Controller's Review

Mayor's Proposed Budget for FY 2026-27 and FY 2027-28

Office of the Controller

Budget and Analysis Division

June 11, 2026

Overview

- Charter Section 9.102 requires the Controller to comment on the reasonableness of economic assumptions and revenue estimates in the Mayor's proposed budget.

- **Revenue assumptions in the budget are reasonable** but we caution they are highly dependent on economic conditions and changes at the local, state and federal levels.

- Mayor's proposed **budget closes the structural deficit with ~$300 million in ongoing savings.**

- Makes **prudent use of reserves** to address risks and establishes new reserves.

- Significant risks
  - **November 2026 ballot** could result in the loss of significant sources in the proposed budget

  - Assumption of nearly $**80 million in unspecified position reductions** and **new one-time staffing to mitigate likely ongoing impacts of H.R. 1**

  - **Use of one-time sources,** particularly the use of fund balance in FY 2027-28

  - **Heightened uncertainty** in health department revenues and proposed state, local and federal funding changes.

Size of Budget

General Fund

	FY 2025-26 Budget	FY 2026-27 Proposed	FY 2027-28 Proposed
Fund Balance	$ 152.7	$ 42.4	$ 462.5
Use of Reserves	34.4	117.6	73.5
Regular Revenues	6,575.4	7,140.4	7,109.6
Transfers into the General Fund	258.5	297.2	266.6
Total GF Sources	**$ 7,021.0**	**$ 7,597.6**	**$ 7,912.2**
Change from Prior Year		***$ 576.6***	***$ 314.6***
Percentage Change		***8.2%***	***4.1%***

All Funds

	FY 2025-26 Budget	FY 2026-27 Proposed	FY 2027-28 Proposed
Fund Balance	$ 515.7	$ 616.3	$ 816.4
Use of Reserves	46.4	120.4	75.9
Regular Revenues	15,428.8	16,115.4	16,346.5
Total All-Funds Sources	**$ 15,990.9**	**$ 16,852.2**	**$ 17,238.8**
Change from Prior Year		***$ 861.3***	***$ 386.6***
Percentage Change		***5.4%***	***2.3%***

Tax Revenue

General Fund tax revenue grows by $143.0 million (or 2.9%) in FY 2026-27 compared to the FY 2025-26 Nine Month Report and declines by $50.4 million (or 1.0%) in FY 2027-28.

- Business tax revenue grows in the first year of the budget because of **strength in technology and professional services a**s well as **administrative changes related to Proposition M (2024)** that shifted revenue that previously would have been received in FY 2025-26 into FY 2026-27.
- Commercial real estate "reset" continues, resulting in **sustained transfer tax revenue** and a deposit to the Budget Stabilization Reserve. However, with commercial market values often below assessed values, property **transactions may restrain growth in property tax revenue**. The volume of commercial assessment appeals decisions and related refunds is expected to continue growing, putting downward pressure on revenues.
- **Modest growth is expected for other economically sensitive taxes,** such as sales and hotel taxes, which remain below pre-pandemic levels.

Selected General Fund Taxes ($ millions)

	Actual FY 2018-19	Actual FY 2024-25	9-Month FY 2025-26	Proposed FY 2026-27	Proposed FY 2027-28
Property Tax	2,246.3	2,485.1	2,464.0	2,407.0	2,427.0
% Change			-0.8%	-2.3%	0.8%
Business Tax	917.8	1,120.4	1,341.6	1,572.2	1,477.7
% Change			19.7%	17.2%	-6.0%
Hotel Tax	392.3	255.3	288.1	289.4	291.6
% Change			12.8%	0.5%	0.8%
Sales Tax	213.6	188.3	201.0	201.8	207.8
% Change			6.7%	0.4%	3.0%
Real Property Transfer Tax	364.0	294.4	376.2	358.8	370.4
% Change			27.8%	-4.6%	3.2%
Total	**4,134.0**	**4,343.5**	**4,670.9**	**4,829.2**	**4,774.5**
% Change			7.5%	3.4%	-1.1%

H.R. 1 and DPH Revenue

- **Consistent with the March Five Year Plan, the Mayor's Proposed Budget includes significant revenue losses associated with H.R. 1.** Revenue losses are somewhat offset versus March plan through investments in eligibility workers at H.S.A. to maintain MediCal and CalFresh enrollment , increased claiming related to uncompensated care, and State budget backfill.

	March Deficit		Mayor's Budget	
	FY 2026-27	FY 2027-28	FY 2026-27	FY 2027-28
1. DPH - State MediCal Payments	(4.8)	(9.7)	-	(9.7)
2. DPH - Supplemental Payment Programs	(60.2)	(128.3)	(80.4)	(158.2)
3. DPH - MediCal Disenrollment	-	(57.8)	(16.9)	(98.4)
4. DPH - Uncompensated Care Claiming	-	-	35.6	101.2
5. HSA - CalFresh Administrative Cost Sharing	(19.5)	(26.0)	(5.1)	(6.7)
6. HSA - H.R.1 Implementation Initiative	-	-	(22.5)	(29.2)
Total of H.R.1 and Related State Budget Changes	**(84.5)**	**(221.8)**	**(89.2)**	**(200.9)**

- The **Department of Public Health's (DPH) revenues** are projected to grow by $66.8 million in FY 2026-27 and decline by $26.8 million in FY 2027-28. Absent federal and state cuts, revenues would have grown by $128.4 million in FY 2026-27 and $76.6 million in FY 2027-28. Strength in public health revenue is primarily in Zuckerberg San Francisco General Hospital (ZSFG), Behavioral Health, Primary Care, and Jail Health.

On-going Solutions

The proposed budget makes progress toward closing the structural deficit, with approximately $300 million in ongoing savings.

- The March 2026 Five Year Plan Update forecasted a gap of $741.7 million in FY 2028-29.
- Our preliminary review of proposed ongoing and one-time solutions indicates the shortfall is likely to be approximately $450 million in FY 2028-29, growing in subsequent years.
- Roughly half of the ongoing solutions are comprised of increased tax and public health revenue while the remaining are driven by reductions in citywide personnel costs and other initiatives.
- Continued improvement in the structural deficit will require additional revenue increases or expenditure reductions in future years.

One Time Solutions

The proposed budget assumes the use of $696.1 million of General Fund one-time sources over the two budget years, $175.6 million more than assumed in the March 2026 Update to the Five-Year Financial Plan.

- Use of $**505.0 million in prior year fund balance**

- Use of **$191.1 million of reserves is prudent and commensurate with financial risks:**

  - *Federal & State Revenue Risk Reserve.* ($41.4 million in FY 2026-27 and $43.5 million in FY 2027-28) to support project-based positions (82 FTE in FY 2026-27 and an additional 44 FTE in FY 2027-28) at the Human Services Agency to help maintain Medi-Cal and CalFresh eligibility.

  - *Business Tax Stabilization Reserve.* $29.5 million in FY 2027-28 to partially offset timing of business tax payments related to Proposition M administrative changes.

- **The Controller's Office certifies compliance with the City's nonrecurring revenue policy**, with one caution. Costs for increased eligibility work at the Human Services Agency have been budgeted as a one-time expense and funded by a use of reserve, however, this core eligibility work is likely ongoing.

Reserve Status

	FY 2025-26	FY 2026-27			FY 2027-28			
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Note
General Reserve	**$ 154.9**	**$ 41.5**	**-**	**$ 196.4**	**$ 16.9**	**-**	**$ 213.3**	1
Economic Stabilization Reserves								
City Rainy Day Economic Stabilization Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	429.0	35.9	-	464.8	68.8	-	533.7	3
Economic Stabilization Reserves - Total	**543.5**	**35.9**	**-**	**579.4**	**68.8**	**-**	**648.2**	
Percent of General Fund Revenues	***7.7%***			***8.1%***			***9.1%***	
Reserves for One-Time Uses and Specific Risks								
Budget Stabilization One Time Reserve	54.8	-	(54.8)	-	-	-	-	3
SFUSD Rainy Day Economic Stabilization Reserve	1.0	-	-	1.0	-	-	1.0	2
Federal and State Emergency Grant Disallowance Reserve	1.1	-	(1.1)	-	-	-	-	4
Fiscal Cliff Reserve	15.0	-	(15.0)	-	-	-	-	5
Federal and State Revenue Risk Reserve	433.3	2.2	(41.4)	394.2	-	(43.5)	350.7	6
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	(29.5)	-	7
Public Health Revenue Management Reserve	174.2	-	-	174.2	-	-	174.2	8
Free City College Reserve	-	-	-	-	-	-	-	9
Children's Baseline True-Up	7.9	-	(5.3)	2.6	-	(0.6)	2.0	10
One-Time and Specific Risks - Total	**716.8**	**2.2**	**(117.6)**	**601.4**	**-**	**(73.5)**	**527.9**	
Additional Appropriated Reserves								
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	11
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	12
Salary and Benefits Reserve	13.1	25.8	(38.9)	-	26.6	(26.6)	-	13
Appropriated Reserves - Total	**13.1**	**36.8**	**(49.9)**	**-**	**37.6**	**(37.6)**	**-**	
TOTAL, General Fund Reserves*	**1,428.3**	**116.4**	**(167.5)**	**1,377.2**	**123.3**	**(111.1)**	**1,389.4**	
Selected Non-General Fund Reserves								
Student Success Fund Reserve	18.1	-	-	18.1	-	-	18.1	14
Our City, Our Home Fund Reserve*	98.0	-	-	98.0	-	-	98.0	15

Risk: State and Local Legislative Proposals

- ***June 2, 2026 Business Tax Measures.*** Neither Proposition C nor D were assumed in the Mayor's proposed budget; neither measure appears to have passed, resulting in no change from budget.

- ***November 3, 2026 Proposals.***

Proposed Legislation (Nov 2026)	Ballot	Tax Impacted	Passage Assumed in Budget	Risk FY 2026-27	Risk FY 2027-28	Risk FY 2028-29	Risk FY 2029-30
MTA Parcel Tax	San Francisco	Parcel Tax	Yes	-	166.0	166.0	166.0
Connect Bay Area: Regional Sales Tax	Bay Area Counties	Sales Tax	Yes	17.0	155.0	155.0	155.0
Housing Trust Fund	San Francisco	N/A - General Fund Allocation	No	-	-	6.1	13.6
Risk - Subtotal				17.0	321.0	327.1	334.6
Transfer Tax Proposals							
BUILD Act	San Francisco	Real Property Transfer Tax	No	93.8	96.4	98.8	101.2
Affordable Housing Guarantee Act	San Francisco	Real Property Transfer Tax	No	114.1	117.3	120.4	123.6
Local Taxpayer Protection Act to Save Proposition 13	State	Real Property Transfer Tax	No	-	-	349.2	357.6
Maximum Transfer Tax Impact Per Year				114.1	117.3	349.2	357.6
Total Risk				**131.1**	**438.3**	**676.3**	**692.2**

Risk: Federal & State funding, economic risk

- **Federal funding.** Besides H.R. 1 impacts, the City faces continued risks to funding for a wide variety of programs, including proposals to reduce funding for permanent and supportive housing programs. Federal agencies have terminated, frozen or conditioned grants and funding that City departments rely on for ongoing programming.

- **State budget risk.** The May Revised Budget funding increases for K-12 education would reduce the City's excess ERAF revenue by approximately $30 million annually. These changes are not fully assumed in the Mayor's proposed budget. The State's budget must be finalized by June 15.

- **Economic risk.** Tax revenues in the budget assume relatively strong national and international economic growth, modest local growth, and stable interest rates. However, the inflationary effects of federal immigration, trade policy, and the war with Iran, among other forces, will continue to create risk of interest rates increases, reducing capital and business investments. Additionally, much of the bullish sentiment and returns in equity markets is concentrated in Artificial Intelligence (AI). Setbacks to the AI industry could lead to a correction in values, with large fiscal effects for state and local government, particularly state income taxes.

Local requirements met

- **Reserve deposits.** The proposed budget makes required deposits of $163.1 million to the Budget Stabilization and General Reserves. These deposits are required by Financial Policies previously adopted by the Mayor and Board of Supervisors. The City is not eligible to withdraw from Economic Stabilization Reserves as General Fund revenues are rising.

- **The Mayor's proposed budget adheres to all voter-adopted spending mandates.** All voter-adopted spending requirements are met or exceeded at a direct General Fund cost of at least $1.2 billion in each of the two fiscal years. The baselines include mandated spending on transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. The budget also funds the new Affordable Housing Opportunity Fund adopted in November 2024 (Proposition G).

Voter-Adopted Baselines, Set-Asides, Special Taxes, and Other Mandates (1 of 2)

		FY 2025-26 Original Budget	FY 2026-27 Proposed Budget	FY 2027-28 Proposed Budget	
	General Fund Aggregate Discretionary Revenue (ADR)	*4,660.0*	*5,280.6*	*5,230.3*	
1	**MUNICIPAL TRANSPORTATION AGENCY (SFMTA)**				
	Municipal Railway Baseline - 7.0675% ADR - GF Transfer	329.4	373.2	369.7	a
	Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	116.8	132.4	131.1	a
	Population Adjustment - GF Transfer	90.5	89.8	90.2	a
	Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	71.0	66.8	66.8	a
	Traffic Congestion Mitigation Fund - Special Tax (50%)	9.9	9.9	9.9	c
	Subtotal Municipal Transportation Agency	**617.6**	**672.1**	**667.6**	
2	**LIBRARY PRESERVATION FUND**				
	Library Preservation Fund Baseline - 2.2858% ADR - GF Transfer	106.5	120.7	119.6	a
	Library Preservation Fund Property Tax - $0.025 per $100 NAV	79.3	76.6	77.6	c
	Subtotal Library	**185.9**	**197.3**	**197.1**	
3	**RECREATION & PARKS**				
	Open Space Property Tax - $0.025 per $100 NAV	79.3	76.6	77.6	c
	Recreation & Parks Baseline MOE - Budgeted Amount	90.1	91.5	89.8	a
	(Recreation & Parks Baseline MOE - Required GF Support)	*88.2*	*90.6*	*89.3*	
	Subtotal Recreation and Parks	**169.4**	**168.1**	**167.4**	
	CHILDREN'S SERVICES				
4	**Children & Youth Fund**				
	Children and Youth Fund Property Tax Set-Aside: $0.4 per $100 NAV	126.9	122.5	124.1	c
	Children's Services Baseline - Budgeted Amount	275.2	293.6	299.2	b
	(Children's Services Baseline - Requirement: 4.830% ADR)	*225.1*	*260.4*	*253.2*	
	Transitional Aged Youth Baseline - Budgeted Amount	52.5	60.3	66.0	b
	(Transitional Aged Youth Baseline - Requirement: 0.580% ADR)	*27.0*	*30.6*	*30.3*	
5	**Babies & Families First Fund**				
	Commercial Rents Tax (85%)	156.7	147.5	143.3	c
	Early Care and Education Baseline - Budgeted Amount	77.5	87.0	86.8	b
	(Early Care and Education Baseline - Requirement: 2.212% ADR)	*76.9*	*79.5*	*78.8*	
6	**Public Education Enrichment Fund - 3.0567% ADR**				
	Public Education Enrichment Fund Total - GF Transfer	*142.5*	*161.4*	*159.9*	a
	1/3 Annual Contribution to Preschool for All	47.5	53.8	53.3	
	2/3 Annual Contribution to SF Unified School District	95.0	107.6	106.6	
	Public Education Enrichment Fund Baseline: 0.290% ADR (50% GF, 50% CYF)	13.5	15.3	15.2	a
7	**Student Success Fund (SFUSD)** - GF Transfer	35.0	45.0	60.0	a
8	**Fair Wages for Educators Fund (SFUSD)** - Parcel Tax	54.0	57.3	59.0	c
	Subtotal Childrens Services (Required)	**933.8**	**989.9**	**1,013.5**	

Voter-Adopted Baselines, Set-Asides, Special Taxes, and Other Mandates (2 of 2)

		FY 2025-26 Original Budget	FY 2026-27 Proposed Budget	FY 2027-28 Proposed Budget	
	HOMELESSNESS & HOUSING				
9	**Our City, Our Home Fund**				
	Homelessness Gross Receipts Tax	335.9	465.2	444.9	c
	Our City, Our Home Baseline - Budgeted Amount	365.4	374.6	397.7	b
	(Our City, Our Home Baseline Requirement)	*200.8*	*200.8*	*200.8*	
10	Housing Trust Fund - GF Transfer (net of loan repayment)	48.8	53.8	53.3	a
11	Affordable Housing Opportunity Fund	-	8.3	8.3	c
12	Housing Activation Fund - Empty Homes Tax	-	-	-	c
	Subtotal Homelessness and Housing	**750.1**	**901.9**	**904.1**	
	ARTS				
13	Hotel Tax for Arts Fund - Hotel Tax	33.0	36.0	36.3	c
14	Property Tax - Municipal Symphony - $0.00125 per $100 NAV	4.5	4.6	4.6	c
	Subtotal Arts	**37.5**	**40.6**	**40.9**	
	OTHER				
15	Small Business Assistance Fund - Commercial Vacancy Tax	2.0	1.4	1.4	c
16	Dignity Fund - GF Transfer	59.1	62.1	61.5	a
17	Street Tree Maintenance Fund - GF Transfer	23.0	23.6	23.4	a
18	City Services Auditor: 0.2% of Citywide Budget	27.6	28.8	29.2	b
	Subtotal Other	**111.6**	**116.0**	**115.5**	
	Total Baselines, Set Asides and Special Taxes	**2,806.0**	**3,085.8**	**3,106.1**	
	[a] General Fund Supported Spending Mandate	1,126.2	1,235.7	1,240.3	
	[b] Expenditure Requirement	798.2	844.3	878.9	
	[c] Special Tax or Tax Dedication	881.6	1,005.8	986.9	