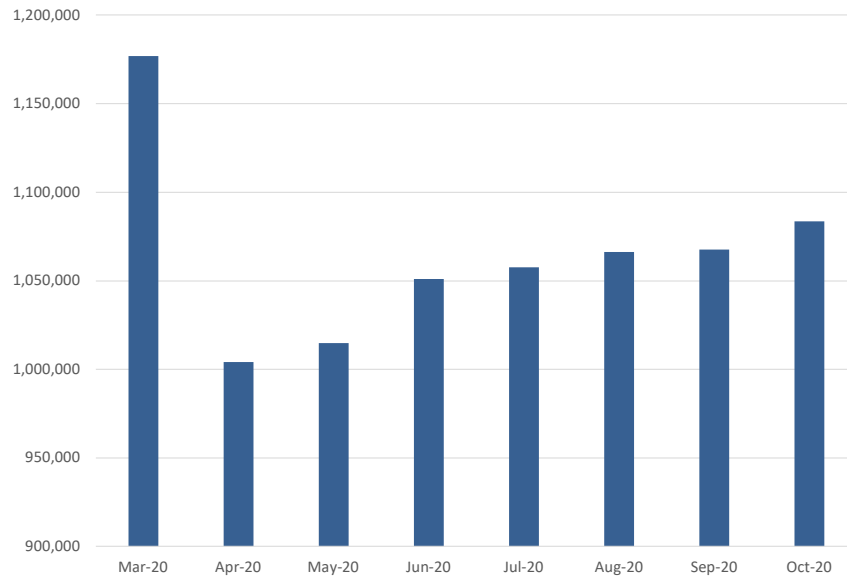


Source: BEA

SF Area Down 93K Jobs, Despite Good October

17

Total Employment in the San Francisco metro Division, March-October 2020

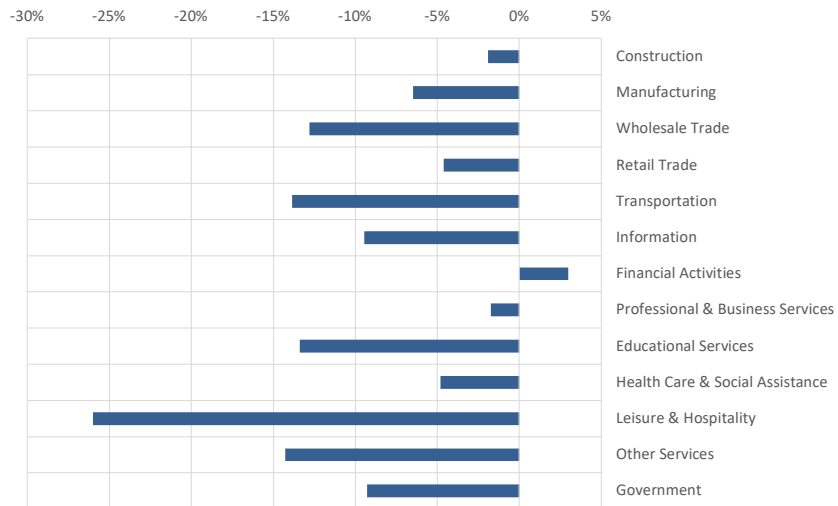


Source: EDD

Tourism Hit Hardest – Private Office the Least

18

Percentage Change in Employment by Industry, San Francisco Metro Division, March-October 2020



Source: EDD

Large Brick & Mortar Losses– No Online Sales Gain



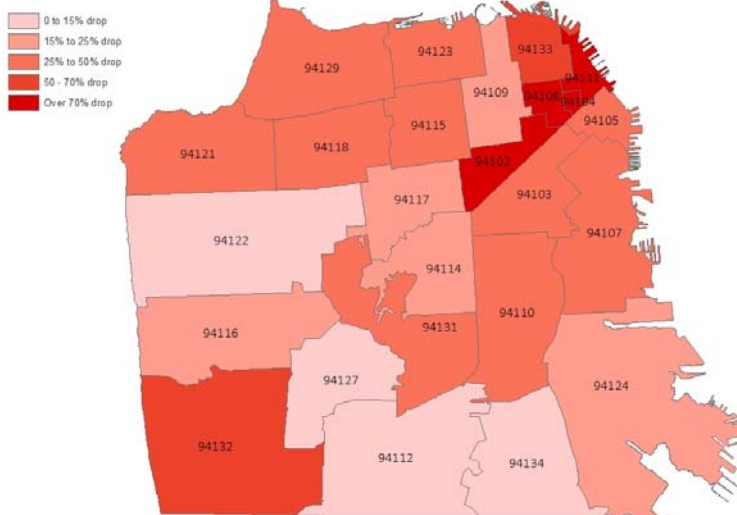
CITY OF SAN FRANCISCO MAJOR INDUSTRY GROUPS

Major Industry Group	Count	2Q20	2Q19	\$ Change	% Change
State and County Pools	-	10,343,487	10,237,656	105,811	1.0%
Restaurants and Hotels	5,683	5,145,716	14,527,526	(9,381,810)	-64.6%
General Consumer Goods	13,217	3,734,432	10,714,327	(6,979,894)	-65.1%
Business and Industry	9,043	3,665,864	6,927,721	(3,261,857)	-47.1%
Food and Drugs	1,541	2,881,773	3,141,360	(259,587)	-8.3%
Building and Construction	682	2,378,572	3,166,378	(787,806)	-24.6%
Autos and Transportation	833	1,932,742	2,485,940	(553,198)	-22.3%
Fuel and Service Stations	139	824,989	2,445,216	(1,620,227)	-74.4%
Transfers & Unidentified	819	82,803	144,347	(61,545)	-42.6%
Total	31,957	30,790,357	53,790,470	(23,000,113)	-42.8%

Source: HDL

Change in Sales Tax by Zipcode, through June

Annual Change in Sales Tax by Zipcode, 2019Q2 to 2020Q2

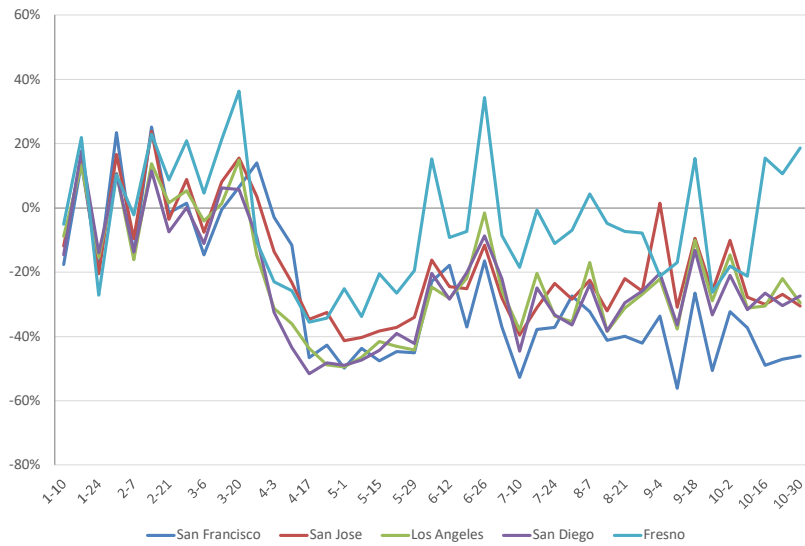


Source: HDL / San Francisco Controller's Office

SF Total Job Listings Also Lag Other Cities

23

Year-Over-Year Percentage Change in Total Job Listings, Major California Cities, January-October 2020

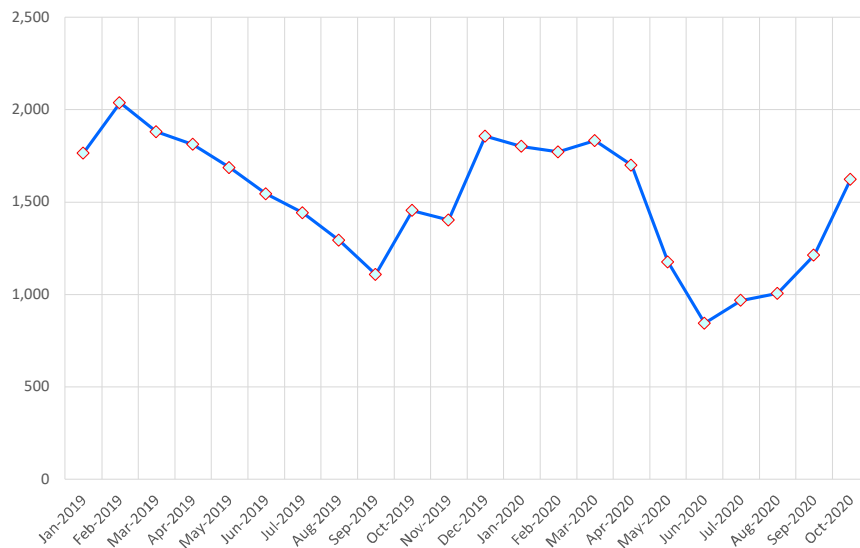


Source: Burning Glass / Opportunity Insights

SF Job Listings of Nine Large Tech Companies

24

Total SF Job Postings for Nine Large SF Tech Companies: January 2019 - October 2020

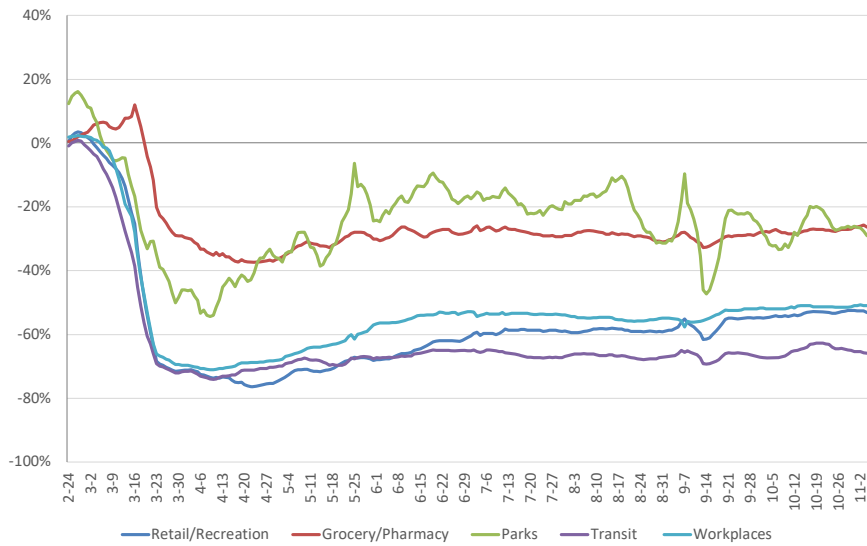


Source: Burning Glass / EDD. Companies are Airbnb, Amazon, Apple, Facebook, Google, Salesforce, Square, Twitter, and Yelp.

Mobility Data: SF Residents Stay at Home the Most

25

Year-over-Year Percentage Change in Time Spent Outside Home in Different Places, San Francisco, February-November 2020

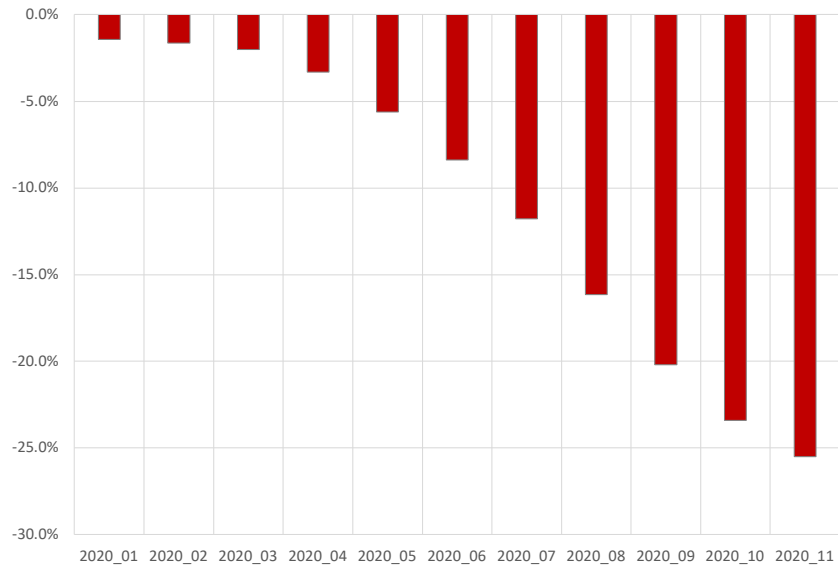


Source: Google / Opportunity Insights

SF's Drop in Asking Rents is Sharpest in the U.S.

26

Year-over-Year Changes in San Francisco Residential Apartment Asking Rents



Source: ApartmentList

San Francisco's Recovery Challenges

27

- San Francisco's economy has been relatively weak during the pandemic, compared to large California and U.S. cities. Clearly, one reason for this has been the relatively high compliance with public health requirements, as evidenced by the Google Mobility data.
- The unusual drop in sales tax, the lack of growth in online retail, and the unusually steep decline in the rental housing market all point to increased out-migration, at least temporarily.
- If this is true, San Francisco's economic recovery does not merely hinge on virus abatement, a recovery in consumer spending, and renewed confidence in travel, taking transit, and congregating in large groups. These are challenges that face every city, to various degrees.
- The pace of the city's recovery will also depend on decisions by workers and businesses about the cost and value of San Francisco office space, and Bay Area housing, compared to alternative cities.
- One positive factor is the rebound in hiring by large tech companies in the city, which has – at least tentatively – returned to pre-pandemic levels.

You Need This ...

An essential resource for anyone involved in local government finance in California.

Up-to-date information on local fees, taxes, charges and intergovernmental revenue for local governments including laws, court decisions, state tax rates, allocation formulas.

- ✓ Data and charts
- ✓ Relevant history and issues
- ✓ Legal references
- ✓ Definitions of terms
- ✓ Capital financing and cost recovery
- ✓ Detailed guidance for calculating a Gann Appropriations Limit

<https://www.cacities.org/publications>

