

File No. 260145

Committee Item No. 9

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget and Finance Committee Date February 25, 2026

Board of Supervisors Meeting Date _____

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Completed by: Brent Jalipa Date February 19, 2026

Completed by: Brent Jalipa Date _____

Five Year Financial Plan Update: FY 2026-27 through FY 2029-30

Joint Report for General Fund Operations by the Controller's Office,
Mayor's Office, and Board of Supervisors' Budget Analyst



December 19, 2025

Executive Summary

PURPOSE

The Five-Year Financial Plan is required under November 2009 Proposition A. The City Charter requires the plan to forecast expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments.

San Francisco Administrative Code Section 3.6(b) requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors' Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the City's Five-Year Financial Plan. This report provides updated expenditure and revenue projections for Fiscal Years (FYs) 2026-27, 2027-28, 2028-29, and 2029-30, assuming no changes to currently adopted policies and staffing levels. The next four-year projection will be released in March 2026, and a full update of the City's Five-Year Financial Plan will be submitted in December 2026.

OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

**Table 1A. Summary of General Fund Supported Operations
Projected Budgetary Surplus / (Shortfall) (\$ Millions)**

	Projection 2026-27	Projection 2027-28	Projection 2028-29	Projection 2029-30
SOURCES Increase / (Decrease)	252.4	697.7	803.0	822.0
Uses				
Baselines & Reserves	(118.8)	(220.2)	(259.0)	(274.3)
Salaries & Benefits	(216.5)	(551.5)	(705.9)	(828.9)
Citywide Operating Budget Costs	(50.4)	(179.5)	(232.4)	(302.2)
Departmental Costs	(78.5)	(165.1)	(289.0)	(380.3)
USES Decrease / (Increase)	(464.2)	(1,116.2)	(1,486.3)	(1,785.6)
Subtotal Surplus / (Shortfall)	(211.8)	(418.5)	(683.3)	(963.7)
State & Federal Policy Impacts	(84.5)	(221.8)	(226.0)	(204.8)
Projected Surplus / (Shortfall)	(296.3)	(640.3)	(909.3)	(1,168.5)
Two-Year Deficit	(936.6)			

These projections are similar in magnitude to those published in March 2025, which forecasted a two-year deficit for the FY 2025-26 and FY 2026-27 budget of \$817.5 million and a cumulative deficit through FY 2029-30 of \$1.4 billion. As required by the City Charter, the FY 2025-26 and FY 2026-27 budget balanced the previous two-year shortfall; however, cost increases and projected losses of federal revenues due to the federal budget reconciliation bill known as H.R. 1 have resulted in a higher deficit than previously reported,

while a shift in one-time fund balance from FY 2026-27 to FY 2027-28 increases the shortfall in the first year with a corresponding decrease in the second year.

The Controller's June 2025 Revenue Letter highlighted the progress made in reducing the City's structural budget gap in the adopted FY 2025-26 and FY 2026-27 budget. Absent projected federal cuts enacted in 2025, this progress combined with growth in citywide revenues would have resulted in a two-year deficit of \$630.3M for the FY 2026-27 and FY 2027-28 budgets—a significant improvement in the two-year deficit compared to prior year projections. However, after reflecting projected cuts to federal revenues, the two-year deficit for the FY 2026-27 and FY 2027-28 budgets has grown to \$936.6 million.

KEY ASSUMPTIONS

Key assumptions affecting the FY 2026-27 through FY 2029-30 projections:

- **Modest General Fund tax revenue growth, largely due to strength in business and real property transfer tax:** Overall growth rates of General Fund taxes are projected each year, at 4.2% in FY 2025-26, 2.7% in FY 2026-27, and an average of 3.4% in FY 2027-28 through FY 2029-30. This projection assumes business taxes will grow by \$407.2 million, or 32.1%, over the five-year period, with real property transfer tax growing by \$99.8 million, or 34.5%, over the same period. However, these two bright spots mask weakness in other areas. Growth in business taxes is largely due to businesses' worldwide sales rather than increased activity inside San Francisco. Strong transfer tax revenues are driven by a reset in post-pandemic commercial real estate values, but under Proposition 13 this reset will constrain property tax growth for years to come. For properties that have not changed hands, high levels of refunds stemming from appeals are projected to curb property tax revenue. Taxes that reflect local economic activity – sales, hotel, and parking taxes – are expected to experience extremely modest growth, at or below expected rates of inflation, through FY 2029-30.
- **No major changes to service levels and number of employees:** The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2025-26 and FY 2026-27 budgeted levels, unless specified below.
- **Assumes previously negotiated wage increases and inflationary increases for open contracts in line with Consumer Price Index (CPI):** This projection continues to assume previously negotiated wage increases in collective bargaining agreements. Police and Firefighters' unions have closed memoranda of understanding (MOUs) through FY 2025-26. Miscellaneous unions have closed MOUs through FY 2026-27. All open contracts assume the average inflation projection of the California Department of Finance SF Metropolitan Statistical Area CPI and Moody's SF Metropolitan Area CPI, equal to 3.30% for FY 2026-27, 3.04% for FY 2027-28, 2.34% for FY 2028-29, and 2.26% for FY 2029-30. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels but rather are used for projection purposes.
- **Pension investment returns of 7.2% per year:** This projection assumes a return on the San Francisco Employee's Retirement System (SFERS) assets of 7.2%, the actuarially assumed rate of return. Employer contributions to both SFERS and CalPERS are estimated using projected rates provided by these entities.

- **Health insurance cost increases:** The employer share of health insurance costs for active employees is projected to increase by 9.0% in each year of the projection period. Dental insurance costs are projected to increase by 8.1% in FY 2026-27, then increase by 4.0% for each remaining year, an average of 5.0% for the projection period. Retiree health costs are assumed to grow by 7.7% in FY 2026-27, 8.9% in FY 2027-28, and 9.5% in FY 2028-29 and FY 2029-30, an average of 8.9% annually over the projection period.
- **Ten-Year Capital Plan, Five-Year Information and Communications Technology (ICT) Plan, and Equipment:** Capital spending as budgeted for FY2026-27 is \$54.6 million and is assumed to increase by \$30 million annually through FY 2027-28 and \$25 million thereafter, in line with the recommendations in the City's forthcoming FY 2026-35 Ten-Year Capital Plan. The IT investment projection assumes a \$4.2 million increase in FY 2026-27 funding of projects in the City's Information and Communications Technology (ICT) Plan and annual 10% increases thereafter. This report assumes no centralized funding of equipment over the projection period.
- **Reserve deposits and withdrawals:** The projection assumes required deposits to the Budget Stabilization Reserve and General Reserve. Consistent with Administrative Code Section 10.60(b), the City will deposit annually to the General Reserve, increasing from 2.75% of General Fund revenues in FY 2026-27 to 3.0% in FY 2027-28. In FY 2028-29 and FY 2029-30, the projection assumes the City maintains a General Reserve balance equal to 3.0% of General Fund revenues.

Consistent with Administrative Code Section 10.60(c), the projection assumes Budget Stabilization Reserve deposits of \$15.4 million, \$64.7 million, \$60.8 million, and \$52.5 million in FY 2026-27 through FY 2029-30, respectively. By FY 2029-30, the balance of the City's economic stabilization reserves (combined Rainy Day and Budget Stabilization Reserves) is expected to be \$698.9 million, which, at 9.4% of projected FY 2029-30 General Fund revenue, will be just below the City's 10% reserve target. Annual deposits to the Budget Stabilization Reserve are driven by anticipated increases to real property transfer tax as changes in ownership of high-value properties accelerate. Each year, 75% of transfer tax revenue exceeding the prior five-year average is deposited to the Budget Stabilization Reserve.

- **Implementation of new business tax structure:** The General Fund projection reflects changes in business tax revenue resulting from voter approval of Proposition M in November 2024. The measure makes a series of reforms to the City's business taxes that are intended to reduce revenue volatility and administrative complexity. When approved by voters, the measure was expected to reduce revenue in 2025 and 2026; we now project revenue to increase in 2025 because of strong growth in gross receipts. The Controller will issue a report by September 1, 2026 that discusses the impact of the Proposition M tax system on revenues.
- **Impact of Federal funding changes from 2025 H.R. 1 bill:** The federal budget reconciliation bill known as H.R. 1 that was signed into law on July 4, 2025, includes, among other provisions, the largest set of cuts to Medicaid since inception. H.R. 1 attempts to: 1) reduce direct federal funding to hospitals, other health care providers, and State and local governments; and 2) create barriers to enrollment to reduce the number of individuals who receive health coverage through Medicaid and other social safety net programs, resulting in reduced reimbursement to service providers. Under the bill, local governments will lose Medicaid funding for adults who do not meet work requirements;

enrollment periods will be shortened and eligibility determinations more frequent; and their ability to finance a portion of Medicaid spending through taxes collected from health care providers will be dramatically reduced. These changes will have significant impacts to both the City and other non-governmental healthcare and social service providers in San Francisco. The projection assumes both a loss of direct federal funding and a graduated disenrollment for individuals affected by ineligibility due to “unsatisfactory immigration status,” updated work requirements, or more frequent redeterminations estimated at over \$200 million annually by FY 2027-28.

Table 1B. State and Federal Policy Impacts

	2026-27	2027-28	2028-29	2029-30
DPH - State Medi-Cal Payments	(4.8)	(9.7)	(9.7)	(9.7)
DPH - Supplemental Payment Programs	(60.2)	(128.3)	(104.5)	(83.3)
DPH - Medi-Cal Disenrollment	-	(57.8)	(85.8)	(85.8)
HSA - CalFresh Administration Cost Sharing	(19.5)	(26.0)	(26.0)	(26.0)
Total - State & Federal Policy Impacts	(84.5)	(221.8)	(226.0)	(204.8)

Specifically, assumptions include:

- A loss of \$4.8 million in State Medi-Cal payments in FY 2026-27, growing to \$9.7 million in FY 2027-28 and thereafter, due to a cut in Medi-Cal payment rates for undocumented adults.
- Losses of funding for uncompensated care and emergency health care of \$60.2 million in FY 2026-27 and \$128.3 million in FY 2027-28, declining in later years as the number of uninsured individuals qualifying for uncompensated care funding grows.
- Medi-Cal reimbursement losses of \$57.8 million in FY 2027-28 increasing to \$85.8 million annually thereafter due eligibility restrictions, including an enrollment freeze for undocumented immigrant adults, increased work requirements, and more frequent eligibility redeterminations reducing enrollment. The projection assumes a one-year waiver delaying updated work requirements, taking effect in January 2027, with redeterminations mid-year. The projection assumes disenrollment of approximately 12%, or just over 30,000 individuals by FY 2028-29.
- Federal financial participation in CalFresh administration is cut from 50% of fully allocated costs to 25%, with an estimated revenue loss of \$19.5 million in the budget year growing to \$26.0 million annually thereafter.

RISKS TO THE FORECAST

As with all projections, uncertainties exist regarding key factors that could affect the City’s financial condition. These include:

- **Additional revenue loss from H.R. 1:** Significant uncertainty remains about the financial impact of H.R. 1, as decisions about how the law will be implemented remain at both the federal and state levels. Prior City projections estimated revenue losses as high as \$300 million to \$400 million per year when the policy changes are fully implemented. Effects to CalFresh administrative and penalty share may range from zero to 100% of costs; the projection assumes a 50% reduction. Actual revenue changes will be dependent on the specifics of individuals’ abilities to maintain eligibility and the cost of their care. The risk of eligibility loss can be mitigated through increased staffing and technology, and service expansions, the cost of which is not assumed in the projections. The Mayor and Board of Supervisors established a Federal and State Revenue Risk Reserve in the FY 2025-26 and FY 2026-27

budget in anticipation of potential federal funding reductions, with a projected balance of \$487.3 million. However, this reserve is a one-time source of funding, while the anticipated financial impacts of H.R. 1 are ongoing. This report does not assume use of the reserve, which would be a policy decision in the annual budget process.

- **Recession risk:** While the budget deficit is very large, the underlying revenue forecast does not assume a recession. Overall growth rates of General Fund taxes are projected each year, at 4.2% in FY 2025-26, 2.7% in FY 2026-27, and an average of 3.4% in FY 2027-28 through FY 2029-30. Should some external economic shock occur, General Fund tax revenue would likely be significantly impacted. A recession scenario is detailed in the last section below. Over the plan period, a recession could worsen the deficit by over \$800 million, even accounting for related reductions to General Reserve deposits and baseline transfers and the use of economic stabilization reserves.
- **Labor negotiations:** This projection assumes approved wage increases in collective bargaining agreements for miscellaneous employees through the end of FY 2026-27, and as negotiated for public safety employees through FY 2025-26. Public safety contracts are open beginning in FY 2026-2027 and miscellaneous contracts are open beginning in FY 2027-28. All open contracts assume growth equal to the average inflation projection of the California Department of Finance SF Metropolitan Statistical Area CPI and Moody's SF Metropolitan Area CPI, equal to 3.30% for FY 2026-27, 3.04% for FY 2027-28, 2.34% for FY 2028-29 and 2.26% for FY 2029-30. This report does not assume any contract changes due to active labor negotiations. Wage changes different from CPI or applied earlier or later than these assumptions would impact the projection.
- **State and federal budget impacts:** This report does not assume significant changes in revenues from the state or federal levels other than those described above. On November 9, 2025, the State Legislative Analyst's Office (LAO) released its FY 2026-27 fiscal outlook, projecting an \$18.0 billion deficit, and describing personal income tax revenue improvements driven by AI-fueled tech worker compensation as the single bright spot in an otherwise weak economy beset by high borrowing costs, tariff and federal government uncertainty, and no job growth. The revenue improvement from state income taxes is almost entirely consumed by legally required allocations to education, reserves, and debt payments. Additionally, the LAO estimates H.R. 1 will increase the state's own Medi-Cal and CalFresh costs. The LAO urges serious consideration of a potential stock market correction, which would have dire consequences on state revenues and lead the state to reduce expenditures, potentially in ways that reduce local government revenues such as excess Educational Revenue Augmentation funds (ERAF), grants, and other programs. Flat state sales tax revenue will mean minimal gains in subventions of state sales tax for public safety, health, and human services.
- **MTA revenues:** This report does not assume discretionary General Fund contributions to the San Francisco Municipal Transportation Agency (MTA) beyond those required by the City's Charter. Reliable, affordable, and accessible public transit is foundational to the City's economy. The MTA's ability to provide these critical services is now at risk due to significant and growing financial pressures. Declining citywide parking revenues, coupled with the expiration of temporary federal support, are projected to create a structural deficit of approximately \$300 million beginning in FY 2026-27. While a potential one-time bridge loan from the State may delay a portion of the shortfall to FY 2027-28, the underlying gap will remain. This means the City will face a combination of pivotal

policy decisions: make deep service cuts and eliminate routes, establish a new dedicated revenue source, or increase General Fund support to sustain MTA's essential operations.

- **Retirement contribution rate:** Projections assume the SFERS adopted 7.2% rate of return in FY 2025-26. Fiscal year-to-date returns through October, 2025, were 4.26%. Returns reported in the final audited valuation at the end of the fiscal year can vary from year-to-date returns due to market volatility and will not be available for several months after year end given the time required to get private market valuations. Final results above the 7.2% assumption will result in lower retirement contribution costs during the forecast period, and results below the assumption will increase costs.
- **Business tax litigation and revenue risk:** As of FY 2024-25 year-end, the City faced a litigation risk of approximately \$570 million in General Fund revenue and an additional \$365 million in non-General Fund revenue. The risk to the Gross Receipts Tax alone was approximately \$500 million, for which the City held \$375 million in reserve at year-end to cover the risk. In the current fiscal year, the reserved amount will increase to match the full liability. The Gross Receipts Tax forecast is reduced by \$85 million in each year to account for potential future claims.
- **Ballot measures:** Voters may approve measures on the June and November 2026 ballots that could materially affect the City's financial outlook. At the time of publication, three initiative measures that would modify aspects of the City's gross receipts and overpaid executive taxes have been submitted to the Department of Elections. This report does not assume the adoption of these or any other measures.

SCHEDULE OF UPCOMING REPORTS CONTAINING BUDGET PROJECTIONS

- **Early February - Controller's Six-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2025-26.
- **Late March - Update to the Joint Report:** This report will update the revenue and expenditure forecasts for FY 2026-27 through FY 2029-30.
- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2025-26.
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2026-27 and 2027-28 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

General Fund Projection

Table 2A. Base Case – Key Changes to General Fund
Supported Sources and Uses – Incremental – FY 2026-27-
FY 2029-30 (\$ Millions)

		Change from AAO Budget	Projection	Projection	Projection	Projection
SOURCES Increase/(Decrease)		2026-27	2026-27	2027-28	2028-29	2029-30
Fund Balance & Reserves						
1	Use of Fund Balance - Gain/(Loss)	(229.6)	(152.7)	350.1	(175.1)	(175.1)
2	Reserves - Use	-	44.8	(70.9)	-	-
	Subtotal Fund Balance & Reserves	(229.6)	(107.9)	279.2	(175.1)	(175.1)
Revenues						
3	General Fund Taxes, Revenues and Transfers net of items below	108.0	391.0	127.6	254.4	166.8
4	FEMA Revenue	-	(85.3)	-	(1.7)	-
5	Public Health - One-time Revenues	4.5	(41.1)	-	-	-
6	Public Health - Operating Revenues	(5.3)	91.1	30.4	25.2	24.9
7	Federal Policy Impacts	(84.5)	(84.5)	(137.2)	(4.2)	21.2
8	Other General Fund Support	(3.2)	4.6	8.1	2.4	2.4
	Subtotal Revenues	19.5	275.8	28.9	276.1	215.2
	TOTAL CHANGES TO SOURCES	(210.1)	167.9	308.1	101.1	40.1
USES Decrease/(Increase)						
Baselines & Reserves						
9	Contributions to Baselines	(26.6)	(102.4)	(49.8)	(50.5)	(36.7)
10	Contributions to Reserves	9.4	(16.4)	(51.6)	11.7	21.4
	Subtotal Baselines and Reserves	(17.2)	(118.8)	(101.4)	(38.8)	(15.3)
Salaries & Benefits						
11	Previously Negotiated Closed Labor Agreements	(0.0)	(121.8)	(146.3)	-	-
12	Projected Costs of Open Labor Agreements	(5.7)	(26.9)	(113.7)	(66.4)	(98.7)
13	Health & Dental Benefits - Current & Retired Employees	(9.2)	(51.4)	(52.3)	(57.7)	(63.2)
14	Retirement Benefits - Employer Contribution Rates	(27.7)	(25.0)	(19.2)	(34.5)	39.7
15	Other Salaries and Benefits Savings/(Costs)	(4.4)	8.6	(3.5)	4.2	(0.8)
	Subtotal Salaries & Benefits	(47.0)	(216.5)	(335.0)	(154.4)	(123.0)
Citywide Operating Costs						
16	Capital, Equipment, & Technology	(1.1)	32.1	(33.0)	(29.9)	(30.6)
17	Multiyear Inflation on Nonprofit Grants	-	(24.1)	(25.5)	(17.5)	(17.8)
18	Minimum Compensation Ordinance	(0.4)	(2.7)	(3.1)	(2.9)	(2.6)
19	Debt Service & Real Estate	(10.2)	(45.9)	(52.2)	12.1	(4.0)
20	Sewer, Water, and Power Rates	0.2	(5.1)	(6.3)	(6.2)	(5.7)
21	Workers' Compensation Claims	-	1.1	(2.5)	(2.0)	(2.0)
22	Citywide Technology Operating Costs	1.0	(4.1)	(4.1)	(3.9)	(4.0)
23	Other Citywide Costs	(0.5)	(1.7)	(2.4)	(2.7)	(3.1)
	Subtotal Citywide Operating Costs	(11.0)	(50.4)	(129.1)	(53.0)	(69.7)
Departmental Costs						
24	City Administrator's Office - Convention Facilities Subsidy	1.8	(3.8)	(2.1)	(3.9)	(0.5)
25	Elections - Number of Scheduled Elections	0.0	(0.4)	(1.2)	(2.5)	2.2
26	Ethics Commission - Public Financing of Elections	(0.7)	(3.0)	0.2	(2.7)	4.2
27	Affordable & Permanent Supportive Housing Project Costs	(1.3)	(8.1)	(8.0)	(5.2)	(9.8)
28	Homelessness - Expiring Grants for Shelters	-	-	(17.8)	(36.3)	(1.6)
29	Human Services Agency - IHSS and Other Benefit Costs	1.6	(18.1)	(22.7)	(29.7)	(38.2)
30	Public Health - Operating Costs	(7.1)	(50.8)	(38.1)	(41.2)	(44.8)
31	Downtown Recovery and Activation	-	2.7	-	-	-
32	Major Departmental Savings from FY 2025-26/FY 2026-27	-	18.1	-	-	-
33	All Other Departmental Savings / (Costs)	(5.2)	(15.2)	3.1	(2.3)	(2.8)
	Subtotal Departmental Costs	(11.0)	(78.5)	(86.6)	(123.9)	(91.3)
	TOTAL CHANGES TO USES	(86.2)	(464.2)	(652.1)	(370.0)	(299.3)
	Projected Surplus/(Shortfall) vs. Prior Year	(296.3)	(296.3)	(344.0)	(269.0)	(259.2)
	Annual Projected Surplus/(Shortfall)	(296.3)	(296.3)	(640.3)	(909.3)	(1,168.5)
	Two-Year Surplus/(Shortfall)		(936.6)			

**Table 2B. Base Case – Key Changes to General Fund-
Supported Sources and Uses – Cumulative – FY 2026-27 -FY
2029-30 (\$ Millions)**

		Change from AAO Budget 2026-27	Projection 2026-27	Projection 2027-28	Projection 2028-29	Projection 2029-30
SOURCES Increase/(Decrease)						
Fund Balance & Reserves						
1	Use of Fund Balance - Gain/(Loss)	(229.6)	(152.7)	197.4	22.3	(152.7)
2	Reserves - Use	-	44.8	(26.1)	(26.1)	(26.1)
Subtotal Fund Balance & Reserves		(229.6)	(107.9)	171.3	(3.7)	(178.8)
Revenues						
3	General Fund Taxes, Revenues and Transfers net of items below	108.0	391.0	518.7	773.1	939.8
4	FEMA Revenue	-	(85.3)	(85.3)	(87.0)	(87.0)
5	Public Health - One-time Revenues	4.5	(41.1)	(41.1)	(41.1)	(41.1)
6	Public Health - Operating Revenues	(5.3)	91.1	121.5	146.7	171.6
7	Federal Policy Impacts	(84.5)	(84.5)	(221.8)	(226.0)	(204.8)
8	Other General Fund Support	(3.2)	4.6	12.6	15.1	17.4
Subtotal Revenues		19.5	275.8	304.6	580.8	796.0
TOTAL CHANGES TO SOURCES		(210.1)	167.9	476.0	577.0	617.2
USES Decrease/(Increase)						
Baselines & Reserves						
8	Contributions to Baselines	(26.6)	(102.4)	(152.2)	(202.6)	(239.3)
9	Contributions to Reserves	9.4	(16.4)	(68.0)	(56.4)	(35.0)
Subtotal Baselines and Reserves		(17.2)	(118.8)	(220.2)	(259.0)	(274.3)
Salaries & Benefits						
10	Previously Negotiated Closed Labor Agreements	(0.0)	(121.8)	(268.1)	(268.1)	(268.1)
11	Projected Costs of Open Labor Agreements	(5.7)	(26.9)	(140.6)	(207.0)	(305.7)
12	Health & Dental Benefits - Current & Retired Employees	(9.2)	(51.4)	(103.7)	(161.4)	(224.6)
13	Retirement Benefits - Employer Contribution Rates	(27.7)	(25.0)	(44.2)	(78.7)	(39.0)
14	Other Salaries and Benefits Savings/(Costs)	(4.4)	8.6	5.1	9.3	8.5
Subtotal Salaries & Benefits		(47.0)	(216.5)	(551.5)	(705.9)	(828.9)
Citywide Operating Costs						
15	Capital, Equipment, & Technology	(1.1)	32.1	(0.8)	(30.7)	(61.3)
16	Multiyear Inflation on Nonprofit Grants	-	(24.1)	(49.6)	(67.1)	(84.9)
17	Minimum Compensation Ordinance	(0.4)	(2.7)	(5.8)	(8.7)	(11.3)
19	Debt Service & Real Estate	(10.2)	(45.9)	(98.2)	(86.1)	(90.0)
20	Sewer, Water, and Power Rates	0.2	(5.1)	(11.3)	(17.6)	(23.3)
21	Workers' Compensation Claims	-	1.1	(1.4)	(3.4)	(5.3)
22	Citywide Technology Operating Costs	1.0	(4.1)	(8.2)	(12.1)	(16.1)
23	Other Citywide Costs	(0.5)	(1.7)	(4.1)	(6.8)	(9.8)
Subtotal Citywide Operating Costs		(11.0)	(50.4)	(179.5)	(232.4)	(302.2)
Departmental Costs						
24	City Administrator's Office - Convention Facilities Subsidy	1.8	(3.8)	(5.9)	(9.8)	(10.3)
25	Elections - Number of Scheduled Elections	0.0	(0.4)	(1.6)	(4.2)	(2.0)
26	Ethics Commission - Public Financing of Elections	(0.7)	(3.0)	(2.7)	(5.5)	(1.3)
27	Affordable & Permanent Supportive Housing Project Costs	(1.3)	(8.1)	(16.0)	(21.2)	(31.0)
28	Homelessness - Expiring Grants for Shelters	-	-	(17.8)	(54.1)	(55.7)
29	Human Services Agency - IHSS and Other Benefit Costs	1.6	(18.1)	(40.8)	(70.5)	(108.7)
30	Public Health - Operating Costs	(7.1)	(50.8)	(88.9)	(130.1)	(174.9)
31	Downtown Recovery and Activation	-	2.7	2.7	2.7	2.7
32	Major Departmental Savings from FY 2025-26/FY 2026-27	-	18.1	18.1	18.1	18.1
33	All Other Departmental Savings / (Costs)	(5.2)	(15.2)	(12.1)	(14.4)	(17.2)
Subtotal Departmental Costs		(11.0)	(78.5)	(165.1)	(289.0)	(380.3)
TOTAL CHANGES TO USES		(86.2)	(464.2)	(1,116.2)	(1,486.3)	(1,785.6)
Annual Projected Surplus/(Shortfall)		(296.3)	(296.3)	(640.3)	(909.3)	(1,168.5)
Two-Year Surplus/(Shortfall)			(936.6)			

SOURCES – REVENUES AND TRANSFERS IN

Economic Context

The December 2025 revenue forecast is situated amidst mixed national and local economic indicators as well as mixed FY 2024-25 financial results. At the same time the City benefits from its position at the center of the AI industry, it faces uncertainty about federal fiscal, monetary, immigration and trade policy, as well as weakening labor market conditions and rising unemployment. The revenue forecast charts a course based on currently available data in this context of change and uncertainty.

National

Unemployment has ticked up slightly from a year ago, with gains in healthcare and losses in federal employment. Both job creation and average earnings growth have slowed as businesses cope with uncertain economic conditions, and consumer confidence has declined.

Interest rates have an outsized effect on San Francisco, where the tech sector has been the primary driver of economic growth and venture capital investment fuels much of the industry's hiring. In response to a softening labor market and somewhat elevated inflation, the Federal Reserve has cut the federal funds rate three times in the past twelve months to a range of 3.5% to 3.75%. While the cost of borrowing has declined from its 2023 peak, it is still elevated compared to earlier years.

Tariffs are expected to have a negative impact on household disposable income, though the effects in California and San Francisco may be less extreme than for the rest of the U.S. Tariffs are forecast to create inflationary shock in the year after full implementation and certain consumer good prices can be expected to remain permanently higher as a result. A recent analysis by the Office of Economic Analysis found that average annual San Francisco real disposable incomes face average reductions of 3.7% between 2025 and 2045, equivalent to about \$5,600 per person in 2025 dollars.

Local

The City's economy has generally remained stable over the past year. Although unemployment rates rose from 2.8% in August 2022, to 4.0% in August 2023, and 4.4% in August 2024, they have flatlined to 4.3% as of August 2025. The sectors experiencing the largest declines in total employment were Information, Professional and Businesses services, and Financial Activities. While the labor force declined 1.3% from 2023 to 2024, total wages increased 0.8%. That is, while San Francisco workers experienced layoffs in the technology sector – as well a drop in overall labor force – wages are still high on average and trending upward.

Office metrics are mixed. In Q3 2025, the office vacancy rate was 35.3% according to real estate firm JLL, slightly higher than the rate one year earlier. Similarly, average weekly office attendance in FY 2023-24 was 42.6% of the pre-pandemic average and fell slightly to 40.9% in FY 2024-25, according to Kastle Systems, a building security company. Data from Placer.ai shows a positive trend in visitor foot traffic, which increased from 72% of the pre-pandemic average at the beginning of the fiscal year to 80% by the end.

Public transit ridership recovery has remained relatively flat, with a recent uptick for both MUNI and BART. In October 2025, BART reported system ridership levels that were 10.7% higher than October 2024. Civic Center BART ridership growth has outpaced growth across other downtown stations, which may relate to the return

of City workers in-office four days a week as of August 2025. Ridership growth could be curbed, or even decline, if transit agencies are unable to address looming revenue cliffs and resort to large service cuts.

The recovery of the local tourism and hospitality sector is expected to continue slowly, not reaching pre-pandemic levels until after the plan period. Data published by SFO suggest mixed trends in domestic and international travel. While domestic travel increased 8.9% in July 2025 compared to July 2024, international travel decreased 1.5%, marking the first dip in international travel during peak season since 2020. Federal policies and rhetoric around immigration, along with evolving tariff measures, are expected to contribute to softened travel patterns.

In the context of this cloudy outlook, General Fund tax revenues are projected to grow each year, by 4.2% in FY 2025-26, 2.7% in FY 2026-27, and an average of 3.4% in FY 2027-28 through FY 2029-30. This projection assumes business taxes will grow by \$407.2 million, or 32.1%, over the five-year period with real property transfer tax growing by \$99.8 million, or 34.5%, over the same period. However, these two bright spots mask weakness in other areas. Growth in business taxes is largely due to businesses' worldwide sales rather than increased activity inside San Francisco. Strong transfer tax revenues are driven by the downward reset in commercial real estate prices which, under Proposition 13, will constrain property tax growth for years to come. For properties that have not changed hands, high levels of refunds stemming from appeals are projected to curb property tax revenue. Revenues that reflect local economic activity – sales, hotel, and parking taxes – are expected to experience extremely modest growth, at or below expected rates of inflation, through FY 2029-30.

Selected General Fund Tax Revenue

Property Tax

General Fund property tax revenues are projected to dip in FY 2026-27 to \$2,407 million, then follow a gradual upward trend through FY 2029-30. Assumptions include:

Roll growth: The locally assessed secured property roll grows based upon an annual statewide inflation factor capped at 2% and any changes to individual base year property values triggered by changes in ownership or new construction. The unsecured property roll generally fluctuates based upon economic cycles and impacts on local businesses. The change in California CPI (measured October-to-October of the two years prior to the January 1st lien date for annual assessments) is assumed at the annual 2% maximum for secured assessment roll growth. The projections assume that while some commercial properties – such as office, hotel, and retail buildings – may see lower assessed values when sold, those declines will be offset by increases in assessed values from new construction and home sales. The California Board of Equalization (BOE) assessed board roll and the locally assessed unsecured roll comprised approximately 5.8% of overall taxable property values at the start of FY 2025-26. The values of the board and unsecured rolls are assumed to remain at their current levels of \$4.9 billion and \$16.0 billion, respectively.

Assessment appeals reserve requirements: General Fund property tax revenue required to fund Assessment Appeals Board (AAB) decisions is assumed at \$200 million for FY 2026-27, \$185 million for FY 2027-28, \$166 million for FY 2028-29, and \$137 million for FY 2029-30. These figures are derived from a model developed by the Controller's Office of Economic Analysis to estimate the assessed value of office, hotel, retail, and multifamily residential properties at risk using per unit market prices projected by CoStar Group. Single

family residential properties' assessed values at risk are similarly analyzed and included in the reserve forecast.

Proposition 8 temporary assessed value reductions were budgeted at \$2.5 billion in FY 2025-26 and are projected to remain at that level through the forecast period. As of December 4, 2025, there were over \$750 million of assessed value reductions (or roll corrections) affecting the local secured annual assessment roll for the 2025 assessment year. Corrections within the current fiscal year are considered temporary reductions, though they may also be the result of processing of exemptions or Proposition 19 base value transfers for residential properties.

As of June 30, 2025, the City is holding \$325.8 million in AAB reserve for the General Fund's portion of projected refunds on approximately \$229.1 billion of total appealed assessed valuations pending AAB decisions. Reserve balances are projected to grow given the capacity for hearings and continuation of similar economic conditions for commercial real estate valuations not yet reflected on the local secured annual assessment roll.

Supplemental and escape assessments: Supplemental assessments capture changes in value for the portion of the tax year remaining following a triggering event. A supplemental may also be issued for the full tax year following the tax year in which the event occurred and may represent decreases (or "negative supplementals") which reduce supplemental property tax revenues. Escape assessments capture a full year's increase in assessed value up to four years after the event. Projections assume supplemental and escape revenue of \$39 million in FY 2026-27, \$48 million in FY 2027-28, \$52 million in FY 2028-29, and \$39 million in FY 2029-30.

Excess Educational Revenue Augmentation Fund (ERAF) revenues returned to the General Fund: Excess ERAF represents the portion of county, city, and special district property tax allocations that were diverted to ERAF and then reverted to the contributing taxing entity when the accumulated sum exceeded the state-required level of school funding. In the City and County of San Francisco, the only taxing entity contributing a portion of its property tax allocations to ERAF is the City itself. This report assumes excess ERAF revenue of \$293.8 million in FY 2026-27, \$295.1 million in FY 2027-28, \$305.7 million in FY 2028-29, and \$318.1 million in FY 2029-30. While this revenue fluctuates with underlying property tax performance, it can be dramatically affected by changes in state law and school funding under Proposition 98. Such potential changes are not assumed here. Projections assume state calculated revenue limits for the Community College District (Total Computational Revenue) remain flat and that the Unified School District's limit (Local Control Funding Formula) increases by 2% each year. Educational entity draws on ERAF to subsidize state aid affect the amount of ERAF available to be returned as excess.

Business Taxes

General Fund business tax revenue is expected to grow from \$1.27 billion in FY 2025-26 to \$1.68 billion in FY 2029-30. Business taxes include the Gross Receipts Tax, Business Registration Fees, the Administrative Office Tax, and the Overpaid Executive Tax. By far the most significant source is the Gross Receipts Tax, which accounted for 88% of total business tax revenue in FY 2024-25.

Business taxes have changed multiple times in the past ten years. Prior to 2014, businesses paid a tax of 1.5% on their payroll in the City. Proposition E (November 2012) introduced a Gross Receipts tax. Over a five year period, beginning in 2014, Gross Receipts Tax rates gradually increased but were offset by matching

decreases in the Payroll Tax rate. By the end of the five-year period when Gross Receipts tax rates were fully implemented, the Payroll Tax had not been eliminated as intended. In the wake of the shock to the economy due to the pandemic, voters passed two business tax measures on November 3, 2020: Proposition L introduced the Overpaid Executive Tax, which taxes businesses' gross receipts at a rate dependent on their highest paid executive, and Proposition F, which eliminated the Payroll Tax and changed Gross Receipts Tax rates to compensate for the loss in revenue and provide relief to smaller businesses most affected by the pandemic.

The tax structure, however, left the City vulnerable to changes in San Francisco's post-pandemic economy. Since gross receipts are allocated to San Francisco in part by the proportion of employees working in the City, tax revenue was reduced as employees switched from working in offices within the City to working from home, generally outside the City. In addition, tax revenue was becoming increasingly dependent on a small number of taxpayers. For the Gross Receipts Tax, although approximately 15,000 businesses are subject to the tax, in 2019 the top ten taxpayers paid 19% of the tax and paid 28% in 2024. The Overpaid Executive Tax is even more concentrated with the top ten taxpayers responsible for 61% of the revenue.

To ameliorate these vulnerabilities and to promote equity across business categories and business sizes, voters again restructured the City's business taxes with Proposition M (November 2024). Proposition M is effective for tax year 2025; however, because tax year 2025 returns can be filed as late as November 2026, the true effect of the measure will only be known in FY 2026-27. The measure reduced Overpaid Executive Tax rates, approximately doubled the small business tax exemption, and scheduled Gross Receipts Tax rate increases in 2027 and 2028 of approximately 6.0% and 4.5%, respectively. For most business categories, it also changed how gross receipts are calculated by placing more weight on a company's sales within the City and less weight on worldwide sales. Proposition M should reduce the risk of concentrating the City's tax base on so few taxpayers. The forecast incorporates Proposition M mechanics and rate changes.

Gross Receipts Tax Growth: Gross Receipts Tax revenue is generated from two factors: (i) sales within the City, and (ii) a portion of a company's worldwide sales allocated to the City based on local payroll. The Gross Receipts Tax revenue increase in FY 2024-25 was driven more by worldwide sales rather than local sales.

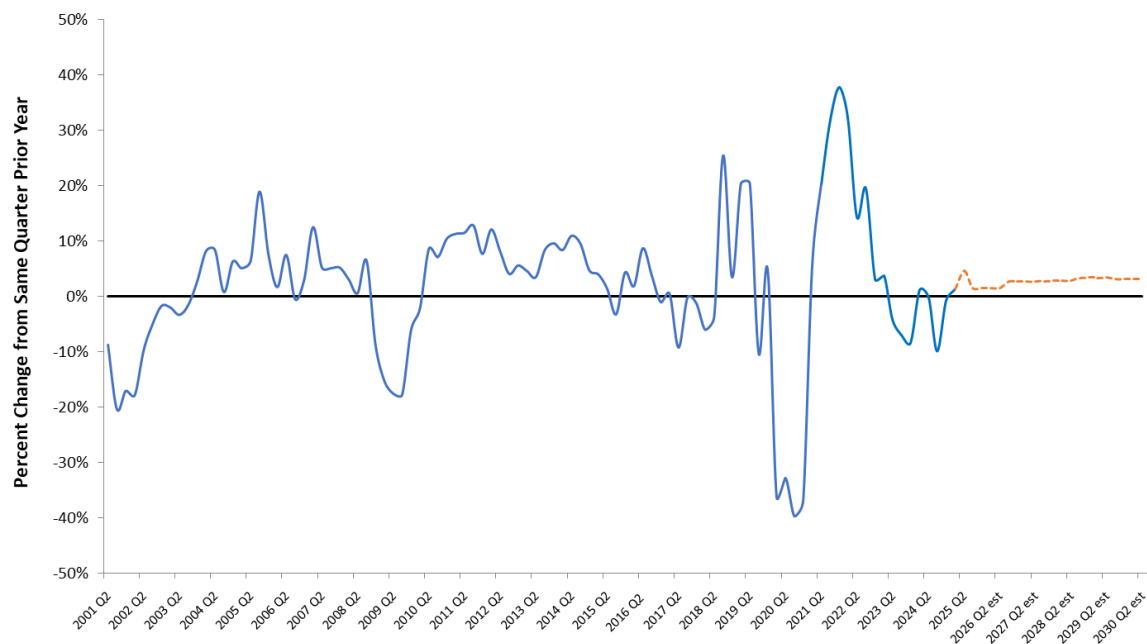
For companies required to report San Francisco sales on their tax filings, sales in the City grew by 2.4% from 2023 to 2024. This is roughly consistent with inflation and the slow revenue growth in other taxes that reflect economic activity in the City, such as hotel and sales taxes. In contrast, for companies required to report it, worldwide revenue grew by 8.1% over the same period. Many of the City's largest private employers, as reported by the San Francisco Business Times, saw significant revenue growth in their most recent full fiscal year, including Meta (22%), Uber (18%), Alphabet (14%), Amazon (11%), and Salesforce (11%). Building on the tax year 2024 experience of extraordinary revenue growth, the Gross Receipts Tax forecast assumes overall gross receipts growth of 4.0%, 3.8%, 3.6%, and 3.5% for tax years 2026 through 2039, respectively.

Litigation: As of the end of FY 2024-25, the City faced a litigation risk of almost \$500 million in Gross Receipts Tax revenue. To cover this risk, the City held approximately \$375 million in reserves in FY 2024-25 and will increase the reserves in FY 2025-26 to cover the full liability. While new claims will likely arise, existing major settlements are currently pending Board approval, including a settlement with General Motors (\$71 million across multiple taxes) and Microsoft (\$7 million). The forecast assumes additional claims of \$85 million in each year.

Sales Tax

Sales tax revenues are expected to grow from \$191.6 million in FY 2025-26 to \$215.5 million by FY 2029-30. San Francisco’s sales tax revenue sustained significant losses in FY 2019-20 and FY 2020-21 during the COVID-19 public health emergency, declining to \$146.9 million or by 31.3% in FY 2020-21 from their FY 2018-19 peak of \$213.6 million. Although FY 2021-22 revenues rebounded to \$188.3 million, levels stayed nearly flat thereafter at \$197.9 million in FY 2022-23, \$190.5 million in FY2023-24, and \$188.3 million in FY2024-25. Sales tax growth in FY 2025-26 is expected to be modest, with the greatest growth in business and industry, the State and County pools, and restaurants and hotels industry groups. The projection assumes that sales tax revenue grows at 2.4% in FY 2026-27, and at roughly 3.0% per year thereafter. The strongest gains are expected in restaurants and hotels, autos and transportation, and building and construction industry groups.

Figure 1. Change in State and Local Sales Tax Revenues from Same Quarter Prior Year, FY 2001-02 through FY 2029-30

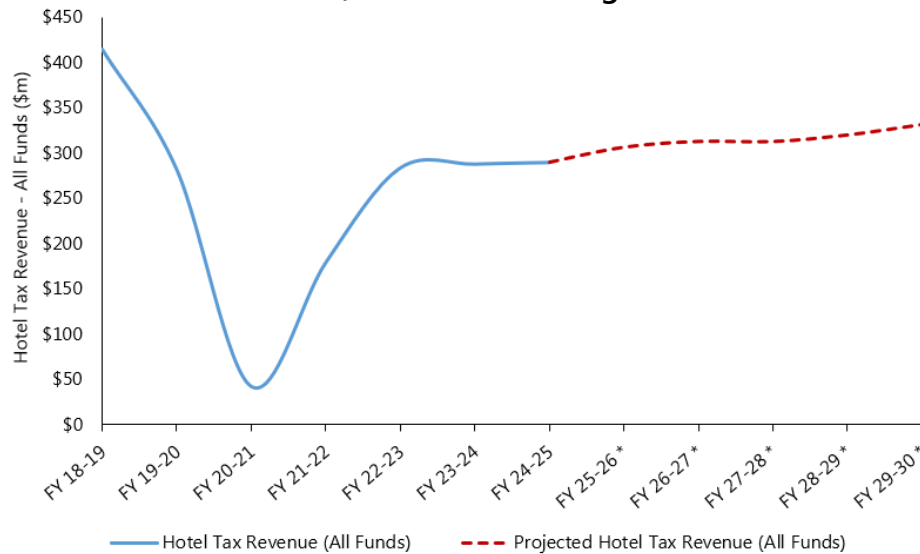


Hotel Tax

Hotel tax revenue across all funds is expected to grow from a projected \$305.8 million in FY 2025-26 to \$330.7 million in FY 2029-30. General Fund hotel tax is expected to grow from a projected \$272.0 million in FY 2025-26 to \$294.1 million in FY 2029-30. Total hotel tax revenue declined drastically in the early months and years of the COVID-19 pandemic, from a high of \$414.3 million in FY 2018-19, to \$281.6 million in FY 2019-20, and \$42.2 million in FY 2020-21. As restrictions eased and vaccines became more widely available, hotel tax revenue across all funds began to recover, totaling \$179.1 million in FY 2021-22. Like sales tax, the

recovery appears to have stalled in the past three years, with hotel tax revenue of \$283.5 million in FY 2022-23, \$287.5 million in FY 2023-24, and \$289.3 million in FY 2024-25. With only 0.6% growth in total hotel tax in FY 2024-25 and consistent with industry observers, this forecast reflects a modest downward adjustment to the long-term recovery of hotel tax revenue as compared to the previous forecasts presented in the March 2025 Joint Report and recently adopted FY 2025-26 and FY 2026-27 balanced budget.

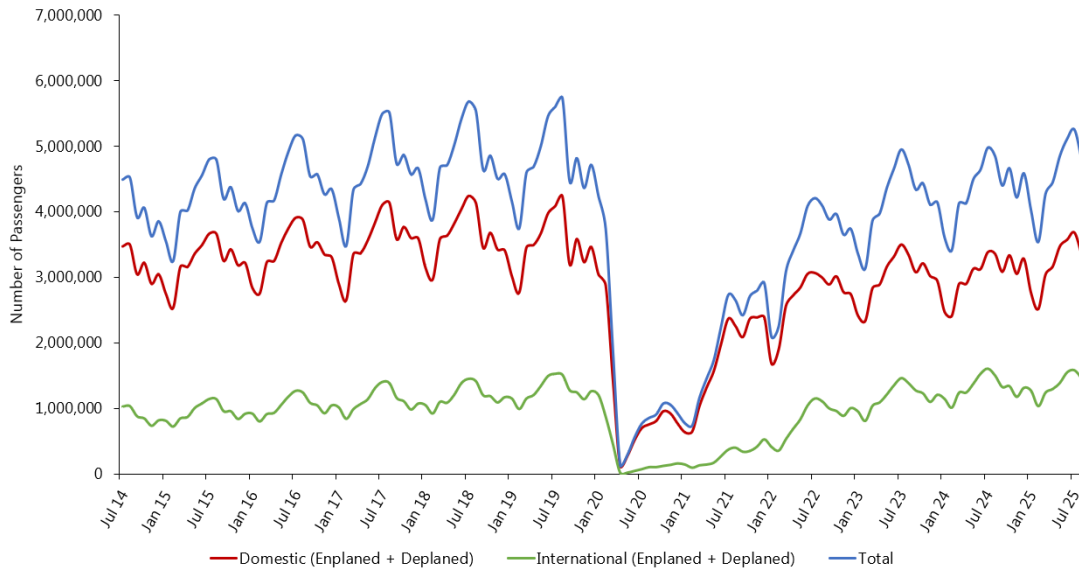
Figure 2. Hotel Tax All Funds Revenue, FY 2018-19 through FY 2029-2030



Hotel tax revenue is strongly correlated with revenue per available room (RevPAR), which is calculated by multiplying average daily room rates (ADR) by occupancy rates. RevPAR declined to an all-time low of \$14.40 in April 2020 from a pre-pandemic high of \$224.20 in FY 2018-19. As the hospitality industry has gradually recovered since the pandemic, annual average RevPAR has increased from \$42.03 in FY 2020-21 to \$108.16 in FY 2021-22 to \$154.76 in FY 2022-23 to \$155.83 in FY 2023-24. In FY 2024-25, annual average RevPAR dropped by about \$5 to \$150.70. The forecast assumes annual average RevPAR of \$155.8, \$159.1, \$159.0, \$162.7, and \$168.5 for FY 2025-26 through FY 2029-30.

The gradual recovery of RevPAR since the pandemic, along with the recent dip, aligns with tourism trends and convention activity at San Francisco's Moscone Center. This is because visitors to the City, and resulting hotel tax revenues, are primarily derived from three groups of travelers: domestic and international leisure travelers, individual business travelers, and groups attending conventions. Most visitors travel to San Francisco by air and combined enplaned and deplaned passengers at SFO are shown in Figure 3. By July 2025, total domestic and international passengers at San Francisco International Airport (SFO) reached a post-pandemic peak of 5.3 million passengers, 92% of pre-pandemic levels. Recent data not shown in the graph below suggest continued growth in domestic passengers. The Thanksgiving 2025 travel period marked the busiest Thanksgiving on record for SFO with 1.8 million travelers, topping the previous record of 1.78 million travelers set in 2019. Trends for international travelers remain in flux, however, after a slight dip in year-over-year international traveler volume at the end of FY 2024-25.

Figure 3. Trends in Domestic and International Air Travel at SFO, July 2014 – July 2025



Moscone Event room nights are a main driver of demand for hotel rooms in the City and compression pricing during these events helps lift average daily rates and hotel tax revenue. The rebound of Moscone Center event attendance stalled in FY 2024-25 but shows signs of growth in FY 2025-26, including local events such as the 2026 Superbowl and summer 2026 World Cup games at Levi's Center in Santa Clara. In FY 2021-22, San Francisco's Moscone Center hosted 23 conferences with over 126,000 attendees, in FY 2022-23 it hosted 33 conferences with over 286,000 attendees, in FY 2023-24 it hosted 37 events with over 427,000 attendees, and in FY 2024-25 it hosted 35 events with over 390,000 attendees. This is compared to zero events in FY 2020-21 and 54 events with over 723,000 attendees in FY 2018-19. Though nowhere near the FY 2018-19 peak, the effects of compression pricing on RevPAR as a result of conventions are clear: RevPAR spikes with each convention, driving up hotel tax collections.

November 2018 Proposition E allocated 1.5% of the 14% hotel tax rate (or approximately 10.7% of total hotel tax revenue) to arts programming outside of the General Fund. In line with the hotel tax forecast, the arts allocation is projected to increase to \$33.8 million in FY 2025-26 and \$36.6 million by FY 2029-30.

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to grow from \$290.7 million in FY 2025-26 to \$390.6 million in FY 2029-30. FY 2024-25 closed with \$294.4 million in revenue, a 65.7% increase over prior year and an indication that falling interest rates and the downward reset in values are starting to push transaction volumes back up. Based on FY 2024-25 data, this forecast anticipates a faster recovery in transaction volumes but slower or flat growth in sales prices than the previous forecast. This translates to higher revenue projections (9%) in FY 2025-26; lower projections in FY 2026-27 (-1%), FY 2027-28 (-7%), and FY 2028-29 (-5%); and level projections in FY 2029-30 compared to the March 2025 forecast and recently adopted FY 2025-26 and FY 2026-27 balanced budget.

Due to the tiered structure of the tax, a small number of high-value transactions, primarily commercial, generate a disproportionate amount of revenue. In FY 2024-25 transactions over \$10.0 million

accounted for 1.2% of total transactions but generated 62.3% of total revenue. Compounding the volatility is November 2020 Proposition I, which doubled the transfer tax rate on real estate transactions over \$10.0 million. Proposition I is projected to generate \$95.8 million, \$105.5 million, \$115.6 million, \$126.1 million, and \$136.9 million each year in FY 2025-26 through FY 2029-30.

Figure 4. Rate-Adjusted Real Property Transfer Tax, Actuals FY 2000-01 through FY 2024-25, Projected FY 2025-26 through FY 2029-30 (\$ millions)

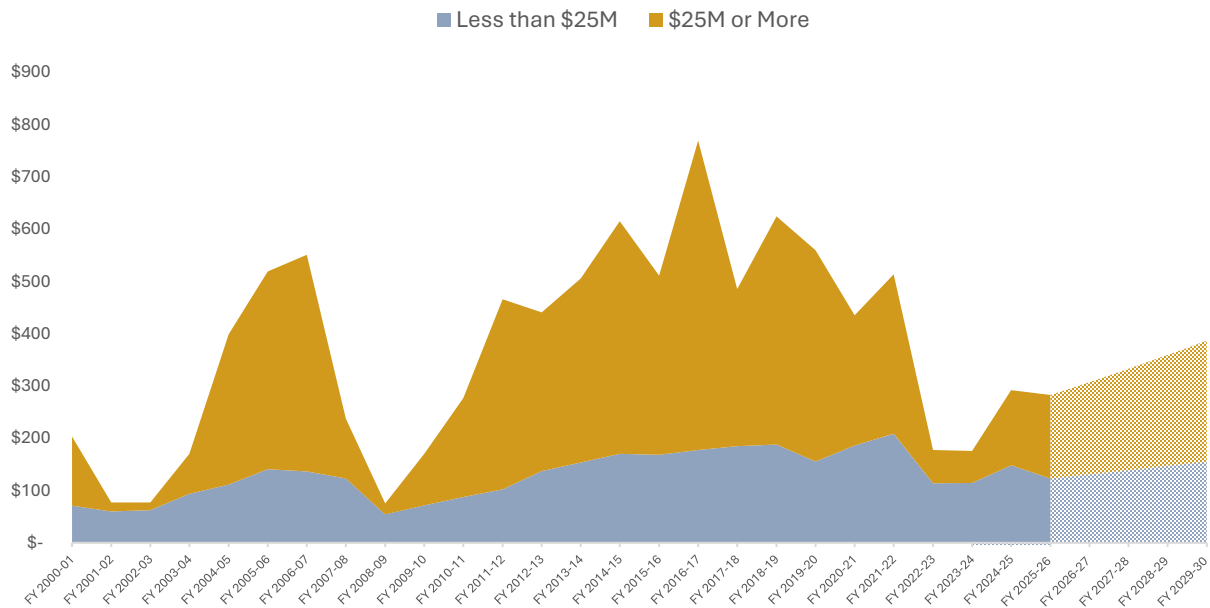


Table 3A. General Fund Revenues and Transfers FY 2024-25 to FY 2029-30 (\$ Millions)

	FY 2024-25	FY 2025-26	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Year-End	Original Budget	Projection	Projection	Projection	Projection	Projection
Property Taxes	\$ 2,485.1	\$ 2,437.0	\$ 2,486.4	\$ 2,406.8	\$ 2,449.1	\$ 2,517.7	\$ 2,589.1
Business Taxes	1,120.4	1,139.6	1,268.8	1,457.0	1,502.0	1,635.0	1,676.0
Sales Tax	188.3	189.5	191.6	196.2	202.0	209.0	215.5
Hotel Room Tax	255.3	265.2	272.0	277.6	277.5	283.9	294.1
Utility Users Tax	111.8	116.4	116.1	120.0	123.6	126.5	129.4
Parking Tax	81.3	88.8	83.5	83.5	83.5	83.5	83.5
Real Property Transfer Tax	294.4	267.6	290.7	314.5	339.0	364.4	390.6
Sugar Sweetened Beverage Tax	11.4	11.6	11.4	11.4	11.4	11.4	11.4
Stadium Admission Tax	8.9	8.6	9.9	9.9	9.9	9.9	9.9
Access Line Tax	58.1	54.5	76.4	61.9	62.2	63.1	63.1
Cannabis Tax	-	-	-	-	-	-	-
Local Tax Revenues	4,615.0	4,578.8	4,806.8	4,938.7	5,060.2	5,304.3	5,462.5
Licenses, Permits & Franchises	33.9	23.1	24.5	24.6	24.6	24.6	24.6
Fines, Forfeitures & Penalties	5.3	6.0	6.0	3.6	3.6	3.6	3.6
Interest & Investment Income	171.1	151.9	166.3	164.8	153.4	144.3	135.3
Rents & Concessions	15.8	18.5	18.5	25.3	25.3	25.3	25.3
Licenses, Fines, Interest, Rent	226.0	199.5	215.3	218.3	206.9	197.8	188.8
Social Service Subventions	326.2	370.1	370.1	381.6	381.6	381.6	381.6
Disaster Relief - FEMA	73.9	87.0	7.0	1.7	1.7	-	-
Other Grants & Subventions	(5.8)	2.1	2.1	2.6	2.6	2.6	2.6
Federal Subventions	394.2	459.1	379.1	385.8	385.8	384.1	384.1
Social Service Subventions	271.7	331.2	331.2	340.3	340.3	340.3	340.3
Health & Welfare Realignment - Sales Tax	246.4	231.2	236.3	239.7	249.3	260.0	270.9
Health & Welfare Realignment - VLF	61.1	41.5	42.3	43.0	43.6	44.4	44.5
Health & Welfare Realignment - CalWORKs M	12.6	23.5	23.5	24.3	24.3	24.3	24.3
Health/Mental Health Subventions	159.9	117.5	117.5	122.5	122.5	122.5	122.5
Public Safety Sales Tax	96.1	97.2	96.8	100.6	103.4	106.7	110.0
Motor Vehicle In-Lieu (County & City)	2.5	1.1	1.1	1.1	1.1	1.1	1.1
Public Safety Realignment (AB109)	52.2	53.5	53.1	54.6	56.2	58.1	60.2
Other Grants & Subventions	120.7	13.5	13.5	13.5	13.5	13.5	13.5
State Subventions	1,023.4	910.3	915.3	939.5	954.2	971.0	987.3
Charges for Services	354.5	382.9	382.9	386.9	386.9	386.9	386.9
Recovery of General Gov't Costs	27.7	22.3	22.3	22.3	22.3	22.3	22.3
Other Revenues	13.8	22.3	22.3	22.8	22.8	22.8	22.8
TOTAL REVENUES	6,654.7	6,575.3	6,744.1	6,914.4	7,039.2	7,289.1	7,454.7
Transfers in to General Fund							
Airport	58.5	61.3	60.5	62.9	65.7	68.8	71.8
Commercial Rent Tax Transfer In	26.7	27.7	27.2	26.8	26.1	24.6	22.7
Other Transfers	208.9	169.6	169.6	187.7	187.7	187.7	187.7
Total Transfers-In	294.0	258.5	257.3	277.4	279.5	281.1	282.2
TOTAL GF Revenues and Transfers-In	6,948.7	6,833.8	7,001.4	7,191.8	7,318.6	7,570.3	7,736.9

CHANGES IN USE OF ONE-TIME SOURCES

Changes in Fund Balance

This plan assumes the use of \$525.2 million of fund balance available for appropriation, which includes:

- \$229.6 million of fund balance previously appropriated in FY 2026-27 of the most recently adopted two-year budget.
- \$140.0 million of unappropriated fund balance held for subsequent years and previously assumed as a source in FY 2027-28 in the March 2025 Joint Report.
- \$38.6 million of additional unappropriated fund balance from the FY 2024-25 close.
- \$117.1 million anticipated surplus in the current year estimated as of October 1, 2025.
 - Building on a strong FY 2024-25 close, an additional \$167.7 million of current year revenue over budget is projected, driven by strength in property, business, transfer, and access line taxes. This is partially offset by an \$80.0 million reduction of Federal Emergency Management Agency (FEMA) reimbursements of COVID-19 pandemic response expenditures.
 - Increases in General Fund revenue also increase General Fund contributions to baselines by \$47.3 million over budget, and departmental shortfalls of \$3.3 million further offset revenue strength.

Two thirds, or \$350.1 million, of fund balance is assumed to be used in FY 2027-28 and \$175.1 million, or one-third, is assumed to be used in FY 2028-29.

Changes in Reserves

The City has a number of reserves intended to reduce the effect of revenue volatility on the City's budget and service levels, particularly in the case of economic or fiscal shocks. Other reserves fund citywide expenses for labor, litigation, and other costs. Table 4 outlines the projected uses, deposits, and balances of General Fund reserves assumed in the plan.

Table 4A. Projected Uses, Deposits & Balances of Reserves FY 2024-25 through FY 2029-30 (\$ Millions)

	FY 2024-25	FY 2025-26			FY 2026-27			FY 2027-28			FY 2028-29			FY 2029-30		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	\$ 136.8	\$ 27.6	(3.5)	\$ 160.8	\$ 29.3	-	\$ 190.1	\$ 21.0	-	\$ 211.2	\$ 7.5	-	\$ 218.7	\$ 5.0	-	\$ 223.6
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	390.9	-	-	390.9	15.4	-	406.3	64.7	-	471.1	60.8	-	531.9	52.5	-	584.4
Economic Stabilization Reserves	505.4	-	-	505.4	15.4	-	520.9	64.7	-	585.6	60.8	-	646.5	52.5	-	698.9
Percent of General Fund Revenues	7.6%			7.5%			7.5%			8.3%			8.9%			9.4%
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	(54.8)	-	-	-	-	-	-	-	-	-	-
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Federal and State Emergency Grant Disallowance Reserve	2.1	-	(1.1)	1.1	-	(1.1)	-	-	-	-	-	-	-	-	-	-
Fiscal Cliff Reserve	40.0	-	(25.0)	15.0	-	(15.0)	-	-	-	-	-	-	-	-	-	-
Federal and State Revenue Risk Reserve	221.6	274.8	(9.1)	487.3	-	-	487.3	-	-	487.3	-	-	487.3	-	-	487.3
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	-	29.5	-	-	29.5	-	-	29.5	-	-	29.5
Public Health Revenue Management Reserve	174.2	-	-	174.2	-	-	174.2	-	-	174.2	-	-	174.2	-	-	174.2
Free City College Reserve	0.1	8.6	(8.4)	0.3	-	-	0.3	-	-	0.3	-	-	0.3	-	-	0.3
Student Success Fund Reserve	18.1	-	-	18.1	-	-	18.1	-	-	18.1	-	-	18.1	-	-	18.1
Other Reserves	541.4	283.4	(43.6)	781.3	-	(70.9)	710.4	-	-	710.4	-	-	710.4	-	-	710.4
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	9.6	22.0	(31.6)	-	21.3	(21.3)	-	22.0	(22.0)	-	22.5	(22.5)	-	23.0	(23.0)	-
Annual Operating Reserves	9.6	33.0	(42.6)	-	32.3	(32.3)	-	33.0	(33.0)	-	33.5	(33.5)	-	34.0	(34.0)	-
TOTAL, General Fund Reserves	1,193.2	344.1	(89.6)	1,447.6	77.1	(103.3)	1,421.4	118.8	(33.0)	1,507.2	101.9	(33.5)	1,575.5	91.5	(34.0)	1,633.0

General Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve required balance to increase from 2.5% of General Fund revenue in FY 2025-26 to 2.75% in FY 2026-27 and 3.0% in FY 2027-28 and thereafter. Deposits to the General Reserve are projected to be \$27.6 million, \$29.3 million, \$21.0 million, \$7.5 million, and \$5.0 million, in FY 2025-26 through FY 2029-30, respectively. This report includes a one-time use of the General Reserve in FY 2025-26 of \$3.5 million for immigration legal services approved by the Board.

Economic Stabilization Reserves (Rainy Day and Budget Stabilization Reserves): Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of revenue growth over 5% above the previous year, which can be used when revenues decline. Administrative Code Section 10.60(b) establishes a Budget Stabilization Reserve funded by certain one-time revenues, which can be used when revenues decline. This report reflects no withdrawals from either reserve. The City projects deposits of \$15.4 million, \$64.7 million, \$60.8 million, and \$52.5 million to the Budget Stabilization Reserve between FY 2026-27 and FY 2029-30, based on projected real property transfer tax exceeding the prior five-year average – which triggers a required deposit. By FY 2029-30, the balance of the City's economic stabilization reserves is expected to be \$698.9 million, which is 9.4% of projected FY 2029-30 General Fund revenue, just below the City's 10% reserve target.

Budget Stabilization One Time Reserve: Administrative Code Section 10.60(b) establishes a Budget Stabilization One-Time Reserve, funded when the combined Rainy Day and Budget Stabilization Reserves exceed 10% of General Fund Revenue. This plan assumes spending down the \$54.8 million reserve balance as assumed in the adopted FY 2025-26 and FY 2026-27 budget.

Federal and State Emergency Grant Disallowance Reserve, Fiscal Cliff Reserve, and Federal and State Revenue Risk Reserve: Through the FY 2025-26 and FY 2026-27 budget and FY 2024-25 fiscal year close, the City created a new Federal and State Revenue Risk Reserve by combining the unspent balances of the Fiscal Cliff Reserve (\$142.4 million) and the existing Federal and State Emergency Grant Disallowance Reserve (\$79.2 million). The existing federal and state reserve was created to manage revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies. The new federal and state reserve expands the scope to manage any revenue shortfall related to changes in federal and state funding levels. The City will further deposit all revenue escheated to the General Fund in the current year from City Option Medical Reimbursement Accounts, which was estimated to be \$225.0 million in June 2025 but is now estimated to be \$274.0 million. Combined with the other reserve balances, the total balance of the new Federal and State Revenue Risk Reserve is anticipated to be \$487.3 million.

Policymakers adopted the new Federal and State Revenue Risk reserve to offset revenue losses due to H.R.1 and other federal and state impacts. The Board of Supervisors has approved the use of \$9.1 million of it to support families who lost access to Supplemental Nutrition Assistance Program (SNAP) benefits during the October to November 2025 federal shutdown.

SOURCES – OTHER CITYWIDE AND DEPARTMENTAL REVENUES

Public Health – One-Time and Operating Revenues

Overall, Department of Public Health (DPH) operating revenue, before accounting for recent State and federal policy changes, is projected to increase by \$91.1 million in FY 2026-27, \$30.4 million in FY 2027-28, \$25.2 million in FY 2028-29, and \$24.9 million in FY 2029-30. The major driver of growth in FY 2026-27 is the assumed successful implementation of new payment and care programs. This report also assumes revenue at Laguna Honda Hospital will increase into FY 2026-27 as it reaches full census following its recertification in June 2024. Throughout the projection period, this report assumes fee-for-service and capitation payments at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital increase in line with CPI projections, growing by 3.04% in FY 2027-28, 2.34% in FY 2028-29, and 2.26% in FY 2029-30.

These revenue increases are offset by a \$41.1 million decline in revenue to Laguna Honda Hospital in FY 2026-27 as the result of the end of a one-time increase in payments from the California Department of Health Care Services.

USES – BASELINES

The Charter specifies funding levels for various programs that are generally linked to changes in discretionary General Fund revenues (“aggregate discretionary revenue” or “ADR”), though some are a function of citywide expenditures or base-year program expenditure levels. Table 5 below shows all of the City’s baselines, set-asides, special taxes, and other spending mandates regardless of whether they have a General Fund impact or not. The sum of these requirements is projected to total \$2,741.5 million in FY 2026-27 and increase to \$2,958.1 million by FY 2029-30.

The General Fund’s mandated contributions to baselines and set-asides are increasing by \$102.4 million in FY 2026-27, \$49.8 million in FY 2027-28, \$50.5 million in FY 2028-29, and \$36.7 million in FY 2029-30, respectively.

Table 5A. Projected Baselines, Set-Asides, Special Purpose Taxes, and Other Mandated Costs, FY 2026-27 through FY 2029-30 (\$ Millions)

	FY 2024-25	FY 2025-26	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	
	Actuals	Budget	Projection	Projection	Projection	Projection	Projection	
General Fund Aggregate Discretionary Revenue (ADR)	4,726.8	4,660.0	4,997.3	5,131.6	5,242.6	5,476.6	5,625.4	
1 MUNICIPAL TRANSPORTATION AGENCY								
Municipal Railway Baseline - 7.0675% ADR - GF Transfer	334.1	329.4	353.2	362.7	370.5	387.1	397.6	*
Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	118.5	116.8	125.3	128.7	131.4	137.3	141.0	*
Population Adjustment - GF Transfer	89.4	90.5	89.4	89.4	89.6	89.8	90.6	*
Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	65.0	71.0	66.8	66.8	66.8	66.8	66.8	*
Traffic Congestion Mitigation Fund - Special Tax (50%)	9.5	10.0	10.0	10.0	10.0	10.0	10.0	
Subtotal Municipal Transportation Agency	616.5	617.7	644.6	657.5	668.4	691.0	706.0	
2 LIBRARY PRESERVATION FUND								
Library Preservation Fund Baseline - 2.2858% ADR - GF Transfer	108.1	106.5	114.2	117.3	119.8	125.2	128.6	*
Library Preservation Fund Property Tax - \$0.025 per \$100 NAV	76.6	79.3	79.9	76.9	78.3	80.6	82.9	
Subtotal Library	184.6	185.9	194.2	194.2	198.1	205.7	211.5	
3 RECREATION & PARKS								
Open Space Property Tax - \$0.025 per \$100 NAV	76.6	79.3	79.9	76.9	78.3	80.6	82.9	
Recreation & Parks Baseline MOE Required GF Support	85.2	88.2	88.2	90.5	92.5	96.6	99.2	*
Subtotal Recreation and Park	161.7	167.5	168.1	167.4	170.8	177.2	182.1	
CHILDREN'S SERVICES								
4 Children & Youth Fund								
Property Tax - \$0.04 per \$100 NAV	123.3	126.9	127.9	123.0	125.3	128.9	132.6	
Children's Services Baseline Requirement - 4.8296% ADR	228.3	225.1	241.4	247.8	253.2	264.5	271.7	*
Transitional Aged Youth Baseline Requirement - 0.5800% ADR	27.4	27.0	29.0	29.8	30.4	31.8	32.6	*
5 Babies & Families First Fund								
Commercial Rents Tax (85%)	152.7	156.7	154.3	152.1	147.7	139.7	128.8	
Early Care and Education Baseline Requirement	93.8	93.8	93.8	96.3	98.4	102.8	105.6	*
6 Public Education Enrichment Fund - 3.0567% ADR								
Public Education Enrichment Fund Total - GF Transfer	144.5	142.5	152.8	156.9	160.3	167.4	172.0	*
1/3 Annual Contribution to Preschool for All	48.2	47.5	50.9	52.3	53.4	55.8	57.3	
2/3 Annual Contribution to SFUSD	96.3	95.0	101.8	104.6	106.8	111.6	114.6	
Public Education Services Baseline - 0.2898% ADR - GF (50%) and CYF (50%) Transfer	13.7	13.5	14.5	14.9	15.2	15.9	16.3	*
7 Student Success Fund (SFUSD) - GF Transfer	35.0	35.0	35.0	45.0	60.0	62.7	64.4	*
8 Fair Wages for Educators Fund (SFUSD) - Parcel Tax	53.9	54.0		54.0	54.0	54.0	54.0	
Subtotal Children and Youth Services	872.5	874.5	848.5	919.7	944.5	967.6	977.9	
HOMELESSNESS & HOUSING								
9 Our City, Our Home Fund								
Homelessness Gross Receipts Tax	296.0	335.9	366.5	372.0	388.0	411.0	434.0	
Our City, Our Home Baseline Requirement	215.0	215.0	215.0	215.0	215.0	215.0	215.0	
10 Housing Trust Fund - GF Transfer	47.3	48.8	50.7	52.2	53.4	55.9	57.6	*
11 Affordable Housing Opportunity Fund - GF Transfer	-	-	-	8.3	8.4	8.7	8.9	*
12 Housing Activation Fund - Empty Homes Tax	-	-	-	-	-	-	-	
Subtotal Homelessness and Housing	558.3	599.7	632.2	647.4	664.8	690.6	715.5	
ARTS								
13 Hotel Tax for Arts Fund - Hotel Tax	32.0	33.0	33.8	34.5	34.5	35.3	36.6	
14 Property Tax - Municipal Symphony - \$0.00125 per \$100 NAV	4.4	4.5	4.5	4.6	4.6	4.7	4.8	
Subtotal Arts	36.4	37.5	38.3	39.1	39.2	40.1	41.4	
OTHER								
15 Small Business Assistance Fund - Commercial Vacancy Tax	2.7	2.0	2.7	2.6	2.5	2.5	2.5	*
16 Dignity Fund - GF Transfer	59.1	59.1	59.1	62.1	62.8	65.6	67.4	*
17 Street Tree Maintenance Fund - GF Transfer	23.0	23.0	23.0	23.6	24.1	25.2	25.9	*
18 City Services Auditor - 0.2% of Citywide Budget - Work Order	26.8	26.3	26.3	27.9	27.9	27.9	27.9	*
Subtotal Other	111.7	110.4	111.1	116.1	117.3	121.1	123.6	
Total Baselines, Set Asides and Special Taxes	2,541.7	2,593.3	2,637.1	2,741.5	2,803.0	2,893.3	2,958.1	

Note: Table shows required funding levels. * Indicates General Fund impact.

Municipal Transportation Agency: Charter Section 8A.105 established a minimum level of funding for the Municipal Transportation Agency (MTA) and the Parking and Traffic Commission within the MTA. Funding for these two baselines is adjusted annually by the percent increase or decrease in General Fund Aggregate

Discretionary Revenue (ADR). Additionally, Charter Section 16.110 mandates an amount equal to 80% of annual parking tax revenue be transferred to the MTA. Proposition B, approved in November 2014, additionally adjusts these baselines by the growth in population; in FY 2015-16, by the cumulative growth in population during the most recent ten-year period, and subsequently by the annual growth in population. The population baseline is only adjusted for population increases, not population decreases. Combining all required baselines, parking tax transfer, and MTA's direct share of the Traffic Congestion Mitigation (TCM) tax, MTA is expected to receive \$657.5 million in FY 2026-27, increasing to \$706.0 million by FY 2029-30.

Library Preservation Fund: Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. In FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The City may temporarily suspend the required increases in any year in which a General Fund deficit of \$300 million or more (adjusted annually by ADR) is forecasted. In addition, voters amended the Charter to require a property tax allocation of \$0.025 for each \$100 valuation of taxable property. The combined baseline and property tax set-aside for the Library is projected to be \$194.2 million in FY 2026-27, increasing to \$211.5 million by FY 2029-30.

Recreation and Parks: Similar to the Library, Charter Section 16.107 establishes a property tax allocation of \$0.025 for each \$100 valuation of taxable property for the Recreation and Parks Department's Open Space Fund. In June 2016, voters adopted Proposition B, a Charter amendment to establish additional baseline appropriations to the Recreation and Parks Department. The measure requires the City to increase General Fund appropriations by \$3.0 million annually through FY 2026-27, after which the baseline is adjusted by changes ADR. The City may temporarily suspend the required increases in any year in which a General Fund deficit of \$200 million or more (adjusted annually by ADR) is forecasted, as discussed below. The combined baseline and property tax set-aside for the Recreation and Parks Department is projected to be \$167.4 million in FY 2026-27, increasing to \$182.1 million by FY 2029-30.

Children's Services: Several voter-approved measures support children's services in the City. These include the Children's Fund property tax set-aside; Early Care and Education, Children and Transitional Aged Youth (TAY) baselines; commercial rents tax; Public Education Enrichment Fund contribution and baseline; Student Success Fund, and Fair Wages for Educators Fund. Together, these requirements total \$919.7 million in FY 2026-27, increasing to \$977.9 million by FY 2029-30. Details about selected children's spending requirements that directly impact the General Fund:

- **Children and Youth Fund Property Tax Set-aside:** November 2014 Proposition C extended a property tax set-aside for Children and Youth for 25 years, until June 30, 2041, and increased the property tax set-aside from \$0.03 for each \$100 of assessed property value in FY 2014-15 to \$0.04 by FY 2018-19. In addition, Proposition C added a new priority population to benefit Transitional Aged Youth (TAY).
- **Children and TAY Baseline:** Charter Section 16.108 established a Children and Youth Fund for Children and TAY, where a base amount of required spending was established and is adjusted annually by changes in ADR. At the close of FY 2024-25, final actual ADR resulted in a Children's Baseline spending requirement of \$228.3 million. As only \$220.4 million was appropriated in FY 2024-25 as measured in the June 2024 Revenue Letter, the City deposited an additional true-up amount of \$7.9 million into an unappropriated reserve, to be budgeted by policymakers for Children's baseline eligible items. This amount must be used *in addition* to meeting annual minimum requirements, in future years; that is, it cannot be used to reduce future year obligations.

- **Commercial Rents Tax and Early Care and Education Baseline:** June 2018 Proposition C established a special purpose commercial rent tax and an Early Care and Education baseline, where a base amount of required spending was established, adjusted annually by changes in ADR. Ordinance 131-25 temporarily amended the baseline requirement to allow a reduction of the requirement of up to \$16.9 million and \$16.9 million, equal to the amount of interest earnings budgeted in FY 2025-26 and FY 2026-27, respectively.
- **Public Education Enrichment Fund, Contribution and Baseline:** Besides extending the Children and Youth Fund property tax set-aside and Children's baseline, the November 2014 Proposition C also extended the Public Education Enrichment Fund Annual Contribution (PEEF) for 26 years, until June 30, 2041. 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 (SFUSD).
- **Student Success Fund:** Charter Section 16.131 through Proposition G in November 2022 established a Student Success Fund to provide grants to the San Francisco Unified School District (SFUSD) and schools in the District to implement programs that improve academic achievement and social/emotional wellness; and to require an annual appropriation in a designated amount to the Fund for 15 years. The contribution amount is set through FY 2026-27 and will be adjusted annually according to changes in ADR starting FY 2027-28 through its sunset in FY 2037-38.

The City may temporarily suspend the required increases for Early Care and Education Baseline and Student Success Fund contribution in any year in which a General Fund deficit of \$200 million or more (adjusted annually by ADR), is forecasted, as discussed below.

Homelessness and Housing: Voters have approved several measures to support housing and homelessness services. These baselines and requirements are projected to total \$647.4 million in FY 2026-27, increasing to \$715.5 million by FY 2029-30.

- **Our City Our Home Fund and Baselines:** In November 2018, voters adopted Proposition C, which created the Our City, Our Home Fund. The ordinance imposed a special purpose tax, the homelessness gross receipts tax, of varying rates by industry on businesses with gross receipts of more than \$50 million. Under Proposition M, approved by voters in November 2024, the homelessness gross receipts tax now applies to businesses with gross receipts of more than \$25 million. In addition to imposing the homelessness gross receipts tax, November 2018 Proposition C also established a requirement to maintain homelessness spending at FY 2017-18 budgeted levels to ensure that the new homelessness gross receipts tax does not displace previously existing support for homelessness programs. The base amount of funding is calculated to be \$215.0 million.
- **Housing Trust Fund:** Charter Section 16.110 establishes the Housing Trust Fund, which requires an annual contribution from the General Fund to the Housing Trust Fund of \$20.0 million beginning in FY 2013-14, increasing annually by \$2.8 million through FY 2024-25, and changing with ADR in FY 2025-26 and thereafter.
- **Affordable Housing Opportunity Fund:** In November 2024, voters adopted Proposition G, which created the Affordable Housing Opportunity Fund. The proposed budget makes the required deposit of \$8.25 million in FY 2026-27. Thereafter, the City's annual deposits to the fund will increase by the

annual percentage change in ADR or 3.0%, whichever is smaller. However, the City may temporarily suspend increases in any year in which a General Fund deficit of \$250 million is forecasted.

Other Funding Mandates: The City is required to contribute General Fund revenues or maintain expenditure levels in various other areas, including the Hotel Tax for Arts Fund; Street Tree Maintenance Fund; Dignity Fund; Symphony Baseline; and City Services Auditor Baseline. Combined, these baselines and mandates are projected to total \$155.2 million in FY 2026-27, increasing to \$165.0 million by FY 2029-30.

As shown in the table below, the City may temporarily suspend the growth in certain spending mandates in years when the City's deficit reaches a certain threshold, generally between \$200 and \$350 million. This report does not assume suspension of required increases in any years because the triggers are activated by the deficit forecasted in the March Update to the Five-Year plan. Should the March 2026 forecast remain the same as the current forecast, with a deficit of \$296.3 in FY 2026-27, growth in the Student Success Fund, Early Care and Education, Street Tree Maintenance Fund, and Dignity Fund baselines could be suspended for one year.

Table 5B: Deficit Threshold Levels for Baseline Suspension in FY 2026-27

	Base (\$m)	ADR-Adjusted (\$m)
Affordable Housing Opportunity Fund (Est 24-25)	\$ 250.0	N/A
Student Success Fund (Est 22-23)	\$ 200.0	\$ 222.0
Library Preservation Fund (Est 21-22)	\$ 300.0	\$ 357.4
Early Care and Education (Est 18-19)	\$ 200.0	\$ 230.8
Street Tree Maintenance (Est 18-19)	\$ 200.0	\$ 230.8
Dignity Fund (Est 17-18)	\$ 200.0	\$ 278.9
Recreation & Parks MOE (Est 16-17)	\$ 200.0	\$ 301.8

USES – SALARIES AND BENEFITS

This report projects General Fund supported salaries and fringe benefits to increase by \$216.5 million in FY 2026-27, \$335.0 million in FY 2027-28, \$154.4 million in FY 2028-29, and \$123.0 million in FY 2029-30. These increases, discussed in greater detail below, reflect current staffing levels and provisions in negotiated collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs.

Growth in salaries and benefits has escalated significantly over recent years and continues to be a considerable driver of increasing deficits in the final years of this report. Increasing salary and benefit costs over the four years of this update represent 46.4% of the expenditure growth in the deficit projections - the largest cost driver of the escalating deficit. Employer pension contributions are projected to generally increase during the forecast after a period of decline from their peak in FY 2020-21, but actual rates will vary year-to-year based on market returns. Further, employer costs associated with employee health benefits continue to outpace general inflation.

Prior Year COLAs and Known Increases – Previously Negotiated Closed Labor Agreements

This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements, as well as other costs to maintain budgeted staffing levels. These costs are projected to be an

additional \$121.8 million from the current fiscal year to FY 2026-27 and \$146.3 million in FY 2027-28 to annualize the cost of miscellaneous employee union contracts' final wage increase scheduled for FY 2026-27. Police and Firefighters' unions have open contracts beginning in FY 2026-27, and all Miscellaneous employee unions have open contracts in FY 2027-28. The assumptions for open contracts are discussed in the next section.

CPI on Open Contracts – Projected Costs of Open Labor Agreements

Police and Firefighters' unions will have open contracts starting in FY 2026-27. Miscellaneous employee unions will have open contracts starting in FY 2027-28. This report assumes wage increases for these groups based on the change in the Consumer Price Index (CPI), calculated as the average projection of the California Department of Finance SF Metropolitan Statistical Area CPI and Moody's SF Metropolitan Area CPI, equal to 3.30% for FY 2026-27, 3.04% for FY 2027-28, 2.34% for FY 2028-29, and 2.26% for FY 2029-30. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels but rather are used for projection purposes.

The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be \$26.9 million in FY 2026-27, \$113.7 million in FY 2027-28, \$66.4 million in FY 2028-29, and \$98.7 million in FY 2029-30. These increases are provided for projection purposes only; actual costs will be determined in collective bargaining to be conducted in FY 2025-26 for Police and Firefighters' unions and in FY 2026-27 for miscellaneous bargaining unions.

Health and Dental Benefits for Active Employees

Each spring, the San Francisco Health Service System (HSS) negotiates subsequent calendar year rates. The HSS Board adopts these rates in June, with approval by the Board of Supervisors in July. HSS holds open enrollment for employees every October. HSS reports that the calendar year 2026 negotiated rates increased by 9.0% from 2025, driven primarily by healthcare wage and supply cost inflation, increased demand for mental health and substance abuse services, increased prescription drug costs, and increased cost shifting from government to commercial insurance.

Projections in this report assume average annual increases of approximately 9.0% in health rates for active employees. Dental rates increased by 8.1% in FY 2026-27 and are assumed to increase by 4.0% annually through FY 2029-30. Given these assumptions, health and dental insurance premium costs paid by the employer for current employees are projected to increase by \$39.0 million in FY 2026-27, \$37.7 million in FY 2027-28, \$40.8 million in FY 2028-29, and \$44.7 million in FY 2029-30.

These rates are driven by utilization and the cost of health care. While the number of City employees is assumed to remain relatively stable, price increases on the provider side for pharmacy, high-cost claims, and more employees seeking health care could result in an increase in health care costs above what is assumed in this report. Changes to the Affordable Care Act at the federal level remain a risk, and efforts to repeal, replace, or otherwise change the law could have significant impacts on future health care costs. Other uncertainties include the rising cost of specialty pharmaceuticals and continued labor cost growth being passed through in the form of higher premiums.

Health and Dental Benefits for Retired City Employees

Charter Section A8.428 mandates health coverage for retired City employees. The projection assumes that the cost of medical benefits for retirees will increase by an average of 8.9% per year over the next four years.

General Fund support for retiree health costs increases by \$12.4 million in FY 2026-27, \$14.6 million in FY 2027-28, \$16.9 million in FY 2028-29, and \$18.5 million in FY 2029-30. Proposition B, passed by voters in June of 2008, began to address the City's unfunded retiree health (or OPEB) liability by requiring employees hired after January 10, 2009, to contribute 2% of pre-tax compensation to a Retiree Health Care Trust Fund. and for the City to contribute 1%. Starting July 1, 2016, employees hired before January 10, 2009, began contributing 0.25% of pre-tax compensation into the Retiree Health Care Trust Fund, increasing by 0.25% in each subsequent year, up to a maximum of 1%, with the City matching the contribution commensurately, as required by Proposition C (November 2011).

The key uncertainties for retiree health benefits are the impact of the increasing cost of pharmaceuticals as well as whether the federal government will continue to suspend the federal Health Insurance Tax and the excise tax on high-cost employer health benefits. As with active employees, health costs for retirees are expected to increase faster than CPI over the projection period.

Retirement Benefits – Employer Contribution Rates

Most City employees are members of the San Francisco Employees' Retirement System (SFERS). A small number of primarily public safety employees are members of the California Public Employees' Retirement System (CalPERS). Employer contributions to SFERS, which peaked in FY 2020-21 and then declined due to significant investment returns in that fiscal year, are now projected to increase in FY 2026-27 through FY 2028-29 and decrease in FY 2029-30. In FY 2021-22, the SFERS Board lowered their assumed rate of return from 7.4% to 7.2%, which is reflected throughout the forecast period. Current rates include the amortization of recent pension increases approved by voters, including supplemental cost of living adjustments to pre-1996 retirees (Proposition A, November 2022), lower age factors for sworn members of the Fire Department hired on or after January 7, 2012 (Proposition H, November 2024), and improved benefits for nurses and public safety dispatchers (Proposition I, November 2024), all of which increase employer contribution rates. The newest change reflected in rates in this report are increases of approximately 0.65% resulting primarily from merit and longevity salary increases (i.e., earned through progressing through job steps and as opposed to cost of living adjustments), as identified in the SFERS demographic study for 2019 to 2024.

The employer contribution rates shown in Table 5C below were prepared by the Retirement System's actuary in February 2025. Rates vary among three employee salary bands. The highest percentage rate for the City contribution is for the first band, representing employees with estimated annual earnings up to \$71,919 in FY 2025-26. The City's percentage contribution decreases in the second band, which represents employee salary earnings between band one and \$143,839 per year, and the third band, salary earnings above \$143,839. For the forecast period, the estimated earnings for the three salary bands increase based on changes in the CPI. All employees contribute 7.5% of their salary to retirement, and employees with salaries in bands two and three contribute an additional percentage based on the total projected wage. Variances in investment returns and changes in actuarial assumptions (on wage and price inflation and investment returns, for example) will affect employer contribution rates.

The employer contribution rate for employees in band two is projected to increase from 14.5% in FY 2025-26 to 15.0% in FY 2026-27, 15.9% in FY 2027-28, 16.9% in FY 2028-29, and decrease to 15.7% in FY 2029-30. Rates for sworn employees of the Police and Fire departments vary depending on the date of hire. This report assumes the weighted average employer contribution rate for FY 2026-27 for police officers and firefighters is 14.7%, increasing to 15.4% in FY 2027-28 and 16.4% in FY 2028-29, then declining to 15.2% in FY 2029-30.

Depending on the date of hire, employees participating in CalPERS contribute a minimum of 7.5% to 9.0% of salary to retirement, plus an additional contribution based on labor agreement provisions. To more accurately calculate and project CalPERS employer contribution rate and retirement costs, the base case trued-up CalPERS FTE to align with payroll data from September 2025. This ensures that the base budget FTE used in the forecast period reflects employees enrolled in the CalPERS retirement plan. CalPERS rates are projected to increase from 64.6% in FY 2025-26 to 78.6% in FY 2026-27, decline to 74.6% in FY 2027-28, rise again to 79.7% in FY 2028-29, and decline to 77.5% in FY 2029-30. The projection assumes a consistent level of budgeted FTEs enrolled in the CalPERS retirement plan, with rate fluctuations primarily driven by changes in the required CalPERS Unfunded Accrued Liability (UAL) payment obligations.

The net result of these changes to the employer share of SFERS and CalPERS contributions is cost increase of \$25.0 million in FY 2026-27, \$19.2 million in FY 2027-28, and \$34.5 million in FY 2028-29, followed by a cost decrease of \$39.7 million in FY 2029-30. Failure to meet the assumed rate of return or future, unbudgeted supplemental COLAs could dramatically impact this forecast.

Table 5C: Estimated Contribution Rates for the San Francisco Employees Retirement System (SFERS)

SFERS Member Group	FY 2025-26 Net Employee Contribution Rates	FY 2025-26 Net Employer Contribution Rates
<u>Miscellaneous Plan</u> members with a base rate of pay less than \$34.5766 per hour or its equivalent	Old Plan: 8.00% New Plans: 7.50%	16.53%
<u>Miscellaneous Plan</u> members with a base rate of pay at or above \$34.5766 per hour or its equivalent, but less than \$69.1536 per hour or its equivalent	Old Plan: 9.50% New Plans: 9.00%	15.03%
<u>Miscellaneous Plan</u> members with a base rate of pay at or above \$69.1536 per hour or its equivalent	Old Plan: 10.00% New Plans: 9.50%	14.53%

Other Salary and Fringe Benefits Costs

Other salary and benefit cost changes include contributions toward pre-funding retiree health costs and employment insurance. The report projects a cost decrease of \$8.6 million in FY 2026-27, cost increase of \$3.5 million in FY 2027-28, cost decrease of \$4.2 million in FY 2028-29, and slight cost increase of \$0.8 million in FY 2029-30.

USES – CITYWIDE OPERATING BUDGET COSTS

Over the next four years, the City will also incur increasing non-salary operating costs. Citywide non-salary operating costs are projected to increase by \$50.4 million in FY 2026-27 compared to the current fiscal year, an additional \$129.1 million in FY 2027-28, then \$53million in FY 2028-29, and \$69.7 million in FY 2029-30, as described below.

Capital, Equipment & Technology

Capital, equipment, and technology costs are projected to decrease by \$32.1 million in FY 2026-27 relative to FY 2025-26, followed by annual cost increases of \$33.0 million in FY 2027-28, \$29.9 million in FY 2028-29, and \$30.6 million in FY 2029-30.

Capital: Capital funding is projected to decrease by \$17.6 million in FY 2026-27 relative to FY 2025-26, followed by annual spending increases of \$30.0 million in FY 2027-28, \$25.0 million in FY 2028-29, and \$25.0 million in FY 2029-30, aligning with the Ten Year-Capital Plan beginning in FY 2027-28.

Equipment: Citywide equipment costs are projected to decrease by \$18.8 million in FY 2026-27, as reflected in the previously adopted FY 2025-26 and FY 2026-27 budget. Costs in FY 2027-28, FY 2028-29, and 2029-30 are projected to remain flat. Equipment is defined as an item costing \$10,000 or more with an expected useful life of three years or more. This projection assumes that no equipment purchases will be funded through the use of lease revenue bonds in any of the five years. By using cash instead of debt financing, the City saves on financing costs, reducing the total cost of equipment purchases.

Technology: The General Fund budget for citywide technology projects is \$25.3 million in FY 2025-26. Costs are projected to increase by \$4.2 million in FY 2026-27 relative to FY 2025-26, with further annual increases of \$3.0 million in FY 2027-28, \$4.9 million in FY 2028-29, and \$5.6 million in FY 2029-30.

Multiyear Inflation on Nonprofit Grants and Minimum Compensation Ordinance

In November 2023, the Board of Supervisors approved an ordinance amending the Administrative Code to require the Controller to include anticipated cost increases in nonprofit organization contracts to reflect inflation and to adopt a City policy that departments will enter into multi-year grants when the need for a grant program extends beyond one year.

In line with the requirements of this ordinance, this projection assumes cost increases of \$24.1 million in FY 2026-27, \$25.5 million in FY 2027-28, \$17.5 million in FY 2028-29, and \$17.8 million in FY 2029-30, based on a 3% indexed inflationary increase in FY 2026-27 and FY 2027-28, and 2% in FY 2028-29 and 2029-30.

This report also includes cost projections over the five years to implement San Francisco's minimum wage laws and Minimum Compensation Ordinance (MCO). Minimum wage laws in San Francisco govern base wages for all workers within the geographic perimeters of the City and County of San Francisco. The MCO applies only to workers on contracts with the City and County of San Francisco. This projection includes an increase of \$2.7 million in FY 2026-27, \$3.1 million in FY 2027-28, \$2.9 million in FY 2028-29, and \$2.6 million in FY 2029-30.

Debt Service & Real Estate

Debt service and real estate costs are projected to increase by \$45.9 million in FY 2026–27 and \$52.2 million in FY 2027–28, decline \$12.1 million in FY 2028–29, and increase \$4.0 million in FY 2029–30. This projection is based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as cost related to the City's leased and owned real estate portfolio.

Sewer, Water, and Power Rates

This report assumes increased General Fund transfers to the Public Utilities Commission (PUC) for the cost of sewer, water, and power expenses, which includes the pass-through cost of natural gas and steam provided by Pacific Gas & Electric Company, the California Department of General Service, and Cordia Energy. This report models these costs using projected utility rates and usage volumes for General Fund departments, also factoring in other macroeconomic inputs. Power rates are projected to increase by three cents per kilowatt hour per year until the cost of service is reached, which is expected over a period of up to approximately five years, depending on the department. Water and sewer rates are projected to increase respectively by approximately 7-8% and 12-15% annually through FY 2029-30.

The current fiscal year budgets \$44.5 million of General Fund expenditures on sewer, water, and power. In addition to rate changes, increased power costs are driven by high gas, power purchase, and transmission and distribution costs, as well as economic recovery and return to office activities causing an increase in demand for power. Costs of water and sewer are driven by capital infrastructure needs, including responding to regulatory requirements and upgrading aging infrastructure. Additionally, sewer cost impacts to departments result from the phase-in of a new stormwater surcharge that increases costs for departments with large real estate holdings. As a result, the projection assumes cost increases of \$5.1 million in FY 2026-27, \$6.3 million in FY 2027-28, \$6.2 million in FY 2028-29, and \$5.7 million in FY 2029-30.

Worker's Compensation Claims

This report assumes that Worker's Compensation costs will decrease by \$1.1 million in FY 2026-27, increase by \$2.5 million in FY 2027-28, increase by \$2 million in FY 2028-29, and increase by \$2 million in FY 2029-30. The projected cost increases are attributed to increased claim filing rates, severity, benefit rates adopted by the California Division of Workers' Compensation, and inpatient hospitalization.

Citywide Technology Operating Costs

The Department of Technology's internal services rates are projected to increase costs by \$4.1 million in FY 2026–27 relative to FY 2025–26, with further annual increases of \$4.1 million in FY 2027–28, \$3.9 million in FY 2028–29, and \$4.0 million in FY 2029–30. The increase in cost is partially attributed to inflationary rates applied to infrastructure costs (including maintaining the City's IT networks, cybersecurity, cloud services, and replacement of technology at the end of its life cycle) for interdepartmental services and the use of SF GovTV to support government meetings and City related events.

Other Citywide Costs

This category includes increases in other costs across citywide services, including fleet maintenance, risk management, and contract monitoring. These expenditures are projected to increase costs by \$1.7 million in FY 2026–27 relative to FY 2025–26, with further annual increases of \$2.4 million in FY 2027–28, \$2.7 million in FY 2028–29, and \$3.1 million in FY 2029–30.

USES – DEPARTMENTAL COSTS

This section provides a high-level overview of significant departmental costs over the next four years. Departmental costs are expected to increase by \$78.5 million in FY 2026-27, due largely to increases in operating costs at the Department of Public Health and the cost for In-Home Supportive Services at the Human Services Agency. Costs are then expected to increase by \$86.6 million in FY 2027-28, \$123.9 million in FY 2028-29, and \$91.3 million in FY 2029-30.

City Administrator – Convention Facilities Subsidy

General Fund subsidies for the Convention Facilities Fund totaled \$30.5 million in FY2025-26 and will increase in cost by \$3.8 million in FY 2026–27, with further annual increases of \$2.1 million in FY 2027–28, \$3.9 million in FY 2028–29, and \$0.5 million in FY 2029–30. Over the four-year projection period, the total cumulative General Fund subsidies for the Convention Facilities Fund are \$151.9M million. The projected cost increases and decreases are based on currently scheduled conventions and projected attendance.

Elections – Number of Scheduled Elections

The number of elections and the associated costs to hold elections vary annually. In November 2022, San Francisco voters passed Proposition H, shifting Mayoral and other citywide official elections to even-numbered years starting in 2024. With this change, current projections assume five regularly scheduled elections during the projection period, shown in Table 12. This schedule results in a projected cost increase of \$0.4 million in FY 2026-27, an increase of \$1.2 million in FY 2027-28, an increase of \$2.5 million in FY 2027-28 to account for a larger General election, and finally a decrease of \$2.2 million in FY 2029-30. Any special election not included in this projection would potentially result in increased General Fund costs dependent on the complexity of the ballot and the size of the electorate.

Table 6A: Number of Scheduled Elections FY 2025-26 Through FY 2029-30

Fiscal Year	Date	Type
2025-26	June 2026	Direct Primary
2026-27	November 2026	General
2027-28	March 2028	Presidential Primary
2028-29	November 2028	General
2029-30	June 2030	Direct Primary

Ethics Commission – Public Financing of Elections

The Ethics Commission administers the Election Campaign Fund. Per the charter, the City must appropriate \$2.75 per resident each fiscal year to this fund for candidates for office who qualify under Ethics Commission criteria to partially finance their campaigns with public funds. Funds not used in one election are carried over for use in the following election, and any funds in excess of \$7.0 million shall be returned to the General

Fund. Funds totaling \$2.4M million were carried over from FY 2024-25 to the current fiscal year to cover the annual appropriation.

The General Fund will appropriate an amount based on the Ethics Commission's projections of fund disbursement for participating candidates. As of October 2, 2025, this projection assumes six Supervisorial candidates in the June 2026 Special Election, 15 Supervisorial candidates in the November 2026 election, 18 Supervisorial and three Mayoral candidates in the November 2028 election, and 15 Supervisorial candidates in the November 2030 election. Based on disbursement of funds for candidates in this updated projection, costs are projected to increase by \$3.0 million in FY 2026-27, decrease by \$0.2 million in FY 2027-28, increase by \$2.7 million in FY 2028-29, and decrease by \$4.2 million in FY 2027-28.

MOHCD - Affordable & Permanent Supportive Housing Project Costs

The City expects to incur significant costs in all years of the projection related to its current affordable and permanent supportive housing projects. The Local Operating Subsidy Program (LOSP) at the Mayor's Office of Housing and Community Development (MOHCD) subsidizes housing for formerly homeless individuals and families. This City-funded subsidy enables formerly homeless individuals and families to stay securely housed and receive services from the Department of Homelessness and Supportive Housing by providing long-term financial support for operating and maintaining permanently affordable housing properties. LOSP program costs are projected to increase due to several large supportive housing projects opening in the next few years. This forecast also includes projected inflationary costs for permanent supportive housing sites in the City's portfolio.

The costs related to these projects are expected to increase from \$66.3 million in the current fiscal year by \$8.1 million in FY 2026-27, \$8.0 million in FY 2027-28, \$5.2 million in FY 2028-29, and \$9.8 million in FY 2029-30. The increase is driven by higher operating costs for PSH (permanent supportive housing) pipeline projects and cost-of-doing-business increases applied to nonprofit service contracts; the lower increment in FY 2028-29 reflects delays in planned PSH project completions due to lack of available State funding. The LOSP program currently funds 2,924 units of permanent supportive housing and by FY 2029-30, it is expected to fund 4,044 units at an annual cost of \$96.8 million.

Homelessness and Supportive Housing – Maintaining Shelter Capacity

The Department of Homelessness and Supportive Housing is currently relying on one-time State funds to operate shelters. This funding is set to expire in FY 2027-28, creating an ongoing shortfall of \$17.8 million. This shortfall grows by \$36.3 million in FY 2028-29 and grows again by \$1.6 million in FY 2029-30. To maintain shelter capacity, this update assumes General Fund backfill of State revenue loss.

HSA - County Aid, IHSS, IVE – Human Services Agency – In-Home Supportive Services and Other Public Benefit Programs

In-Home Supportive Services (IHSS) is an entitlement program that provides homecare services to 32,000 low-income elderly, disabled, and/or blind San Franciscans, enabling them to live safely in their own homes rather than in a nursing home or other group care facility. The program employs over 28,000 individuals in San Francisco as independent providers who assist clients with domestic and personal care services.

The local share of the IHSS program, which is funded with a mix of federal Medicaid, State, and local funds, is paid using a "maintenance of effort" (MOE) framework. Per state statute, this cost increases 4 percent annually and for a share of locally-negotiated cost increases. Locally, the City has made legislative changes

that further increased the costs of the IHSS program. The Minimum Compensation Ordinance (MCO), which passed in fall 2018, raised base wages for several types of workers, including IHSS workers, above the San Francisco minimum wage. The City's share of increased wages for IHSS workers translates into an increase to the City's IHSS MOE obligation. Overall, the MOE is projected to grow to approximately \$296 million by FY 2029-30.

Based on current estimates, which include CPI-based wage increases, City costs for IHSS are expected to increase annually by \$20.3 million in FY 2026-27, \$21.8 million in FY 2027-28, \$24.8 million in FY 2028-29, and \$26.6 million in FY 2029-30.

Another set of benefit-related costs within the Human Services Agency (HSA) is due to changes in federal funding for family and children's services, such as foster care. The Title IV-E waiver, in effect since September 2014, has allowed San Francisco's child welfare and juvenile justice departments to shift federal out-of-home placement dollars to preventive services. Under the Title IV-E waiver, San Francisco invested in programs and services for families and children with the goals of improving permanency outcomes, increasing child safety, promoting family engagement, and decreasing re-entry. The waiver ended in fall 2019, so these investments are no longer eligible for the same levels of federal funding. While new federal funding under the Families First Preventative Services Act (FFPSA) will offset some local costs, the City still anticipates a net revenue loss from the end of the waiver and temporary transition funding. This report assumes that the City maintains the level of service in the adopted FY 2025-26 budget and uses one-time sources from FFPSA transition funding and savings to cover the funding gap caused by the loss of federal funding. This will result in no General Fund cost in FY 2026-27 and FY 2027-28, followed by an increase of \$2.6 million in FY 2028-29 and \$8.7 million in FY 2029-30.

Finally, HSA projects that aid payments to clients, including County Adult Assistance Programs (CAAP), Foster Care, CalWORKs, and other programs, will decrease by \$2.3 million in FY 2026-27, then increase by \$0.9 million in FY 2027-28, \$2.2 million in FY 2028-29, and \$2.9 million in FY 2029-30. The near-term savings reflect caseload stabilization, the absence of a CalWORKs Maximum Aid Payment (MAP) increase per the state budget, and reduced federal refugee program funding, while outer year cost growth is driven by expected annual increases to monthly aid payment grants intended to keep pace with cost-of-living increases.

Public Health – Operating Costs

The Department of Public Health's (DPH) costs for pharmaceuticals, food, laundry, and UCSF affiliated clinical staff at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital totals \$464.5 million in General Fund support in the current fiscal year. These operating costs are projected to increase by \$32.2 million in FY 2026-27, \$37.5 million in FY 2027-28, \$40.8 million in FY 2028-29, and \$44.4 million in FY 2029-30. These increases reflect the inflationary pressures exceeding regular CPI increases at the Department's hospitals and clinics related to pharmaceuticals, and cost increases related to the UCSF Affiliation Agreement, which provides the clinical staff at Zuckerberg San Francisco General Hospital.

In May 2023, the City reached historic settlements with pharmaceutical chains, drug manufacturers, and distributors for their role in fueling the opioid epidemic in San Francisco. Through the work of the City Attorney's Office, San Francisco secured over \$290 million of settlement funding over the course of the next 17 years. Over the forecast period, some of this funding will be used to sustain existing behavioral health and overdose prevention investments. This report assumes opioid settlement funds continue to offset General

Fund costs through FY 2026-27, after which those costs shift back onto the General Fund. Therefore, additional General Fund costs are projected to be \$18.6 million in FY 2027-28, with incremental growth of \$0.6 million in FY 2028-29 and \$0.4 million in FY 2029-30.

In total the projection assumes Public Health costs increase by \$50.8 million in FY 2026-27, \$38.1 million in FY 2027-28, \$41.2 million in FY 2028-29, and \$44.8 million in FY 2029-30.

Downtown Recovery and Activation

This report assumes the City maintains its investment in the recovery of the City's Economic Core, which includes Downtown, South of Market, Union Square, Civic Center, Mid-Market, and Yerba Buena, among other areas. The report assumes minor budgeted savings of \$0.7 million in FY 2026-27, with the investment remaining flat from FY 2027-28 through FY 2029-30 at \$2.1 million annually.

Public Safety Ambassadors engage with residents and visitors, support people in need and connect them with services, address safety issues, and support the cleanliness of targeted areas, offering an alternative to police response. The report assumes a \$2.1 million decrease in funding for Public Safety Ambassadors in FY 2026-27 from FY 2025-26. In the out years, the report assumes the City maintains a \$19.0 million annual investment, with the budget staying flat from FY 2027-28 through FY 2029-30.

Previous Budget Cycle New Departmental Savings

The FY 2026-27 budget assumes the Police Department, Fire Department, and Sheriff's Office collectively realize savings of \$18.1 million in FY 2026-27 from one-time appropriations that were developed during the previous budget cycle (FY 2025-26 & FY 2026-27). This report assumes these savings are on-going, but this will be contingent upon future budgetary decisions and the City's evolving service needs.

Other Departmental Savings/(Costs)

These include all other departmental savings and costs, including Free City College, collective bargaining expenses at the Department of Human Resources, the Superior Court Indigent Defense Administration contract and expiration of limited-term funding and minor revenue adjustments. Together these changes result in a cost increase of \$15.2 million in FY2026-27, a decrease of \$3.1 million in FY 2027-28, and increases of \$2.3 million in FY 2028-29 and \$2.8 million in FY 2029-30.

RECESSION PLANNING SCENARIO

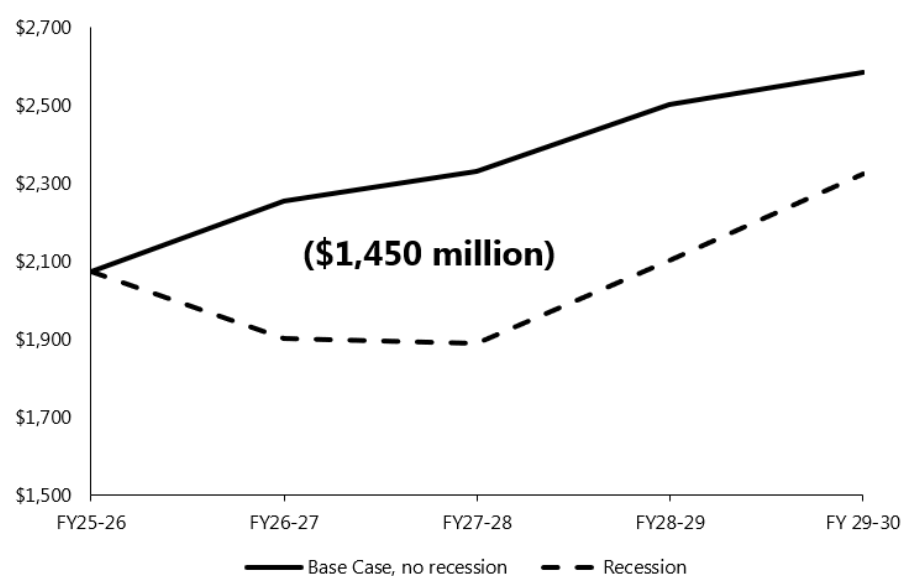
Due to the difficulty of predicting recessions, the base case of this report does not anticipate an economic contraction in the next four years. Despite the large deficits projected, overall General Fund tax revenues in the base case grow year-over-year, albeit very slowly.

The biggest effects on the City's budget in a recession come from reduced revenues and increased employer pension contributions. The City's revenues are affected by the overall business cycle; the international, national, and regional economies; consumer confidence and spending; employment rates; and travel and tourism. To illustrate the effect of a hypothetical recession on San Francisco's fiscal condition, this section describes a recession scenario affecting the California and San Francisco economies beginning in FY 2026-27.

Revenue and Baselines

This scenario assumes rates of revenue loss in major local tax sources consistent with the average declines experienced during the last two asset-bubble-related economic downturns - from FY 2001-02 through FY 2003-04 (the dotcom bust) and FY 2008-09 through FY 2010-11 (the global financial crisis). Reductions in the City's projected aggregate discretionary revenue would result in reduced contributions to baselines and set-asides affecting the MTA, the Department of Children, Youth and Their Families, the Library, Recreation and Parks, and the San Francisco Unified School District, and would also result in lower required deposits to the General Reserve. Using these parameters, the net revenue loss from a recession beginning in FY 2026-27 would be approximately \$1,450 million over the four years of the forecast period compared to the base case described in this plan. Figure 5 shows the difference between base case and recession scenario revenue projections.

Figure 5: Base Case vs Recession Scenario, Selected Local Taxes



Retirement Contributions

A recession will likely lead to pension system investment losses and related increases in employer contribution rates. The recession scenario assumes a return of -12.7% in FY 2024-25, which would affect contribution rates for the plan period beginning in FY 2026-27, as this was one of the stress testing scenarios provided to the Retirement Board by its actuary, Cheiron, in its July 1, 2024, actuarial report dated February 2025. In this scenario, employer contribution rates would rise by approximately 4.3% in FY 2026-27, 16.3% in FY 2027-28, 27.6% in FY 2028-29, and 42.6% in FY 2029-30. Over the plan period, this would result in a \$292.2 million increase in employer retirement contributions. According to SFERS, the preliminary FY 2024-25 rate of investment return is 7.97%; the estimate is intended to demonstrate sensitivity to a large negative return.

Figure 6: Over \$800 Million of Additional Balancing Solutions Needed in Recession Scenario (\$ Millions)



The revenue losses described above would reduce required reserve deposits by \$93.2 million, reduce required baseline transfers by \$309.3 million, and allow the City to draw \$520.8 million in reserves. Taken together, these changes in revenues and expenditures indicate that an economic downturn beginning in FY 2026-27 would result in a net remaining deficit of approximately \$820 million over the plan period, assuming policymakers chose to completely deplete economic reserves. San Francisco's Charter requires that each year's budget be balanced.

Table 7A: Projected General Fund Shortfall in Recession Scenario (\$ Millions)

Recession Scenario					
	FY26-27	FY27-28	FY28-29	FY 29-30	Total
Base Case Deficit Projection	\$ (296.3)	\$ (640.3)	\$ (909.3)	\$ (1,168.5)	
Updated Projection - Savings/(Cost)					
Reduction in base case revenue available	\$ (353.4)	\$ (439.6)	\$ (397.9)	\$ (259.8)	\$ (1,450.8)
Reduction in mandatory baseline spending	\$ 74.9	\$ 93.9	\$ 85.0	\$ 55.5	\$ 309.3
Reduction in General Reserve deposits	\$ 86.4	\$ 1.6	\$ 3.1	\$ 2.1	\$ 93.2
Permissible withdrawal from reserves	\$ -	\$ 179.2	\$ 185.2	\$ 156.5	\$ 520.8
Increase employer retirement contribution	\$ (5.3)	\$ (55.8)	\$ (88.2)	\$ (143.0)	\$ (292.2)
Updated Deficit Projection	\$ (493.6)	\$ (861.0)	\$ (1,122.1)	\$ (1,357.2)	\$ (3,834.0)
Amount of New Fiscal Strategies Needed	\$ (197.3)	\$ (220.7)	\$ (212.8)	\$ (188.7)	\$ (819.6)

BOARD of SUPERVISORS



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MEMORANDUM

TO: Greg Wagner, City Controller, Office of the Controller
Sophia Kittler, Budget Director, Mayor's Office of Public Policy and Finance

FROM: Brent Jalipa, Assistant Clerk
Budget and Finance Committee

DATE: January 31, 2025

SUBJECT: HEARING MATTER INTRODUCED

The Board of Supervisors' Budget and Finance Committee has received the following hearing request, introduced by Supervisor Connie Chan:

File No. 260145

Hearing on the City and County of San Francisco's Joint Report and the Five Year Financial Plan Update for Fiscal Years (FY) 2026-2027 through FY2029-2030; and requesting the Controller and the Mayor's Budget Director to report.

Pursuant to the hearing request, you or a representative will be expected to attend and present on the subject when this matter is agendized.

If you have any comments or reports to be included with the file, please forward them to me by email to: brent.jalipa@sfgov.org.

c: ChiaYu Ma, Office of the Controller
Ayesha Hossain, Office of the Controller
Devin Macaulay, Office of the Controller
Adam Thongsavat, Mayor's Office
Aly Bonde, Mayor's Office

Introduction Form

(by a Member of the Board of Supervisors or the Mayor)

I hereby submit the following item for introduction (select only one):

- ☒ 1. For reference to Committee (Ordinance, Resolution, Motion or Charter Amendment)
- ☐ 2. Request for next printed agenda (For Adoption Without Committee Reference)
(Routine, non-controversial and/or commendatory matters only)
- ☐ 3. Request for Hearing on a subject matter at Committee
- ☐ 4. Request for Letter beginning with "Supervisor _____ inquires..."
- ☐ 5. City Attorney Request
- ☐ 6. Call File No. _____ from Committee.
- ☐ 7. Budget and Legislative Analyst Request (attached written Motion)
- ☐ 8. Substitute Legislation File No. _____
- ☐ 9. Reactivate File No. _____
- ☐ 10. Topic submitted for Mayoral Appearance before the Board on _____

The proposed legislation should be forwarded to the following (please check all appropriate boxes):

- ☐ Small Business Commission ☐ Youth Commission ☐ Ethics Commission
- ☐ Planning Commission ☐ Building Inspection Commission ☐ Human Resources Department

General Plan Referral sent to the Planning Department (proposed legislation subject to Charter 4.105 & Admin 2A.53):

- ☐ Yes ☐ No

(Note: For Imperative Agenda items (a Resolution not on the printed agenda), use the Imperative Agenda Form.)

Sponsor(s):

Chan

Subject:

Hearing - Joint Report & Five Year Financial Plan Update: FY 2026-27 through FY 2029-30

Long Title or text listed:

Hearing on the City and County of San Francisco's Joint Report & the Five Year Financial Plan Update Fiscal Year (FY) 2026-2027 through FY2029-2030 and requesting the Controller and the Mayor's Budget Director to report.

Signature of Sponsoring Supervisor:

