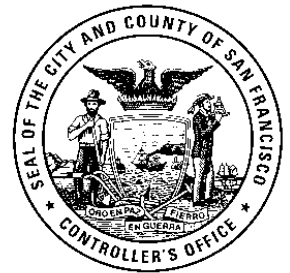
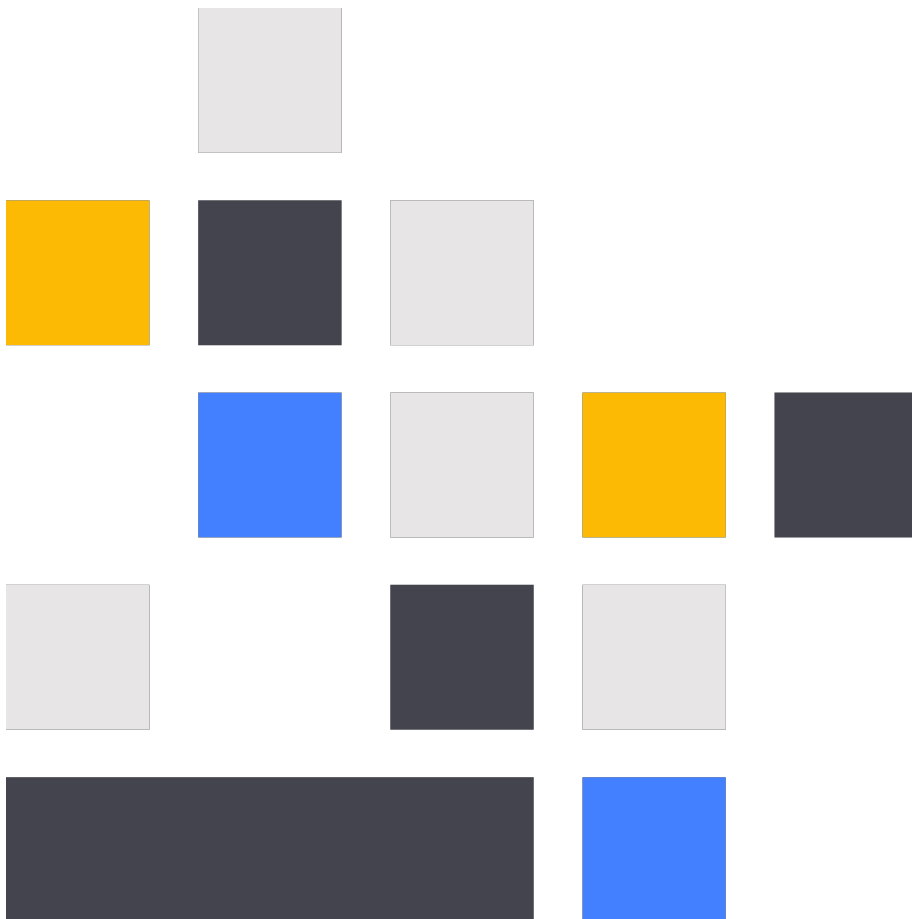


FY 2022-23 and FY 2023-24 Revenue Letter

Controller's Discussion of the Mayor's Proposed Budget

The Charter requires that the Controller comment on revenue estimates assumed in the Mayor's FY 2022-23 and FY 2023-24 proposed budget. We find tax revenue assumptions to be reasonable, but caution they are highly dependent on the pace of economic recovery, will require frequent monitoring, and are subject to updates as conditions change. The budget relies heavily on one-time funds to support operations during the two-year budget period, and a structural gap is likely to persist following the exhaustion of those funds. Voter-approved baseline requirements are funded at or above required levels.



June 9, 2022

City & County Of San Francisco
Office of the Controller
Budget & Analysis Division

About the Budget & Analysis Division

The Budget and Analysis Division (BAD) manages the technical development of the City's annual budget, including forecasting tax revenues, costing and budgeting labor and benefit costs, and assisting the Mayor and Board of Supervisors with costing and budgeting of policy initiatives. The group manages the City's adherence to voter-approved spending requirements and financial policies and produces a variety of reports, including quarterly budget status updates and various fee-related reports. Additionally, the division manages property tax apportionment, rate setting, and reporting to the state, places special assessments on property tax bills, and processes the Assessor's changes to prior and current year property tax rolls.

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Executive Summary

The Charter and other local laws require the Controller to comment on the reasonableness of the revenues assumed in the Mayor's proposed budget, as well whether various other financial requirements are met. In this report, we present our findings related to those requirements and financial risks the City faces over the two fiscal years.

Overview of key assumptions and requirements in the Mayor's proposed budget:

- **Tax revenue assumptions are reasonable and based on the expectation that San Francisco's economy will recover from the public health emergency over several years, with the help of recently adopted new sources of revenue.** The budget broadly assumes General Fund local tax revenue recovers to pre-pandemic levels by FY 2023-24, with significant projected growth during the two budget years. However, the City's fiscal recovery is largely driven by tax increases and new revenue sources that went into effect during the COVID-19 pandemic or are about to be implemented in the budget years. The impact of the pandemic on the City's core, economically sensitive tax revenues – business, hotel, sales, and parking taxes – is expected to linger beyond the budget years, through FY 2025-26.

In FY 2022-23, the largest increases in General Fund tax revenues are in property, hotel, and executive compensation taxes, with increases of \$263.9 million, \$110.4 million, and \$60.0 million, respectively, from the FY 2021-22 original budget. This growth is partially offset by a decrease in business and cannabis tax. In FY 2023-24, General Fund revenue continues to grow from FY 2022-23, with growth in property, business, and hotel taxes, as the city continues its economic recovery. The General Fund budget includes the November 2020 Proposition F business tax overhaul, which raises gross receipts tax rates; November 2020 Proposition I transfer tax rate increase, which doubled taxes on transfers \$10 million and over; and November 2020 Proposition L tax on executive compensation, which is effective in the 2022 tax year. The combined impact of these policy changes total \$233.0 million and \$304.8 million in FY 2022-23 and FY 2023-24, respectively.

The revenue outlook for the City is closely tied to the recovery of sectors most affected by the pandemic: tourism, office using industries, and small businesses. The extent to which changes in these sectors, including the prevalence of telecommuting, patterns of out-migration, resumption of conventions and international travel, are temporary or permanent will be critically important to the City's tax base. The Controller's Office will closely monitor and report on revenues during the upcoming fiscal year, and active management of the City's budget will likely be required by the Mayor and Board of Supervisors.

- **The budget assumes nearly \$1 billion of General Fund one-time sources over the two-years, comprised of federal disaster relief, fund balance, and reserves.** The budget includes \$407.5 million of FEMA reimbursements for COVID-19 emergency response costs through June 30, 2022, given current estimated timelines for FEMA to obligate and remit funds. The budget also uses \$364.0 million of current year fund balance and \$177.8 million of reserves.

By 2023-24, the City will have used more than \$500 million (or about 40%) of its almost \$1.4 billion of reserves, as of FY 2018-19, to support on-going operations. If the City's tax revenues do not grow significantly faster than our latest projections, the City's projected structural deficit will increase as a result. The Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"). General Reserve deposits of \$64.4 million and \$20.6 million in FY 2022-23 and FY 2023-24, respectively, are budgeted at required levels.

- **The Mayor's proposed budget adheres to voter-adopted spending mandates, the minimum compensation rule, and the nonrecurring revenue policy.**
 - **Voter-adopted spending requirements are met, or exceeded, at a total cost exceeding \$2.0 billion annually.** The financial baselines include mandated spending for transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. Several programs are funded above the required levels, including the Children's Services baseline, Transitional Aged Youth baseline, Recreation and Parks baseline, the Our City, Our Home Baseline (November 2018 Prop C), and the Early Care and Education baseline (June 2018 Prop C).
 - **Minimum Compensation Rate.** The Minimum Compensation Ordinance, Section 12P of the Administrative Code, sets a minimum compensation rate for employees at public entities and nonprofit organizations that have contracts with the City. For public entities, the minimum compensation rate is scheduled to increase from \$18.00 to \$18.75 on July 1, 2022. For nonprofits, the minimum compensation level is scheduled to increase at the rate of inflation from \$17.34 to \$17.90 (3.2 percent). These increases only go into effect if sufficient funds are appropriated to fund the increases. The proposed budget includes appropriations for the increase in the minimum compensation rate for public entities at a rate of 5.25 percent, which is sufficient to support the minimum compensation increase for nonprofits. These compensation increases, therefore, will be effective on July 1, 2022.
 - **Nonrecurring Revenue Policy.** The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. As defined by this policy, the FY 2022-23 and FY 2023-24 budget relies on \$177.8 million of one-time sources (use of reserves) to support \$357.8 million of one-time expenditures.

Overview of key financial risks:

- While we find the revenues assumptions in the Mayor's proposed budget to be reasonable, we believe the City faces several key financial risks in coming fiscal years. These risks include (1) economic risk, (2) funding uncertainty at Laguna Honda Hospital, (3) State budget revenue risk, (4) disallowance of claims for federal revenues assumed in the City's emergency response budgets, and (5) the projected structural budget gap following depletion of one-time funds.

- **Economic risk.** The budget assumes an economic recovery will drive tax revenue growth of \$557.0 million in FY 2022-23 and \$305.9 million in FY 2023-24. While these assumptions track to our economic and financial projections, they are subject to significant uncertainty. Key factors to monitor include whether conditions in the City will remain relatively favorable and continue to permit a growing amount of economic activity to resume; whether return to offices will play out as expected in the coming two fiscal years; and whether the local hospitality and convention industries will recover at the pace underpinning these tax revenue projections. Modest changes in these key factors would drive significant variances in actual financial revenue performance.

In addition, economists have become increasingly concerned about the potential for a recession in the next twelve months. The war in Ukraine has increased prices of gasoline, metals, and other raw materials. These increases, along with the excess demand in the labor market, are increasing pressure on the Federal Reserve to raise interest rates to tamp down inflation. Aggressive rate hikes could increase the risk of recession.

- **Laguna Honda Hospital.** The City has received notice from the Centers for Medicare and Medicaid Services (CMS) of termination of eligibility for participation in those federal programs for services provided at Laguna Honda Hospital. The City is seeking an extension of those revenue sources during the recertification process, which may take six months or longer to complete. If this request for continuity of payment is not successful, the City would lose approximately \$16 million per month. The City maintains a Public Health Revenue Reserve that may be utilized to offset these losses in the current year, should it occur.
- **State budget revenue risk.** As the State finalizes its budget by June 15th, 2022, proposals to adjust the K-12 Local Control Funding Formula (LCFF) and increase per-pupil funding for Special Education AB-602 programs, will likely reduce the City's excess ERAF allocations from what is assumed in the Mayor's proposed budget. The Controller's Office is assessing the impacts of the State budget, including potential increases in 1991 and 2011 realignment revenues from the May Revise budget, and will report back to the Mayor and the Board of Supervisors as more is known.
- **Federal revenue risk.** The City anticipates \$629.5 million of reimbursements from the Federal Emergency Management Agency (FEMA) for public health emergency response costs incurred beginning in March 2020, including amounts in the proposed budget of \$243.4 million in FY 2022-23 and \$164.4 million in FY 2023-24. To date, FEMA has obligated \$222.0 million of claims and \$219.0 million has been paid to the City. The federal reimbursement and auditing process will likely continue for several fiscal years, leaving a key risk to budgeted revenues.
- **Structural budget challenges in future fiscal years.** As noted above, the Mayor's proposed budget is balanced with a heavy reliance on one-time sources, including FEMA reimbursements, reserves, and fund balance. As proposed, these funds would be

depleted over the two-year budget period, leaving a structural budget challenge, projected to be \$44.2 million in FY 2024-25 and \$156.2 million in FY 2025-26 in the March 2022 update to the Five-Year Financial Plan.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines & Mandated Funding Requirements
5. Other Funds

Appendix 1. General Fund Sources

As shown in Exhibit 1, the Mayor's proposed budget for FY 2022-23 includes \$6.7 billion in General Fund sources and \$13.9 billion in all funds sources, representing an increase from the FY 2021-22 original budget of 5.8 percent in the General Fund and 5.3 percent in all funds. The Mayor's proposed budget for FY 2023-24 includes \$6.8 billion in General Fund sources, a 1.6 percent increase the FY 2022-23 proposed budget, and \$13.9 billion in all funds sources, a 0.7 percent decrease from FY 2022-23 proposed budget.

Exhibit 1. Overview of Budget Sources (\$ million)

General Fund			
	FY 2021-22 Budget	FY 2022-23 Proposed	FY 2023-24 Proposed
Fund Balance	\$ 498.8	\$ 262.5	\$ 101.4
Use of Reserves	279.7	87.7	90.2
Regular Revenues	5,426.6	6,183.4	6,441.3
Transfers In to the General Fund	158.3	201.9	212.2
Total GF Sources	\$ 6,363.4	\$ 6,735.5	\$ 6,845.1
<i>Change from Prior Year</i>		<i>\$ 372.1</i>	<i>\$ 109.6</i>
<i>Percentage Change</i>		<i>5.8%</i>	<i>1.6%</i>
All Funds			
	FY 2021-22 Budget	FY 2022-23 Proposed	FY 2023-24 Proposed
Fund Balance	\$ 778.2	\$ 558.6	\$ 294.6
Use of Reserves	309.9	105.3	116.4
Regular Revenues	12,160.6	13,285.6	13,442.0
Total All-Funds Sources	\$ 13,248.7	\$ 13,949.4	\$ 13,853.0
<i>Change from Prior Year</i>		<i>\$ 700.7</i>	<i>\$ (96.4)</i>
<i>Percentage Change</i>		<i>5.3%</i>	<i>-0.7%</i>

Note: Totals may appear to differ from sum of line items due to rounding

Exhibit 1-1 provides a summary of the General Fund sources in the Mayor's proposed budget.

Exhibit 1-1. General Fund Sources (\$ millions)

Sources of Funds	FY 2021-22 Budget	FY 2022-23 Proposed	FY 2023-24 Proposed	Notes
Fund Balance and Reserves				
Prior Year Fund Balance	\$ 498.8	\$ 262.5	\$ 101.4	1
Use of Reserves	279.7	87.7	90.2	2
<i>Subtotal</i>	778.5	350.2	191.6	
Regular Revenues				
Property Taxes	2,115.6	2,379.5	2,494.9	3
Property Tax	1,870.6	2,051.0	2,142.0	
Excess ERAF	245.0	328.5	352.9	
Business Taxes	957.1	902.3	960.2	4
Sales Tax (Bradley Burns 1%)	145.7	182.9	193.1	5
Hotel Room Tax	78.5	188.9	237.5	6
Utility Users Tax	77.7	82.6	83.8	7
Parking Tax	55.9	80.2	82.6	8
Real Property Transfer Tax	350.1	390.5	423.3	9
Stadium Admissions Tax	3.6	5.4	11.3	10
Cannabis Tax	4.4	-	10.3	11
Executive Pay Tax	-	60.0	80.0	12
Sugar Sweetened Beverage Tax	12.2	13.3	13.0	13
Access Line Tax	49.6	47.1	48.6	14
Licenses, Permits & Franchises	27.9	26.8	27.7	
Fines and Forfeitures	4.0	3.1	3.1	
Interest & Investment Income	36.2	44.5	59.9	15
Rents & Concessions	11.7	13.1	13.3	
Intergovernmental - Federal	359.6	561.6	488.4	16
Federal Emergency Management Agency	49.5	243.4	164.1	
Other	310.2	318.2	324.3	
Intergovernmental - State	854.4	942.3	948.2	
Public Safety Sales Tax	82.0	89.7	94.2	17
1991 Health & Welfare Realignment - Sales Tax and VLF	238.4	269.1	274.9	18
Public Safety Realignment	51.5	61.7	66.0	19
Other	482.5	521.8	513.2	20
Intergovernmental Revenues - Other	2.8	2.6	4.4	
Charges for Services	231.5	217.5	219.1	
Recovery of General Government Costs	23.6	19.9	19.9	
Other Revenues	24.2	19.4	18.7	
<i>Subtotal Regular Revenues</i>	\$ 5,426.6	\$ 6,183.4	\$ 6,441.3	
Transfers In to the General Fund	158.3	201.9	212.2	21
Total Sources	\$ 6,363.4	\$ 6,735.5	\$ 6,845.1	

NOTES

1. Prior Year Fund Balance

In May 2021, the Controller’s Nine Month Report projected total year-end surplus of \$524.9 million, including \$300.0 million from the second tranche of the American Recovery Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF). Departments budgeted an additional \$2.5 million of General Fund surpluses, resulting in a total of \$527.4 million of fund balance available for appropriation. The proposed budget appropriates \$364.0 million in unassigned General Fund balance to support spending. The remaining unappropriated fund balance of \$163.4 million is designated for balancing future year budgets.

2. Use of Reserves

As shown in Exhibit 1-2, the Mayor’s proposed budget uses of \$177.8 million in prior year reserves. See Appendix 2 for more details.

Exhibit 1-2. General Fund Use of Prior Year Reserves (\$ millions)

	FY 2022-23	FY 2023-24
	Proposed	Proposed
<u>General Fund - Use of Prior Year Reserves</u>	<u>Budget</u>	<u>Budget</u>
Budget Stabilization Reserve, One-Time	\$ 54.8	\$ -
Fiscal Cliff Reserve	9.3	90.2
COVID Response and Economic Loss Reserve	14.0	-
Free City College Reserve	4.0	-
Alternative Response Reserve	3.0	-
Hotel Tax Loss Contingency Reserve	2.5	-
Total Use of Prior Year Reserves	\$ 87.7	\$ 90.2

3. Property Tax

The FY 2022-23 General Fund share of property tax revenue is budgeted at \$2,379.5 million, which is \$263.9 million (12.5 percent) more than the FY 2021-22 budget. The FY 2023-24 General Fund share of property tax revenue is budgeted at \$2,494.9 million, which is \$115.3 million (4.8 percent) more than the proposed FY 2022-23 budget. The FY 2022-23 increase captures the assumption change made in the March 2022 Joint Report Update, which assumed only those properties for which an appeal had been filed would potentially receive value reductions, rather than all properties in certain commercial property classes. In addition, year-to-year variances are due to anticipated growth in the annual secured local assessed value of property of about 4.0 percent, contributing approximately \$66.6 million in projected additional general fund revenue. As base property tax revenue increases, excess ERAF (Educational Revenue Augmentation Fund) revenue returned to the City increases as well. Excess ERAF is budgeted at \$328.5 million in FY 2022-23, which is \$83.5 million (34.1 percent) more than the original FY 2021-22 budget, and \$352.9 million in FY 2023-24, which is \$24.3 million (7.4 percent) more than the FY 2022-23 proposed budget. In accordance with State Controller’s Office guidance on the calculation of excess ERAF, the budget assumes ERAF is allocated to the School District for charter schools in the “in lieu” amount, and that historical “residual tax increment” in San Francisco is recognized in ERAF calculations.

The amount of excess ERAF revenue in the budget assumes the Governor’s January Budget proposal of 5.33 percent cost of living adjustments (COLA) to the K-12 Local Control Funding Formula (LCFF) for FY

2022-23 and 3.61 percent for FY 2023-24 along with a 15 percent increase in per pupil funding (to \$820) for Special Education AB-602 programs. These uses of ERAF replace state general fund allocations to schools with allocations from ERAF and reduce excess ERAF returned to the City by a like amount. The budget does not reflect the state legislature's joint budget agreement, announced on June 1, which would increase the LCFF by 16 percent. The legislature will negotiate with the governor's office on areas of different, then send a final budget to the governor by June 15th for his signature by July 1. In addition to legislative risk, underlying office, hotel, and retail property valuations remain subject to uncertainty as international travel, business travel, and office occupancy have not yet fully recovered to pre-pandemic levels.

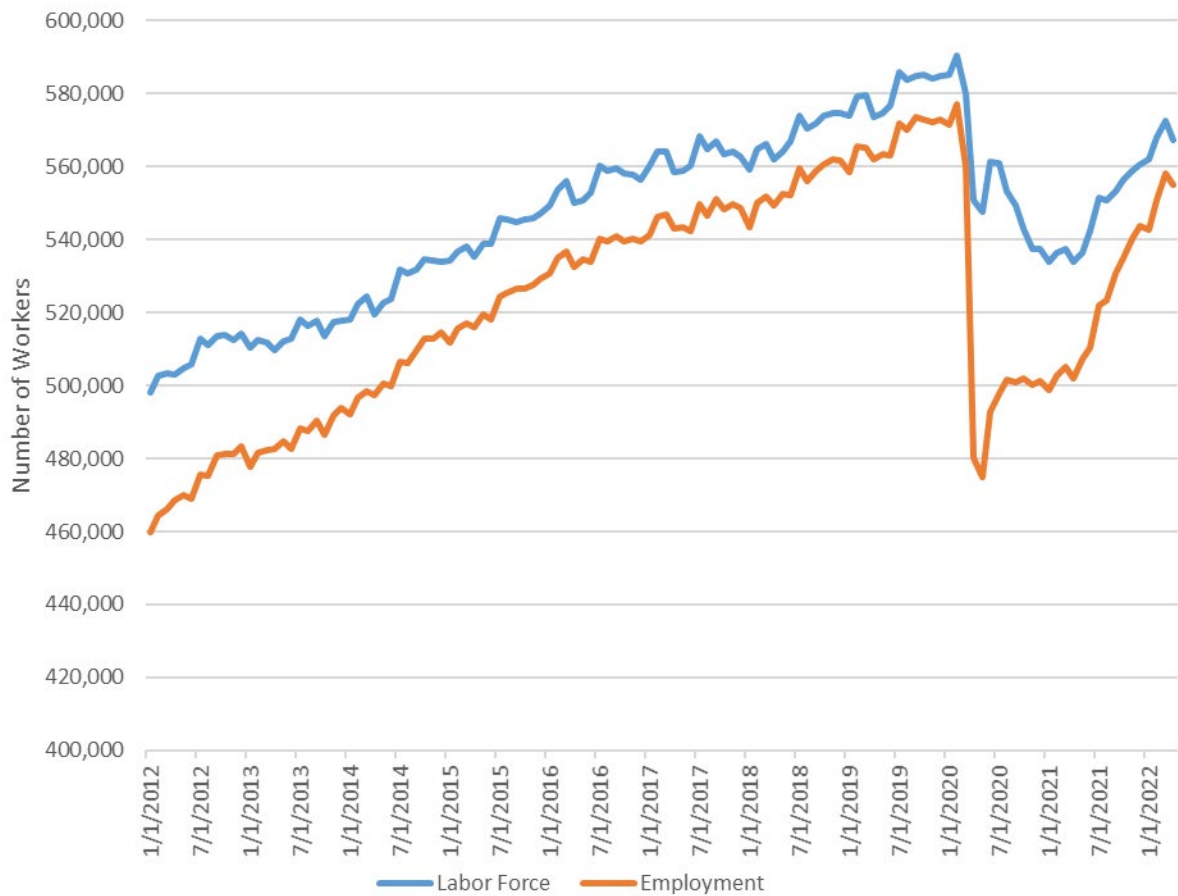
4. Business Tax

FY 2022-23 business tax revenue is budgeted at \$902.3 million, which is \$54.5 million (5.7 percent) less than what was budgeted in FY 2021-22. FY 2023-24 business tax revenue is budgeted at \$960.2 million, which is \$57.9 million (6.4 percent) higher than the proposed FY 2022-23 budget. Business tax revenue is comprised of business registration fees, administrative office tax, and gross receipts tax. Projected increases are driven by our expectation of economic growth of 5 percent in tax year 2022 and 4 percent in tax year 2023 as businesses reopen. In addition, we expect workers in office-using sectors to transition to an average of 33 percent telecommuting by the end of 2022, which would result in increased apportionments of gross receipts to the City as workers return to the office.

Economic Growth. Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The response to the COVID emergency has significantly affected them, and the City's economic condition is still in distress relative to pre-pandemic levels. Telecommuting that began during the COVID emergency is expected to continue indefinitely. In addition to the direct effect this has on business taxes, this leads to secondary declines in tax revenues that would have been generated by workers in the City, including sales, parking, and gross receipts taxes of other businesses. The unemployment rate peaked at 12.6 percent in April 2020 and has declined since then, reaching 2.2 percent in April 2022. Despite the low unemployment rate, the number of employed residents remains below pre-pandemic levels, in part because the population of the City has declined. According to the Census Bureau, the population of San Francisco fell 6.7 percent between April 2020 and July 2021.

Exhibit 1-3 shows monthly labor force and employment levels for the previous ten years through April 2022. In April 2020, during the most restrictive phase of the shelter-in-place order, employment fell to a level not seen since the end of 2012. While employment has generally increased since May 2020, it remains well below the long-term trajectory. The labor force, which is the number of people employed or seeking work, is also below the long-term trajectory, though it continues to increase. The number of unemployed people is shown by the gap between the labor force and employment.

Exhibit 1-3. San Francisco Employment and Labor Force, January 2012 through April 2022



Source: California Employment Development Department

Return to Office. Remote work occurring outside the City creates fiscal risk because for certain categories of businesses, the gross receipts tax is dependent on their San Francisco payroll, and firms only need to calculate their San Francisco payroll expense for employees that physically work within the City’s geographic boundaries. Approximately half of the workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Some of the City’s largest employers in these sectors have indicated that employees may be able to work from home permanently or with a hybrid schedule even as COVID restrictions have been lifted. For example, Twitter plans to let employees work from home indefinitely, Google expects employees in the office three days per week, and Salesforce is leaving the decision up to individual teams within the company. The budget assumes that by the end of 2022, the number of days worked at home for employees in office-centric sectors will remain on average 33 percent above pre-pandemic levels.

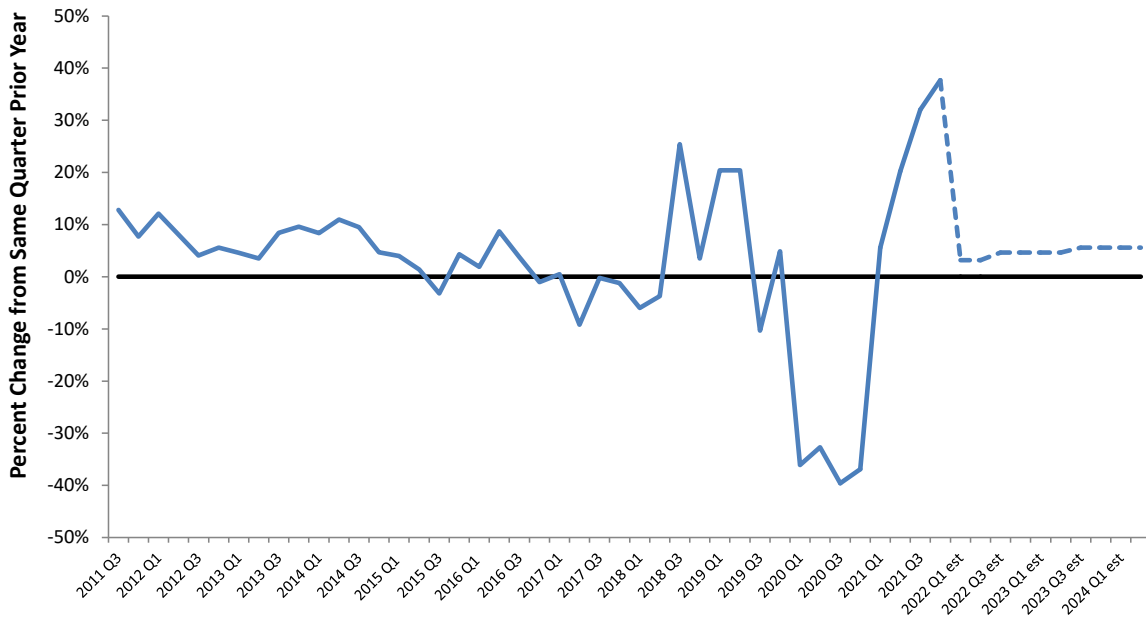
5. Sales Tax

In FY 2022-23, local sales tax revenue is budgeted at \$182.9 million, which is \$37.1 million (25.5 percent) higher than what was budgeted in FY 2021-22. FY 2023-24 local sales tax revenue is budgeted at \$193.1 million, which is \$10.3 million (5.6 percent) higher than the proposed FY 2022-23 budget.

Sales tax experienced significant losses in FY 2019-20 and FY 2020-21 because of the COVID-19 public health emergency. The City has seen lower daytime populations from the lack of travelers and in-

commuters shopping and eating in restaurants. In addition, the Census Bureau estimates that San Francisco’s resident population declined 6.7 percent between April 2020 and July 2021. As businesses reopened and restrictions on restaurants, hospitality, and travel eased in mid-2021, sales taxes in San Francisco and in the state have rebounded. The budget assumes sales tax revenues will grow rapidly in FY 2022-23 and FY 2023-24, but not reach pre-pandemic levels until FY 2025-26.

Exhibit 1-4. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2011-12 to FY 2022-24



6. Hotel Tax

The FY 2022-23 General Fund share of hotel tax revenue is budgeted at \$188.9 million, which is \$110.4 million (140.7 percent) more than what was budgeted in FY 2021-22. FY 2023-24 revenue is budgeted at \$237.5 million, an increase of \$48.6 million (25.8 percent) from the proposed FY 2022-23 budget.

The City’s hotel tax experienced an unprecedented decline in FY 2020-21, with a 90 percent revenue drop compared to pre-pandemic levels. Global travel restrictions, the cancellation of conventions, and overall shape of the pandemic were among the factors which led to closure of a large portion of the City’s hotels. The proposed budget assumes hotel tax returns to pre-pandemic levels by calendar year 2026, with pent-up demand for leisure travel initially driving growth and the resumption of large group events and conventions contributing to rapid growth in the budget years. Conventions drive up hotel room rates through compression pricing, which is important to the full recovery of the City’s hotel tax base.

San Francisco’s hotel tax is derived from hotel stays from individual business travelers, group events such as conferences and meetings, and leisure tourists. These visitors primarily travel to the City by air. In April 2020, at the height of the first peak of the COVID-19 pandemic, enplanements at San Francisco International Airport (SFO) decreased by 97 percent compared to prior year. While air travel has grown

since April 2020, the recovery in San Francisco has lagged other metropolitan areas, with FY 2021-22 to-date average enplanements 44.0 percent below the same period in FY 2018-19. San Francisco is a “gateway to Asia,” and a hub for international travel, which is anticipated to lag domestic travel.

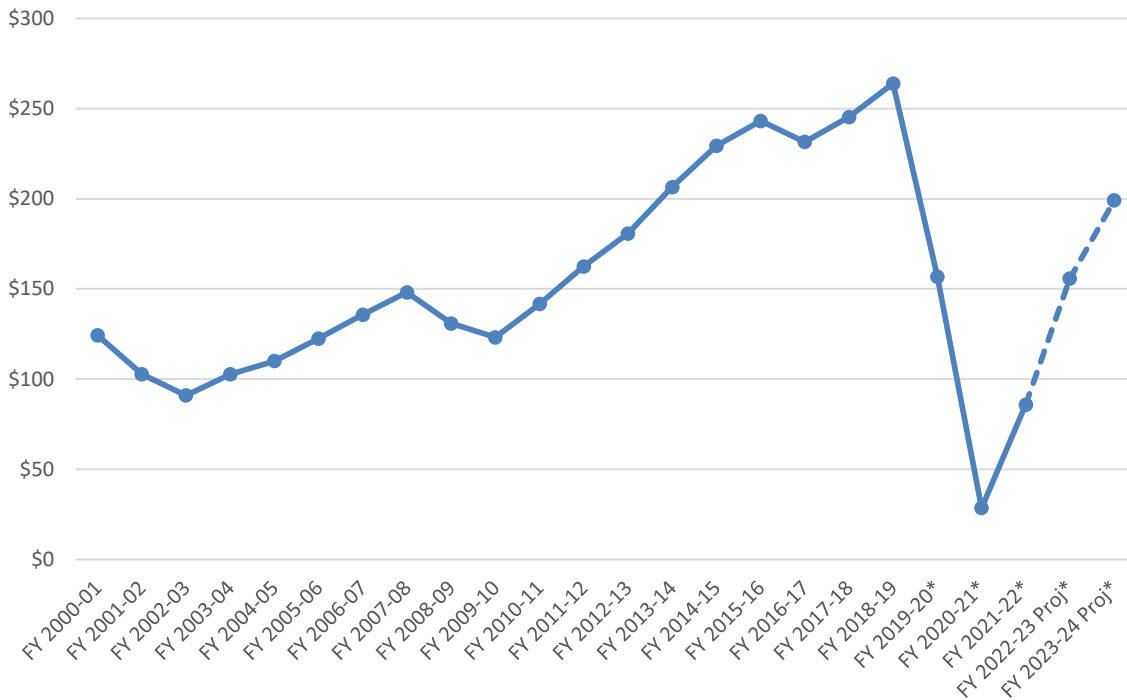
The difference between total and General Fund hotel tax is primarily due to funding requirements set forth in November 2018 Proposition E, which allocated 1.5 percent of the 14 percent hotel tax rate (or approximately 10.7 percent of the total hotel tax revenue) to arts programs outside of the General Fund. Due to the continued effect of the pandemic on hotel tax revenues, these allocations are budgeted at \$23.2 million in FY 2022-23 and \$29.0 million in FY 2023-24, short of the 10 percent ceiling and floor authorized by Proposition E in both years. The budget proposes General Fund backfill of \$8.2 million for the arts allocations to the 10 percent level in FY 2022-23.

Exhibit 1-5. Hotel Tax Allocations for Arts Programming in FY 2022-23 and FY 2023-24

Arts Programming	FY22-23			FY23-24		
	Hotel Tax	Backfill	Total	Hotel Tax	Backfill	Total
Arts Impact Endowment	1.8	0.6	2.5	2.3	-	2.3
Cultural Centers	2.8	1.0	3.7	3.4	-	3.4
Cultural Equity Endowment	4.6	1.6	6.3	5.8	-	5.8
Cultural Districts	2.2	0.8	2.9	2.7	-	2.7
Grants For the Arts	11.8	4.2	16.0	14.8	-	14.8
Total	23.2	8.2	31.4	29.0	-	29.0

Hotel tax revenue is influenced by three factors – average daily room rates, occupancy rate, and supply of available rooms – the first two of which are represented by revenue per available room (RevPAR). Due to the pandemic and associated travel bans and shelter-in-place orders, RevPAR dropped to an all-time low of \$14.40 in April 2020. As a result of low occupancy rates and hotel closures, we refer to the “Total Room Inventory” (TRI) methodology for calculating occupancy and RevPAR, which allows for consistent comparisons to pre-pandemic RevPAR values. FY 2018-19 average RevPAR was \$224.20. TRI RevPAR in April 2020 was \$7.56 and has slowly been recovering as restrictions ease and vaccines rollout. FY 2020-21 average TRI RevPAR was \$28.50, and San Francisco collected a total of \$42.2 million of hotel tax revenue, of which \$33.2 million was allocated to the General Fund. Average TRI RevPAR in FY 2021-22 through April has increased to \$85.87, and the budget assumes RevPAR will continue to increase significantly over the next two fiscal years. However, RevPAR is not expected to recover to pre-pandemic levels until calendar year 2026.

**Exhibit 1-6. Average Annual Revenue Per Available Room (RevPAR)
FY 2000-01 to FY 2023-24**



* Data from FY 2011-12 to FY 2017-18 from CBRE, FY 2018-19 to FY 2020-21 from SF Travel. TRI RevPAR for FY 2020-21 to FY 2023-24.

7. Utility Users Tax

Utility user tax revenue is budgeted at \$82.6 million in FY 2022-23, which is \$5.0 million (6.4 percent) higher than what was budgeted in FY 2021-22. FY 2023-24 revenue is budgeted at \$83.8 million, which is \$1.2 million (1.5 percent) higher than the proposed FY 2022-23 budget. The budget reflects continued recovery in commercial gas and electric utility usage as workers return to the office, but lower than pre-pandemic levels due to continued telecommuting.

8. Parking Tax

Parking tax revenue is budgeted at \$80.2 million in FY 2022-23, which is \$24.3 million (43.4 percent) more than what was budgeted in FY 2021-22. FY 2023-24 revenue is budgeted at \$82.6 million, which is \$2.4 million (3.0 percent) higher than the proposed FY 2022-23 budget. As employees return to the office and tourism in the City rebounds, parking tax revenue will continue to increase, but it is not expected to reach pre-pandemic levels in the next two years due to an expected continuation of employees working from home rather than commuting into the City. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the Municipal Transportation Agency for public transit as mandated by Charter Section 8A.105.

9. Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is budgeted at \$390.5 million in FY 2022-23, which is \$40.4 million (11.5 percent) more than the FY 2021-22 budget and \$101.2 million (20.6 percent) less than the projection in the FY 2021-22 Nine-Month Report. In FY 2023-24, RPTT revenue is budgeted at \$423.3

million, an increase of \$32.9 million (8.4 percent) above the proposed FY 2022-23 budget. The budget assumes the November 2020 Proposition I rates, which doubled transfer tax rates on transactions greater than \$10.0 million. The impact of Proposition I is estimated to be \$141.0 million in FY 2022-23 and \$150.4 million in FY 2023-24, or approximately \$112.9 million and \$120.3 million, respectively, net of baseline funding requirements. Transfer tax revenue is anticipated to fall in FY 2022-23 from extraordinarily high levels in FY 2021-22, which are driven by the sales of two buildings/complexes that are once-in-a-lifetime events. The forecast assumes the number of commercial real estate transfers continues to stall relative to pre-pandemic times in FY 2022-23 at FY 2021-22 levels, adjusted for the extraordinary transfers. In FY 2023-24, the budget assumes the number of transfers increases in FY 2023-24 toward its rate-adjusted long-term average by FY 2024-25. Considering the highly volatile nature of this revenue source, the Controller’s Office monitors collections throughout the fiscal year and provides regular updates to the Mayor and Board of Supervisors.

Exhibit 1-8 shows revenue collections beginning in FY 2000-01. As the City’s most volatile revenue source, collections can see large year-over-year changes that have exceeded 70 percent in some instances. The volatility is seen with month-to-month revenue as well: in the past ten years, the lowest monthly revenue total was in February 2021 (\$7.1 million) and the highest was in September 2021 (\$95.7 million). The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track well with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016 and 2021.

**Exhibit 1-7. Historical Real Property Transfer Tax Revenue (\$ millions),
FY 2000-01 through FY 2023-24**

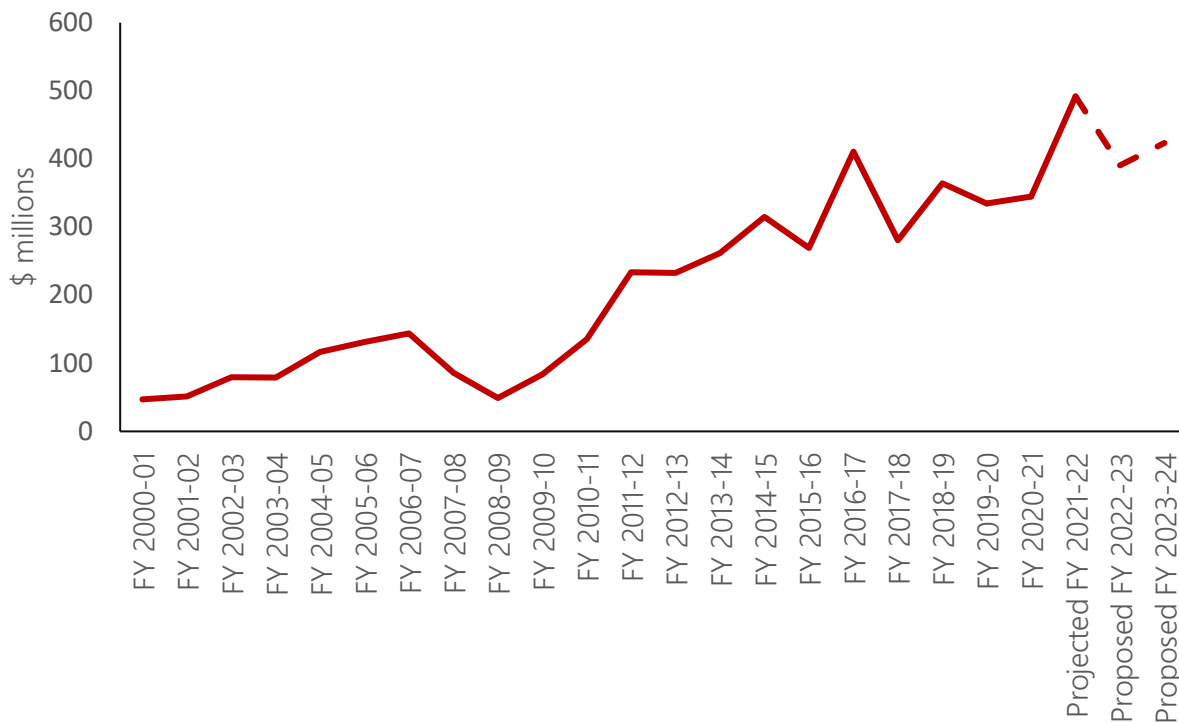
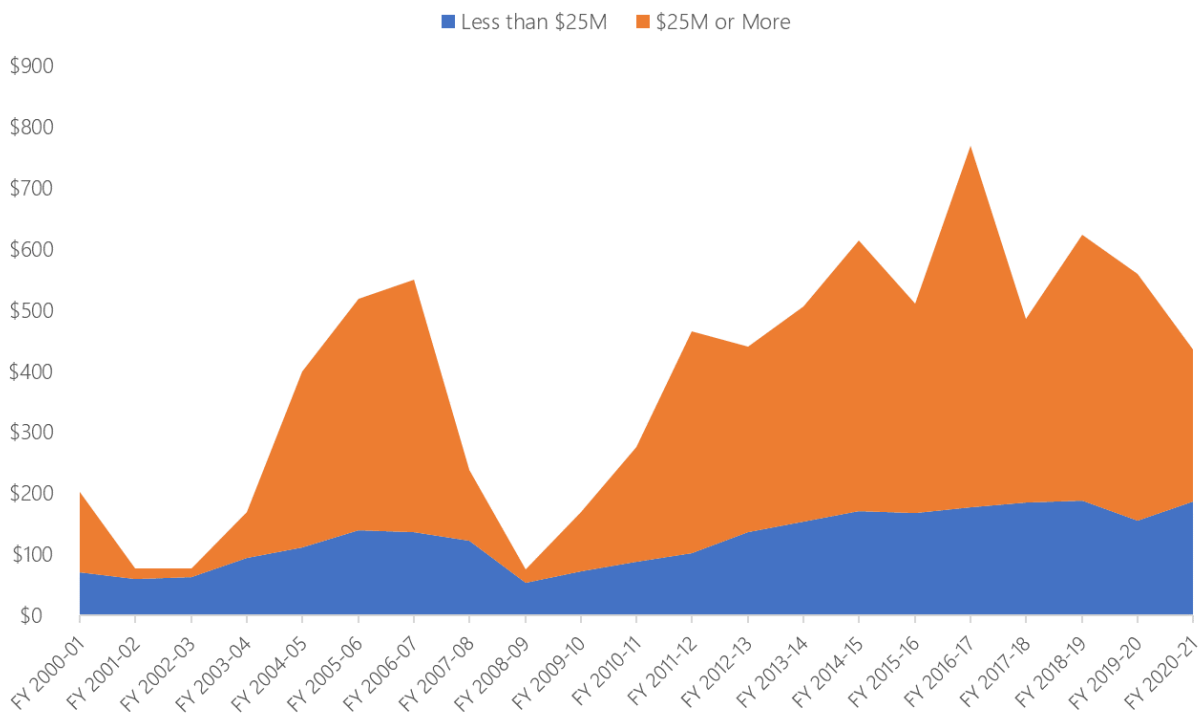


Exhibit 1-8 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Prop W (November 2016), Prop N (November 2010), Prop N (November 2008), and Prop I (November 2020) and demonstrates how RPTT is driven by the sale of high-value (largely commercial) properties over \$25 million. In FY 2008-09, transactions above \$25 million would have generated only \$21 million under the current rates compared to the peak in FY 2016-17, when they would have generated \$592 million. Since the end of the prior recession in FY 2009-10, these large transactions made up on average 53.0 percent of total revenue but only 0.6 percent of the transaction count. This means RPTT revenue is determined by a handful of transactions.

Exhibit 1-8. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-01 through FY 2020-21 (\$ millions)



Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. No deposits are expected during FY 2022-23 or FY 2023-24 as RPTT revenue is projected to be below the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve.

10. Stadium Admissions Tax

Stadium admissions tax revenue is budgeted at \$5.4 million in FY 2022-23, \$1.8 million (8.6 percent) more than the FY 2021-22 budget. FY 2023-24 is budgeted at \$11.8 million in FY 2023-24, \$5.9 million (109.3 percent) more than the FY 2022-23 proposed budget. The budget assumes attendance at large events return to full capacity by FY 2022-23, In FY 2023-24, the budget assumes the tax increases to the full rate of \$2.25 per ticket for most events at Oracle Park.

11. Cannabis Tax

Cannabis tax revenue is budgeted at \$0 million in FY 2022-23, \$4.4 million (100 percent) less than the FY 2021-22 budget. FY 2023-24 revenue is budgeted at \$10.3 million, which is \$10.3 million more than the proposed FY 2022-23 budget. In November 2018, voters approved a new gross receipts tax (Proposition D) of 1 percent to 5 percent on cannabis businesses and allows the City to tax businesses that do not have a physical presence in the city. The excise tax on cannabis was initially set to take effect on January 1, 2021. However, in November 2020, the Mayor and Board of Supervisors delayed the imposition of the tax to January 1, 2022 and increased the exemption thresholds. In December 2021, the Mayor and Board of Supervisors delayed the imposition of the tax for another year, to January 1, 2023. FY 2023-24 will be the first full fiscal year that the tax will be collected.

12. Tax on Executive Compensation

The Tax on Executive Compensation is budgeted at \$60.0 million in FY 2022-23 and \$80.0 million in FY 2023-24. In November 2020, voters adopted Proposition L, a new tax on businesses in the City, where compensation of the businesses' highest-paid managerial employee compared to the median compensation paid to the businesses' employees based in the City exceeds a ratio of 100:1. The measure takes effect on January 1, 2022 for tax year 2022, so revenues will not be recognized until FY 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, and the risk of tax-avoidance. Estimates based on prior years' activity may not be predictive of future revenues.

13. Sugar Sweetened Beverage Tax

Sugar Sweetened Beverage Tax revenue is budgeted at \$13.3 million in FY 2022-23, \$1.1 million (8.6 percent) more than the FY 2022-23 budget. FY 2023-24 revenue is budgeted at \$13.0 million, which is \$0.3 million (2.0 percent) lower than the proposed FY 2022-23 budget. The City's one cent per ounce tax on sugar sweetened beverages became effective January 1, 2018. Pandemic restrictions on restaurant operations have reduced revenue collections in FY 2020-21. In FY 2022-23, the budget assumes a gradual recovery of sugar-sweetened beverage tax revenue, though to lower than pre-pandemic levels. In FY 2023-24 and after, the budget assumes a slow decline as consumers switch to beverages not subject to the tax.

14. Access Line Tax

FY 2022-23 access line tax revenue is budgeted at \$47.1 million, or \$2.5 million (5.1 percent) lower than was budgeted in FY 2021-22. FY 2023-24 revenue is budgeted at \$48.6 million, or \$1.5 million (3.1 percent) higher than the proposed FY 2022-23 budget. The FY 2022-23 budget reflects the loss of a one-time payment in FY 2021-22. Budgets in both years incorporate inflationary increases to the access line tax rate as described in Business and Tax Regulations Code Section 784.

15. Interest & Investment Income

Interest and investment income for FY 2022-23 is budgeted at \$44.5 million, an increase of \$8.2 million (22.7 percent) from the FY 2021-22 budget. FY 2023-24 revenue is budgeted at \$59.9 million, \$15.5 million (34.8 percent) more than budgeted in FY 2022-23. After maintaining interest rates in the 0 to 25 basis points range in 2021, the Federal Reserve raised interest rates by 25 basis points in March 2022. To tamp down inflation, the Federal Reserve has signaled more and larger rate increases during 2022. Increases to earned income yields in the City's pooled funds will likely lag these changes, as lower-yield investments expire and are replaced with higher-yield investments.

16. Intergovernmental – Federal

Federal support in the General Fund is budgeted at \$561.6 million for FY 2022-23, which represents an increase of \$202.0 million (56.2 percent) from the FY 2021-22 budget. FY 2023-24 revenue is budgeted

at \$488.4 million, which is \$73.1 million (13.0 percent) less than the proposed FY 2022-23 budget. The changes in federal revenue are driven by Federal Emergency Management Agency (FEMA) reimbursements for COVID-related expenditures. FEMA reimbursements are budgeted at \$243.4 million in FY 2022-23, which is \$193.9 million (392.1 percent) more than what was budgeted in FY 2021-22. In FY 2023-24, FEMA reimbursements are budgeted at \$164.1 million, which is \$79.3 million (32.6 percent) less than the proposed FY 2022-23 budget. The patterns in the City's FEMA forecast are based on updated timelines upon which FEMA will obligate and remit funds for the entire declared disaster period, as well as the federal extension of that period through June 30, 2022.

17. Intergovernmental – State – Public Safety Sales Tax

Public safety sales tax revenue is budgeted at \$89.7 million in FY 2022-23, an increase of \$7.8 million (9.5 percent) from the FY 2021-22 budget. FY 2023-24 revenue is budgeted at \$94.2 million, which is \$4.5 million (5.0 percent) greater than the proposed FY 2022-23 budget. Public safety sales tax revenue is based on two factors: statewide sales tax revenue and the County's portion of statewide sales tax in the most recent calendar year. The County allocation factor is anticipated to decrease because statewide sales tax revenues have grown faster than County revenues in FY 2022-23. However, because statewide revenues are projected to grow so quickly, led by population growth and related activity in inland areas of the state, local revenue will still increase. Both the allocation factor and statewide revenues are projected to grow in FY 2023-24, resulting in increased local revenues.

18. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2022-23, the General Fund share of 1991 realignment revenue is budgeted at \$269.1 million, or \$30.7 million (12.9 percent) more than the FY 2021-22 budget. The FY 2023-24 revenue is budgeted at \$274.9 million, which is \$5.7 million (2.1 percent) more than the proposed FY 2022-23 budget. The increases are due to anticipated growth in statewide sales tax, resulting in growth in revenues for both FY 2022-23 and FY 2023-24.

19. Intergovernmental – State – Public Safety Realignment

Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. This revenue is budgeted at \$61.7 million in FY 2022-23, a \$10.2 million (19.7 percent) increase from the FY 2021-22 budget. The FY 2023-24 proposed budget is \$66.0 million, a \$4.3 million (7.0 percent) increase from the proposed FY 2022-23 budget. Similar to 1991 Health and Welfare Realignment, the increases are due to anticipated growth in statewide sales tax, resulting in growth in revenues for both FY 2022-23 and FY 2023-24.

20. Intergovernmental – State – Other

Other state funding is budgeted at \$521.8 million in FY 2022-23, an increase of \$39.3 million (8.1 percent) from the FY 2022-23 budget. In FY 2023-24, other state funding is budgeted at \$513.2 million, a decrease of \$8.6 million (1.6 percent) from the FY 2022-23 proposed budget. The increase in FY 2022-23 is attributable to a series of increases including \$20.7 million in Short-Doyle Medi-Cal funding, \$19.7 million from child welfare services funding, \$14.2 million from community mental health funding, \$7.6 million from In Home Support Service (IHSS) program, \$5.2 million for Medi-Cal eligibility determination services funding, \$3.3 million increase in CalWORKs MOE, and \$13.3 million for other state subvention funding, partially offset by a decrease of \$40.2 in Whole Person Care funding due to the sunset of the pilot program as well as a \$6.3 million reduction in foster care assistance funding. The decrease in FY 2023-24 is primarily due to a \$9.6 million reduction in Short-Doyle Medi-Cal funding and a \$6.1 million reduction in other state

subventions, partially offset by a \$4.7 million increase in child welfare services funding and \$3.0 million in IHSS funding.

21. Operating Transfers In

Transfers-in to the General Fund are budgeted at \$201.9 million in FY 2022-23, an increase of \$43.6 million (27.5 percent) from the FY 2021-22 budget. In FY 2023-24, transfers-in are budgeted at \$212.2 million, an increase of 10.3 million (5.1 percent) from the FY 2022-23 proposed budget. The increase in transfers-in is due to increased Airport concessions revenue, as the City's travel and tourism industry continue to recover from the COVID-19 pandemic and increased intergovernmental payments at the Department of Public Health. The required 15 percent transfer to the General Fund from the June 2020 Proposition C commercial rents tax is also part of the total and the amount is expected to remain stable.

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor's proposed budget includes the use of \$87.7 million and \$90.2 million from reserves in FY 2022-23 and FY 2023-24, respectively. The Mayor's proposed budget also includes \$103.9 million and \$64.7 million in deposits to General Fund reserves during FY 2022-23 and FY 2023-24, respectively.

Exhibit 2-1. Proposed General Fund Reserve Uses and Deposits (\$ millions)

	FY 2021-22	FY 2022-23		FY 2023-24			Note	
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use		Projected Balance
General Reserve	\$ 40.7	64.4	-	\$ 105.1	\$ 20.6	-	\$ 125.7	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8	3
Economic Stabilization Reserves	380.3	-	-	380.3	-	-	380.3	
<i>Percent of General Fund Revenues</i>	<i>6.3%</i>			<i>6.2%</i>			<i>5.9%</i>	
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Budget Stabilization Reserve - One Time Reserve	54.8	-	(54.8)	-	-	-	-	3
COVID Response and Economic Loss Reserve	14.0	-	(14.0)	-	-	-	-	4
Federal and State Emergency Grant Disallowance	81.3	-	-	81.3	-	-	81.3	5
Fiscal Cliff Reserve	229.8	-	(9.3)	220.4	-	(90.2)	130.3	6
Public Health Management Reserve	113.3	-	-	113.3	-	-	113.3	7
Free City College Reserve	5.3	-	(4.0)	1.3	-	-	1.3	8
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0	9
Hotel Tax Loss Contingency Reserve	3.5	-	(2.5)	1.0	-	-	1.0	10
Alternative Response Reserve	3.0	-	(3.0)	-	-	-	-	11
Other Reserves	507.0	-	(87.7)	419.4	-	(90.2)	329.2	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	12
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	13
Salary and Benefits Reserve	-	23.5	(23.5)	-	28.1	(28.1)	-	14
Annual Operating Reserves	-	39.5	(39.5)	-	44.1	(44.1)	-	
TOTAL, General Fund Reserves	928.0	103.9	(127.2)	904.8	64.7	(134.2)	835.2	

NOTES

1. General Reserve

The General Reserve, established in Administrative Code Section 10.60, is intended to address revenue and expenditure issues not anticipated during budget development, and is typically used to fund supplemental appropriations or to offset significant revenue losses following the adoption of the budget.

The Administrative Code required the General Reserve to increase to 3.0 percent of General Fund revenue by FY 2020-21, with unused General Reserve carried forward from the prior year into the new budget year. However, in years when the City withdraws from the Rainy Day reserves, as it did in FY 2020-21 and FY 2021-22, the required balance of the General Reserve is reset to 1.5 percent of General Fund revenue, growing to 3.0 percent of General Fund revenues in 0.25 percent annual increments thereafter. In FY 2022-23, the General Reserve required funding level is 1.75 percent of General Fund revenue and grows to 2.0 percent in FY 2023-24. The deposit amounts are \$64.4 million and \$20.6 million, respectively, given budgeted revenue levels and replenishment of prior year withdrawals.

2. Rainy Day Reserves

The Rainy Day Reserve is established in Charter Section 9.113.5 and is funded by excess revenue growth in during periods of economic expansion. During a recession, the maximum allowable withdrawal from the City's Rainy Day Economic Stabilization Reserve is 50 percent of the balance in each year. Rainy Day Reserve balances are comprised of three separate reserves: City Rainy Day Economic Stabilization Reserve, SFUSD Rainy Day Economic Stabilization Reserve, and the City's Rainy Day One-Time Reserve.

The City is ineligible to make withdrawals from the Rainy Day funds in either budget year, and no deposits are projected. As a result, the proposed budget maintains balances in the City Rainy Day Reserve of \$114.5 million, \$0 in the City Rainy Day One-Time Reserve, and \$1.0 million in the SFUSD's Rainy Day Economic Stabilization Reserve.

3. Budget Stabilization Reserve

Established by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by 75 percent of three volatile sources: real property transfer tax revenue adjusted for rate increases, ending unassigned fund balance, and certain asset sales. The City is ineligible to make withdrawals and not projected to make deposits to this reserve in either budget year. As a result, the Mayor's proposed budget maintains a balance of \$265.8 million.

When the combined balance of the Budget Stabilization Reserve and Rainy Day Reserve exceeds 10 percent of General Fund revenues, the excess is deposited in the Budget Stabilization One-Time Reserve. The proposed budget withdraws the entire balance of \$54.8 million in FY 2022-23.

4. COVID Response and Economic Loss Reserve

Section 32 of the administrative provisions of the FY 2020-21 Annual Appropriations Ordinance established a COVID Response and Economic Loss Reserve. The Mayor's proposed budget appropriates the remainder of this reserve, \$14.0 million, in FY 2022-23.

5. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the FY 2021-22 Annual Appropriations Ordinance established a Federal and State Emergency Grant Disallowance Reserve for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies. The Mayor's proposed budget makes no changes to this reserve, maintaining a balance of \$81.3 million.

6. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the FY 2021-22 Annual Appropriations Ordinance established a Fiscal Cliff Reserve for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. The FY 2021-22 ending balance of the reserve is projected to be \$229.8 million, as reported in the Nine-Month Report. The Mayor's proposed budget withdraws \$9.3 million in FY 2022-23 and \$90.2 million in FY 2023-24 from this reserve.

7. Public Health Revenue Management Reserve

The Public Health Management Reserve is authorized under Section 12.6 of the administrative provisions of the FY 2013-14 Annual Appropriation Ordinance, authorizing the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future

reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. The FY 2021-22 ending balance of the reserve is projected to be \$113.3 million, as reported in the Nine-Month Report. There are no anticipated deposits or withdrawals from this reserve.

8. Free City College Reserve

The Free City College Reserve was authorized by Administrative Code Section 10.100-288 in November 2016 to provide a degree of funding stability to the Free City College Program. The initial deposit of \$1.0 million was made in FY 2017-18. By the end of FY 2018-19, the ending balance of this reserve was \$2.0 million. In September 2019, Ordinance 175-19 revised the funding mechanism for this reserve. From FY 2019-20 to 2022-23, any unspent funds for the Free City College Program for that year shall be deposited in the reserve. From FY 2023-24 to FY 2028-29, 50 percent of unspent funds shall be deposited in the reserve. The FY 2021-22 ending balance of the reserve is projected to be \$5.3 million, as reported in the Nine-Month Report. The Mayor's proposed budget withdraws \$4.0 million in FY 2022-23, resulting in an ending balance of \$1.3 million at the end of FY 2022-23.

9. Mission Bay Transportation Improvement Fund Overlapping Event Reserve

The Mission Bay Transportation Fund was authorized by Administrative Code Section 10.100-364 in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena are dedicated to this fund. When the arena is fully operational, the fund is expected to receive more than \$12 million annually. The legislation establishing the fund created a reserve of \$1.0 million to address transportation and other community needs when overlapping events occur at both the Chase Center and Oracle Park. No deposits or withdrawals to this reserve are assumed in the Mayor's proposed budget.

10. Hotel Tax Loss Contingency Reserve

Ordinance 44-21 created a Hotel Tax Loss Contingency Reserve in FY 2020-21 to ensure continuity in funding for arts programming, should there be unanticipated fluctuations in hotel tax as the City's economy recovers from the economic effects of the COVID public health emergency. The FY 2021-22 ending balance of the reserve is projected to be \$3.5 million, as reported in the Nine-Month Report. The Mayor's proposed budget withdraws \$2.5 million in FY 2022-23.

11. Alternative Response Reserve

The FY 2021-22 budget designated \$3.0 million to an unappropriated reserve to support the Compassionate Alternative Response Team. The Mayor's FY 2022-23 proposed budget appropriates the balance of this reserve.

12. Litigation Reserve

The Mayor's proposed budget includes \$11.0 million for the litigation reserve in both FY 2022-23 and FY 2023-24. The reserve provides funding for judgments and claims paid out during the budget period based on historical experience and consistent with the level adopted in the Five Year Financial Plan. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City.

13. Reserve for Technical Adjustments

Reserves of \$5.0 million in each budget year allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

14. Salary & Benefits Reserve

The Mayor's proposed budget provides \$23.5 million and \$28.1 million in FY 2022-23 and 2023-24, respectively, to cover costs related to adopted MOUs with labor organizations based on projected reserve uses.

Appendix 3. One-time Sources and Nonrecurring Revenue Policy

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance is budgeted at \$262.5 million for FY 2022-23 and \$101.4 million for FY 2023-24 for a total of \$364.0 million in the two budget years. This amount is below the prior five-year (FY 2016-17 through FY 2020-21) average of year-end fund balance of \$486.6 million. For the purposes of the nonrecurring revenue policy, the use of fund balance is not considered a one-time source. As shown in Exhibit 3-1, the budget contains \$177.8 million of budgeted nonrecurring sources and \$357.8 million nonrecurring expenditures. Therefore, the Controller's Office certifies compliance with the policy.

Exhibit 3-1. General Fund Nonrecurring Sources & Uses (\$ millions)

One-Time Sources	FY 2022-23	FY 2023-24	Total
	Proposed	Proposed	
Prior Year Reserves			
Budget Stabilization Reserve, One-Time	54.8	-	54.8
Fiscal Cliff Reserve	9.3	90.2	99.5
COVID Response and Economic Loss Reserve	14.0	-	14.0
Free City College Reserve	4.0	-	4.0
Alternative Response Reserve	3.0	-	3.0
Hotel Tax Loss Contingency Reserve	2.5	-	2.5
Total One-Time Sources	\$ 87.7	\$ 90.2	\$ 177.8
One-Time Uses			
Capital	67.9	56.0	123.9
COVID Response Operations	57.3	25.0	82.3
COIT Annual and Major IT projects	27.6	28.5	56.0
CalPERS Prepayment	16.7	15.8	32.5
Equipment	8.7	8.9	17.6
DPH One-Time	14.2	-	14.2
Small Business Grant Pool	10.0	-	10.0
Sunnydale Gap Financing	11.0	-	11.0
Tenderloin Community Development Program	4.0	-	4.0
SFUSD to CCSF Pipeline Program	4.0	-	4.0
Other	2.2	-	2.2
Total One-Time Uses	\$ 223.6	\$ 134.2	\$ 357.8

Appendix 4. Baselines & Mandated Funding Requirements

Voter-approved levels of funding or staffing are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines & Mandated Funding Requirements (\$ millions)

	FY 2021-22 Original Budget	FY2022-23 Proposed Budget	FY2023-24 Proposed Budget	Note
General Fund Aggregate Discretionary Revenue (ADR)	\$ 3,847.5	\$ 4,329.2	\$ 4,657.5	
Financial Baselines				
Municipal Transportation Agency (MTA)				
MTA - Municipal Railway Baseline: 6.686% ADR	268.9	306.0	328.9	
MTA - Parking & Traffic Baseline: 2.507% ADR	96.5	108.5	116.8	
MTA - Population Adjustment	57.6	58.0	87.3	
MTA - 80% Parking Tax In-Lieu	44.7	64.1	66.0	
Subtotal Municipal Transportation Agency	\$ 467.7	\$ 536.7	\$ 599.0	1
Library Preservation Fund				
Library - Baseline: 2.286% ADR	87.9	99.0	106.5	2
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	68.9	75.6	79.6	3
Subtotal Library	\$ 156.9	\$ 174.6	\$ 186.1	
Children's Services				
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	185.8	209.1	224.9	4
Children's Services Baseline - Eligible Items Budgeted	224.4	231.4	227.8	
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	22.3	25.1	27.0	5
Transitional Aged Youth Baseline - Eligible Items Budgeted	39.4	37.1	37.0	
Public Education Services Baseline: 0.290% ADR	11.2	12.6	13.5	6
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	110.3	121.2	126.5	3
<i>Public Education Enrichment Fund: 3.057% ADR</i>	117.6	132.3	142.4	7
1/3 Annual Contribution to Preschool for All	39.2	44.1	47.5	
2/3 Annual Contribution to SF Unified School District	78.4	88.2	94.9	
Subtotal Childrens Services	502.8	534.6	547.3	
Recreation and Parks				
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	68.9	75.6	79.6	3
<i>Recreation & Parks Baseline - Requirement</i>	79.2	82.2	85.2	8
Recreation & Parks Baseline - Budgeted	92.4	88.6	95.0	
Subtotal Recreation and Parks	161.3	164.3	174.6	
Other Financial Baselines				
<i>Housing Trust Fund Requirement</i>	42.4	45.2	44.5	
Housing Trust Fund - Budgeted	60.0	45.2	44.5	9
Dignity Fund	53.1	56.1	59.1	10
Street Tree Maintenance Fund	19.8	22.3	24.0	11
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	3.7	4.0	4.2	12
City Services Auditor: 0.2% of Citywide Budget	23.4	26.1	25.7	13
Mission Bay Transportation Improvement Fund	7.6	8.8	9.1	14
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	215.0	215.0	215.0	15
Our City, Our Home Budget	320.7	367.9	364.2	
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	85.1	91.1	98.0	16
Early Care and Education Budget	91.3	94.7	98.3	
Subtotal Other Financial Baselines	579.7	625.1	629.0	
Total Financial Baselines	\$ 1,868.4	\$ 2,035.2	\$ 2,135.9	

NOTES

1. Municipal Transportation Agency (MTA) Baselines

Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). This baseline is required to be adjusted for significant service increases. Beginning in FY 2021-22, the MTA baseline will increase due to operating costs associated with the opening of the Central Subway.

Beginning in FY 2002-03, this Charter section also established a minimum level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. Proposition B, passed by the voters in November 2014, requires that in addition to adjusting annually for the change in ADR, these baseline amounts be increased for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. Additionally, 80 percent of parking tax revenue is allocated to the MTA.

In total, the Mayor's proposed budget includes funding for these MTA baselines at the required levels of \$536.7 million in FY 2022-23 and \$599.0 million in FY 2023-24.

2. Library Baseline

Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Based on revenue in the Mayor's proposed budget, the Library Baseline requirements of \$99.0 million in FY 2022-23 and \$106.5 million in FY 2023-24 are met. The Library Preservation Fund is set to expire after FY 2023-24. A Charter Amendment to renew the Library Preservation Fund for 25 years has been introduced.

3. Property Tax-Related Set-Asides

Charter Sections 16.108, 16.109, and 16.107 mandate set-asides of property revenues for the Children and Youth Fund, the Library Preservation Fund, and the Open Space Fund, respectively. The Children and Youth Fund receives an allocation of \$0.0400 for each \$100 valuation of taxable property. The Library Preservation Fund and the Open Space Fund receive allocations of \$0.025 for each \$100 valuation of taxable property. The Mayor's proposed budget includes required funding of \$121.2 million in FY 2022-23 and \$126.5 million in FY 2023-24 for the Children and Youth Fund, and \$75.6 million and \$79.6 million in FY 2022-23 and FY 2023-24, respectively, for both the Library Preservation Fund and Open Space Fund.

4. Children's Baseline

Charter Section 16.108 established a Children and Youth Services baseline. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Proposition C, approved by voters in November 2014, amended the Charter to exclude medical health services as an eligible service. As a result, and as part of establishing the Disconnected Transitional-Aged Youth Baseline, the Controller reviewed City appropriations included in the fund and excluded medical health services and other expenditures now mandated by state law. The Controller then recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate. The required Children's baselines for FY 2022-23 and FY 2023-24 are \$209.1

million and \$224.9 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$231.4 million and \$227.8 million, which exceed the minimum requirement by \$22.4 million in FY 2022-23 and \$2.9 million in FY 2023-24.

5. Disconnected Transitional-Aged Youth Baseline

Proposition C, approved by voters in November 2014, amended Charter Section 16.108 to increase the Children's Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. The Charter requires that the TAY Baseline be added to the Children's Baseline, however, it is tracked separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 and like the Children's Baseline is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2022-23 and FY 2023-24 are \$25.1 million and \$27.0 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of \$37.1 million and \$37.0 million, which exceed the minimum requirement by \$12.0 million in FY 2022-23 and \$10.0 million in FY 2023-24.

6. Public Education Services Baseline

Charter Section 16.123-2 established a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required \$12.6 million in FY 2022-23 and \$13.5 million in FY 2023-24 for this baseline.

7. Public Education Enrichment Fund Annual Contribution

In addition to the Public Education Services Baseline, Charter Section 16.123-2 requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes \$132.3 million and \$142.4 million for the Public Education Enrichment Fund Annual Contribution in FY 2022-23 and FY 2023-24, respectively. One-third of the contribution supports the Preschool for All program at the Department of Early Childhood and two-thirds of the contribution supports programming at the San Francisco Unified School District.

8. Recreation & Parks Baseline

In June 2016, voters approved Proposition B, a Charter amendment which requires an annual contribution from the General Fund to the Recreation and Parks Department that will increase by \$3.0 million per year for the next ten fiscal years, and then be adjusted at the same rate as the percentage increase or decrease in ADR. The City may suspend growth in baseline funding in years when the City forecasts a budget deficit of \$200 million or greater. Growth in the required spending level in FY 2020-21 was suspended because of the forecasted budget deficit; however, the requirement continues to grow for FY 2022-23 and FY 2023-24 by \$3.0 million in each year, to \$82.2 million and \$85.2 million, respectively. The Mayor's proposed budget includes General Fund appropriations of \$88.6 million and \$95.0 million, which exceed the minimum requirement by \$6.5 million in FY 2022-23 and \$9.9 million in FY 2023-24.

9. Housing Trust Fund

In 2012, voters established the Housing Trust Fund (Charter section 16.110), which requires an annual contribution from the General Fund to the Housing Trust Fund of \$20.0 million beginning in FY 2013-14 and increasing annually by \$2.8 million. In FY 2021-22, the budget funded the Housing Trust Fund at \$60.0 million, \$17.6 million more than the required amount. FY 2021-22 Administrative provision Section 11.25 of the Annual Appropriations Ordinance directs the Controller to credit the \$17.6 million as an

advance against required appropriations of the Housing Trust Fund, with a required annual repayment to the General Fund of \$3.52 million beginning in FY 2023-24 for five years. This has the effect of lowering the required funding amount by \$3.52 million in each year, from FY 2023-24 through FY 2027-28. The Mayor's proposed budget meets required funding levels of \$45.2 million and \$44.5 million in FY 2022-23 and FY 2023-24, respectively.

10. Dignity Fund

In November 2016, voters approved Proposition I, establishing the Dignity Fund to support programming for seniors and adults with disabilities. Charter section 16.128-3 establishes a baseline contribution from the General Fund to the Dignity Fund of \$38.1 million beginning in FY 2016-17, increasing by \$6.0 million in FY 2017-18 and by \$3.0 million per year from FY 2018-19 through FY 2026-27. From FY 2027-28 and beyond, the baseline is adjusted by the percentage increase or decrease in ADR. The Charter allows the City to suspend growth in this baseline in years when the City forecasts a budget deficit of \$200 million or greater. Growth in FY 2020-21 was therefore suspended for one year, at a level of \$50.1 million. The Mayor's proposed budget includes the required General Fund appropriations of \$56.1 million and \$59.1 million in FY 2022-23 and FY 2023-24, respectively.

11. Street Tree Maintenance Fund

In November 2016, voters approved Proposition E, establishing the Street Tree Maintenance Fund to maintain the City's street trees. Charter section 16.129 establishes a baseline contribution from the General Fund to the Street Tree Maintenance Fund of \$19.0 million in FY 2017-18 and adjusted by the percentage increase or decrease in ADR every year thereafter. The Mayor's proposed budget includes the required total funding of \$22.3 million and \$24.0 million in FY 2022-23 and FY 2023-24, respectively. In November 2020, voters approved the transfer of some of the existing responsibilities of the Department of Public Works to a new Department of Sanitation and Streets, which will be effective beginning October 1, 2022. Due to this transfer of function, three-quarters, or \$16.7 million, of this funding will be allocated to the Department of Sanitation and Streets and the remaining one quarter, or \$5.6 million, to Department of Public Works in FY 2022-23. Beginning from FY 2023-24, 100 percent of this funding will be allocated to the Department of Sanitation and Streets.

12. Municipal Symphony Baseline

Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline is \$4.0 million in FY 2022-23 and \$4.2 million in FY 2023-24.

13. City Services Auditor Baseline

Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget to fund audits of City services. The Mayor's proposed budget includes \$26.1 million in FY 2022-23 and \$25.7 million in FY 2023-24 for the City Services Auditor baseline.

14. Mission Bay Transportation Improvement Fund

The Mission Bay Transportation Fund was authorized in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena are dedicated to this fund. When the arena is fully operational, it is expected to receive more than \$12 million annually. The Mayor's proposed budget includes the required minimum deposit to the fund of \$8.8 million in FY

2022-23 and \$9.1 million in FY 2023-24 These funds are allocated to the Municipal Transportation Agency, Department of Public Works, and the Police Department.

15. Our City, Our Home Baseline

The Homeless Gross Receipts Tax authorized by Proposition C in November 2018 established a requirement to maintain homelessness spending at FY 2017-18 budgeted levels. The base amount of funding was subsequently calculated to be \$215.0 million. This requirement is calculated by totaling all Proposition C-eligible spending, excluding the Our City, Our Home special revenue fund. The calculation includes spending in the General Fund, various special revenue funds, and other funds. The proposed budget appropriates \$369.3 million in FY 2022-23 and \$365.6 million in FY 2023-24 of baseline-eligible spending, exceeding the requirement by \$168.5 million in FY 2022-23 and \$164.8 million in FY 2023-24.

16. Early Care and Education Baseline

The Commercial Rent Tax for Early Care and Education authorized by Proposition C in June 2018 established a requirement to maintain early childhood care and education at FY 2017-18 budgeted levels, adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2022-23 and FY 2023-24 are \$91.1 million and \$98.0 million, respectively. The proposed budget appropriates \$94.7 million in FY 2022-23 and \$98.3 million in FY 2023-24 of baseline-eligible spending, exceeding the minimum requirement by \$3.6 million in FY 2022-23 and \$0.3 million in FY 2023-24.

Appendix 5. Other Funds

This section includes a discussion of various other governmental funds with significant revenue issues, including the Building Inspection Fund; Our City, Our Home Fund; and the Babies and Families First Fund.

BUILDING INSPECTION FUND

Administrative Code Section 10.100-45 established the Building Inspection Fund in 2000, to receive the revenues collected by the Department of Building Inspection for the exclusive purpose of supporting the Department's costs.

Exhibit 5-1. Building Inspection Fund Sources (\$ millions)

Sources of Funds	FY 2021-22 Budget	FY 2022-23 Proposed	FY 2023-24 Proposed	Notes
Use of Fund Balance	\$ 11.3	\$ 17.6	\$ -	1
Use of Reserves	27.2	17.6	26.2	2
Regular Revenue				
Licenses, Permits & Franchises	6.3	6.9	6.9	3
Interest & Investment Income	2.5	1.4	1.9	3
Charges for Services	41.8	49.4	50.6	3
General Fund Transfer	0.3	0.3	0.3	
TOTAL	\$ 89.5	\$ 93.4	\$ 86.0	

1. Prior Year Fund Balance

The Department of Building Inspection balanced the FY 2021-22 budget with \$11.3 million use of prior year fund balance. However, the Department ended FY 2020-21 with only \$2.8 million of fund balance and was therefore short by \$8.5 million in the beginning of FY 2021-22. As reported in the Nine-Month Report, the department forecasted enough current year operating surplus to just cover the deficit.

To support FY 2022-23 budgets, the department closed out inactive projects to realize \$17.6 million of fund balance, as reported in the FY 2021-22 Nine-Month Report. As of FY 2023-24, the department's fund balance is expected to be fully depleted.

2. Use of Reserve

The Department of Building Inspection established a stabilization reserve and a retiree healthcare (OPEB) reserve through the Administrative Provisions of the FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance. The stabilization and OPEB reserves were funded at the maximum level of \$41.0 million and \$32.0 million, respectively, using existing FY 2014-15 year-end fund balance and additional unexpected fund balances in subsequent years. The department budgeted the use of \$27.2 million of stabilization reserve but only needed to withdraw \$25.3 million based on the Nine-Month Report. As a result, there is \$2.0 million more stabilization reserve than previously anticipated. The FY 2022-23 budget withdraws \$15.1 million, to support its operations, leaving a projected balance of \$0.6 million. The department withdraws \$2.5 million and \$26.2 million of the OPEB reserve in FY 2022-23 and FY 2023-24, respectively, leaving a remaining balance of \$3.2 million.

Exhibit 5-2. Building Inspection Fund Reserves (\$ millions)

	Stabilization Reserve	OPEB Reserve	Total
Original Balance	41.0	32.0	73.0
FY 2021-22 Budgeted Use	(27.2)	-	(27.2)
Surplus Projected from FY 2021-22	2.0	-	2.0
<i>FY 2021-22 Projected Year End Balance</i>	<i>\$ 15.7</i>	<i>\$ 32.0</i>	<i>\$ 47.7</i>
FY 2022-23 Proposed Budgeted Use	(15.1)	(2.5)	(17.6)
FY 2023-24 Proposed Budgeted Use	-	(26.2)	(26.2)
<i>FY 2023-24 Projected Year End Balance</i>	<i>\$ 0.6</i>	<i>\$ 3.2</i>	<i>\$ 3.8</i>

3. Regular Revenues

The Department of Building Inspection's regular revenue has been falling gradually for the last five years. As the Department depletes its one-time sources, fund balance and reserves, it will need to adjust its rates to sustain operating costs. The Department's FY 2022-23 budget assumes \$0.4 million of professional services budget to conduct a fee study to review and adjustment the fee rates as necessary.

Exhibit 5-3. Building Inspection Fund Regular Revenues (\$ millions)

Sources of Funds	FY 2017-18 Actuals	FY 2018-19 Actuals	FY 2019-20 Actuals	FY 2020-21 Actuals	FY 2021-22 Projected
Licenses, Permits & Franchises	\$ 6.5	\$ 6.5	\$ 6.8	\$ 6.9	\$ 4.0
Interest & Investment Income	2.6	3.9	3.4	1.0	0.1
Charges for Services	71.1	74.1	63.4	48.4	34.9
Total	\$ 80.3	\$ 84.5	\$ 73.6	\$ 56.4	\$ 39.1
Change from Prior Year		\$ 4.3	\$ (11.0)	\$ (17.2)	\$ (17.3)
Percentage Change		5.3%	-13.0%	-23.4%	-30.6%

OUR CITY, OUR HOME FUND

The Our City, Our Home Fund (OCOH) was authorized by November 2018 Proposition C. The initiative imposes a special purpose tax of varying rates by industry, on businesses with gross receipts of more than \$50 million. Uses of these funds are restricted by formula to four major categories: permanent housing, mental health, prevention, and shelter and hygiene.

Exhibit 5-4. Our City, Our Home (OCOH) Fund Sources (\$ millions)

Sources of Funds	FY 2021-22 Budget	FY 2022-23 Proposed	FY2023-24 Proposed	Notes
Use of Fund Balance	103.5	6.4	13.8	1
Homelessness Gross Receipts Tax	335.6	313.4	328.4	2
Total	\$ 335.6	\$ 313.4	\$ 328.4	

1. Prior Year Fund Balance

The proposed FY 2022-23 and FY 2023-24 budget appropriates \$20.3 million of fund balance to support mental health spending. This fund balance will be realized by de-appropriating FY 2021-22 expenditure savings related to mental health, effectively smoothing out the same spending over a different time period.

2. Homelessness Gross Receipts (HGR) Tax

FY 2022-23 homelessness gross receipts tax is budgeted at \$313.4 million, which is \$22.2 million (6.6 percent) less than the FY 2021-22 budget. FY 2023-24 homelessness gross receipts tax is budgeted at \$328.4 million, which is \$15.0 million (4.8 percent) more than the proposed FY 2022-23 budget. The homelessness gross receipts tax forecast shares the same return-to-office (long-term telecommuting rate of 33percent for office-using businesses) and economic growth (5 percent in FY 2022-23 and 4 percent in FY 2023-24) assumptions as the General Fund business tax forecast discussed in Appendix 1. However, the homelessness gross receipts (HGR) tax base is much narrower than the General Fund business tax base because the HGR is only applicable to the largest businesses. Thus, the revenue generated by this tax is highly volatile. Furthermore, unlike the General Fund, the OCOH Fund's primary source is the homelessness gross receipts tax, which makes this fund more susceptible to this risk.

BABIES AND FAMILIES FIRST FUND

The Babies and Families First Fund was authorized by June 2018 Proposition C. The initiative imposes a special purpose tax on businesses leasing commercial space in the City, the commercial rents tax. The tax rate is 1 percent on amounts a business receives from the lease or sublease of warehouse space and 3.5 percent on amounts a business receives from the lease or sublease of other commercial spaces. Uses of these funds are restricted to spending on early care and education for children under six years old.

Exhibit 5-5. Babies and Families First Fund Sources (\$ millions)

Sources of Funds	FY 2021-22 Budget	FY 2022-23 Proposed	FY2023-24 Proposed	Notes
Commercial Rents Tax	218.6	226.3	229.7	1
Total	\$ 218.6	\$ 226.3	\$ 229.7	

1. Commercial Rents Tax

FY 2022-23 commercial rents tax is budgeted at \$226.3 million, which is \$7.7 million (3.5 percent) more than the FY 2021-22 budget. FY 2023-24 commercial rents tax is budgeted at \$229.7 million, which is

\$3.4 million (1.5 percent) more than the proposed FY 2022-23 budget. The commercial rents tax is expected to be a relatively stable source because commercial rent agreements tend to be several years in duration and because both prime and sub leases are taxed. Like the Our City, Our Home Fund, the Babies and Families First Fund's primary source is the commercial rents tax, which exposes this fund to more risk than funds with more diversified sources like the General Fund. In addition, as noted above in the property tax section in Appendix 1, office occupancy has not yet fully recovered to pre-pandemic levels, potentially reflecting the risk of reduced demand for office space and sustained vacancies.