

File No. 250111

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Appropriations Committee Date April 23, 2025

Board of Supervisors Meeting Date _____

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Completed by: Brent Jalipa Date April 18, 2025

Completed by: Brent Jalipa Date _____

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Proposed Five-Year Financial Plan

Fiscal Years 2025-26 through 2029-30



December 18, 2024

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Acknowledgements

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**FIVE-YEAR FINANCIAL PLAN****Executive Summary****PURPOSE OF THE PLAN**

The Five-Year Financial Plan is required under Proposition A, a charter amendment approved by voters in November 2009 that requires the City to forecast expenditures and revenues during the upcoming five-year period, propose actions to balance revenues and expenditures during each year, and discuss strategic goals and resources for City departments.

ECONOMIC OVERVIEW

This report provides an overview of the economic context that informs the revenue projections in the plan.

FIVE-YEAR OUTLOOK

Over the next five years, the City's revenue outlook is expected to improve, supported by recent changes in San Francisco's tax structure and modest economic growth. However, this improvement will be tempered by post-pandemic economic realities and the depletion of one-time funding sources. At the same time, the cost of City services is projected to grow significantly, surpassing revenue growth each year of the five-year period. Without corrective action, the gap between revenues and expenditures is projected to reach approximately \$1.47 billion by Fiscal Year (FY) 2029-30.

Table 1: Base Case - Summary of General Fund-Supported Projected Budgetary Surplus/(Shortfall)
(\$ millions)

	Change from AAO Budget	Projection				
	2025-26	2025-26	2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	(203.2)	(9.2)	132.9	225.8	350.4	518.6
Uses						
Baselines & Reserves	(1.5)	(53.6)	(147.1)	(232.1)	(255.8)	(254.0)
Salaries & Benefits	0.4	(175.7)	(350.4)	(607.0)	(795.3)	(943.1)
Citywide Operating Budget Costs	(7.0)	(18.7)	(125.0)	(235.4)	(316.1)	(392.5)
Departmental Costs	(41.8)	4.0	(133.1)	(204.6)	(317.8)	(400.2)
USES Decrease / (Increase)	(50.0)	(244.0)	(755.7)	(1,279.1)	(1,684.9)	(1,989.8)
Projected Cumulative Surplus / (Shortfall)	(253.2)	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)

Total expenditures are projected to increase by approximately \$1.99 billion over the next five years, representing a 29.0 percent increase from FY 2024-25. Key drivers of this growth include employee salaries, pensions, and fringe benefits rising by \$943.1 million (47 percent of total growth), departmental costs growing by \$400.2 million (20 percent of total growth), Citywide operating costs increasing by \$392.5 million (20 percent of total growth), and baseline increases of \$254.0 million (13 percent of total expenditure growth).

In contrast, available General Fund sources are expected to grow by only \$518.6 million over the same period, an increase of 7.6 percent from FY 2024-25.

As mandated by the City Charter, the City must develop and implement strategies to bridge the gap between projected revenues and expenditures. These strategies will need to be incorporated into the FY 2025-26 and FY 2026-27 two-year budget and extended across the five-year period.

FISCAL STRATEGIES

The City anticipates budget deficits in each of the next five years without proactive measures taken to address the imbalance between revenues and expenditures. Unlike the significant budget shortfalls that followed the 2001 and 2008 recessions, the current outlook highlights longer-term structural challenges, even without the occurrence of another recession. Given this economic context, the fiscal strategies outlined emphasize implementing ongoing spending reductions to balance the budget in each year. These reductions are grouped into the main categories of labor, infrastructure, and contracts.

This report is issued during a period of transition, as the City transitions from the administration of current Mayor London Breed to that of Mayor-elect Daniel Lurie, who will assume office on January 8, 2025. As the incoming administration refines its policy priorities within the constraints of the two-year and long-term structural deficits, the approach in this section provides a high-level framework to inform decision making.

CITYWIDE STRATEGIC INITIATIVES

This section describes the long-term strategy for City investments to achieve an equitable and vibrant economic recovery by focusing on key areas: driving new and recovered economic activity and promoting small business development; exploring new tools in public safety teamed with bolstering traditional approaches; investing in San Francisco's future through its children and families; decreasing homelessness while increasing housing supply; continuing to build adaptable behavioral health systems of care and treatment; and maintaining long-term core government operations, infrastructure, and a high talent workforce.



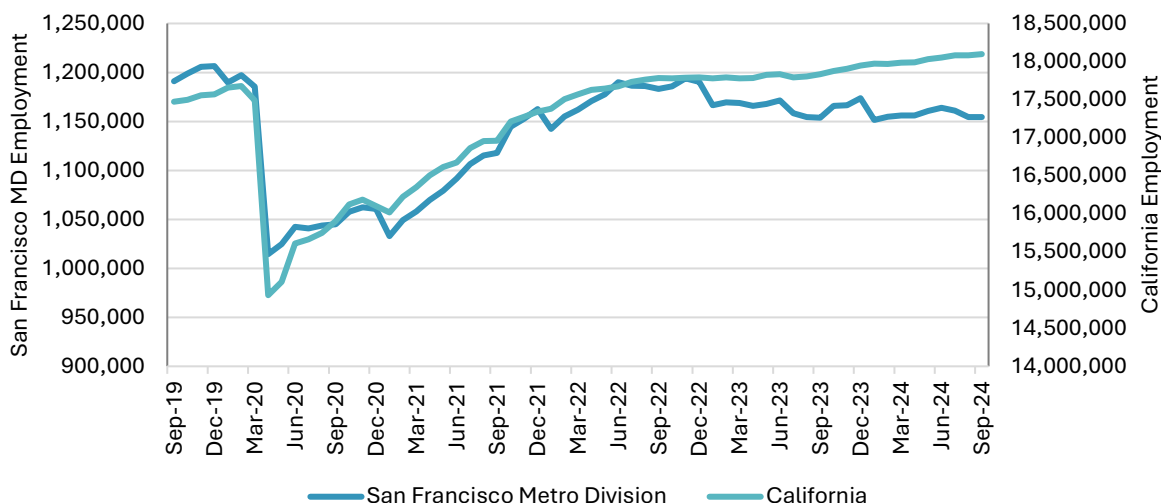
Economic Overview

STATUS OF THE POST-COVID-19 SAN FRANCISCO ECONOMY

Over the next five years, the City’s financial planning must account for both cyclical and structural economic risks. This section reviews the data on San Francisco’s post-pandemic economic recovery, which has been structurally constrained by several issues – particularly the persistence of remote work. It further considers how macroeconomic factors could affect the local economy during this five-year forecast period.

The City’s employment recovery from COVID-19 has been sluggish since 2020. The chart below shows total employment in the San Francisco Metro Division, compared to the state, indexed to September 2019. Local non-farm employment declined in the two-year period ending in September 2024, while statewide employment continued to recover.

Figure 1: Total Non-Farm Employment in the San Francisco Metro Division and California, September 2019 - 2024

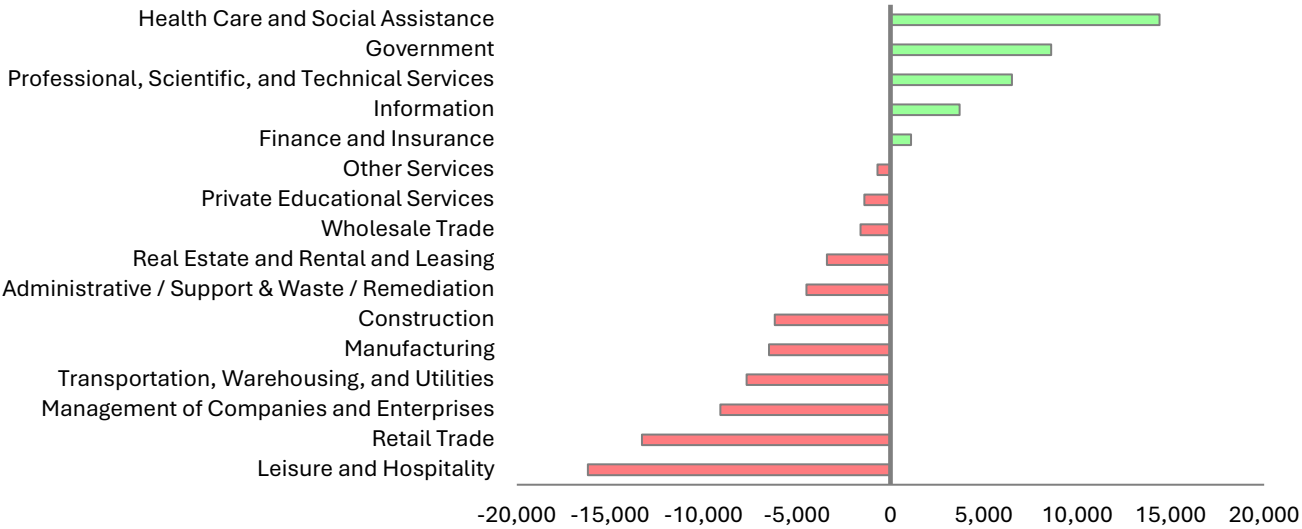


For many sectors of the local economy, the impact of the pandemic has been even more severe than aggregate data suggest. In the five-year period from September 2019 to September 2024, 11 of 16 industry sectors in the San Francisco metro division showed declining employment.¹ The decline was led by the leisure and hospitality sector which employed 16,000 fewer people than in November 2019, and Retail Trade, which employed 13,000 fewer.

¹ The San Francisco Metro Division includes San Francisco and San Mateo counties. San Francisco makes up approximately 63 percent of employment in the metro division.

Growth has been concentrated in the Health Care and Government sectors, which have expanded since the pandemic. Most of the private sector has shrunk, except for Professional Services, Information and Finance & Insurance. Most technology companies in San Francisco are classified in Professional Services and Information. Tech has experienced significant layoffs beginning in 2022, which has nearly erased the industry’s rapid growth in 2020 and 2021.

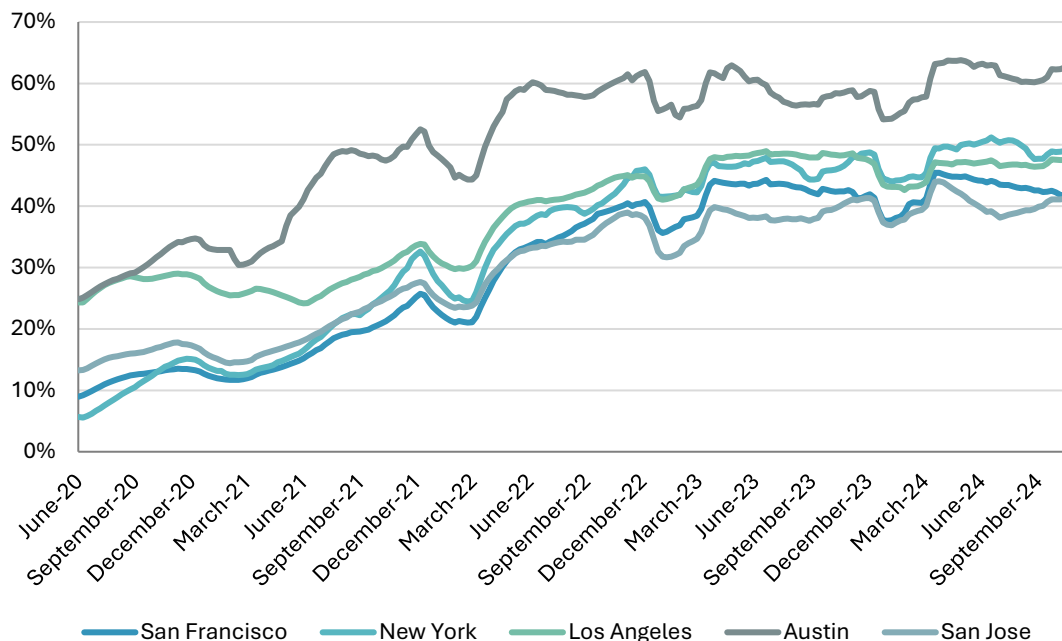
Figure 2: Change in Employment by Industry, San Francisco Metro Division, September 2019-September 2024



Despite employment growth in tech and other office-centric industries, physical attendance in San Francisco's commercial offices remains significantly below pre-pandemic levels. This reflects a broader national trend initially driven by public health measures early in the pandemic, which restricted in-person work for non-essential workers. Nationwide, however, office attendance has been slow to rebound, even after these public health controls were lifted.

San Francisco has led this trend. According to office attendance data published by Kastle Systems, metro San Francisco’s office attendance was only 42 percent of pre-pandemic levels in early November 2024. This is lower than most other comparable metro areas, although no area was above 65 percent of pre-pandemic levels.

Figure 3: Physical Attendance in Offices vs. 2019: San Francisco and Comparable Metros (12-week Moving Average)



Office attendance remains at less than half of pre-pandemic levels, even with significant employment growth in office-focused industries. This highlights the enduring shift toward remote work, which has significantly reduced office demand. San Francisco’s office vacancy rate reached 34.5 percent in the third quarter of 2024, up from less than 5 percent before the pandemic.² To some extent, this is due to the importance of the tech industry in the San Francisco office market, as tech has embraced remote work more than other office industries.

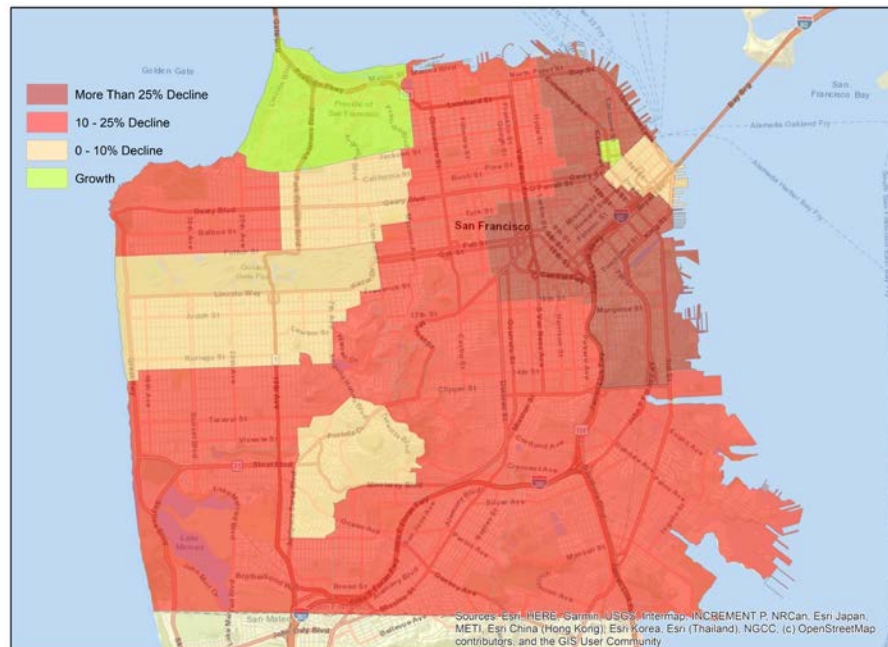
A comparison with the San Jose office market is instructive. Like San Francisco, the South Bay’s office market is dominated by tenants in the tech industry; like San Francisco, its office attendance numbers have been among the lowest in the country. But according to JLL, the office vacancy rate in San Jose is much lower, at 22 percent in the third quarter of 2024. While a sizable increase from before the pandemic, this indicates a greater willingness among office tenants in San Jose to hold on to office space for the future.

The persistence of remote work, and high office vacancy, has also weakened the economic links between tech and other office-using industries that largely drive the City’s economy, and the supporting industries that have grown up to support them. This can clearly be seen in sales tax trends in the map below, which shows the five-year change in taxable sales by zip code, after adjusting for inflation. The map covers the period from the first quarter of 2019 through the first quarter of 2024.

² According to data in JLL’s report Pulse of the Market: San Francisco, 2024 Q3.

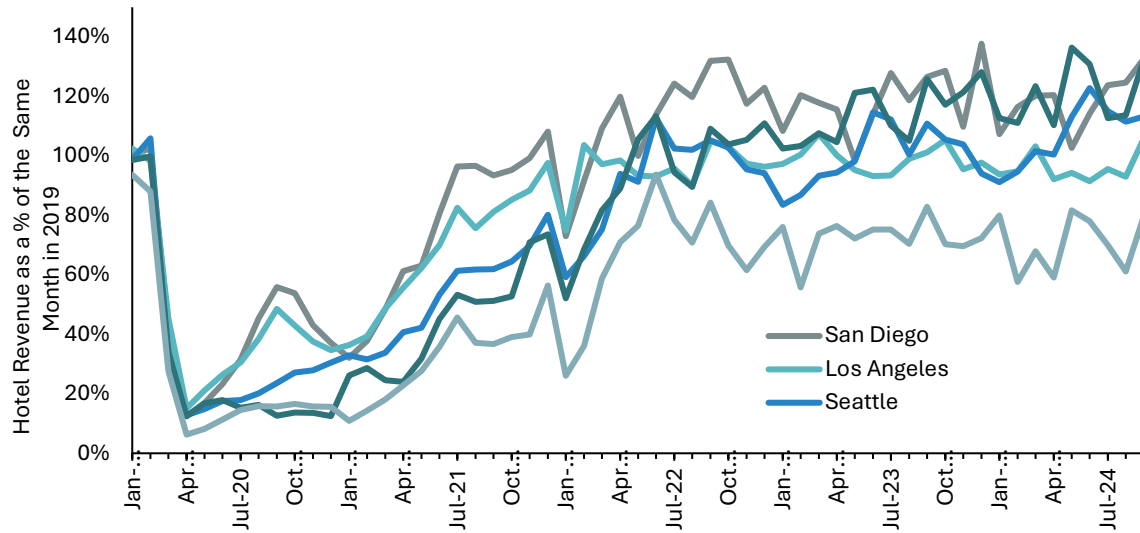
By 2024, only two zip codes in the City have recovered to the real taxable sales level of early 2019, making San Francisco the slowest-recovering county in California in terms of taxable sales, according to the sales tax consultant HDL. The contraction is greatest in zip codes in the downtown area, where the loss of office commuters and other customers is most acutely felt.

Figure 4: Percent Change Taxable Sales by Zipcode, 2019 Q1 – 2024 Q1 (Inflation-Adjusted)



A decline in office attendance is not the only factor behind the slow recovery in sales tax. San Francisco's tourism industry – also concentrated downtown - was also badly hit by the pandemic and has lagged other cities in recovery. While some competing tourism centers have exceeded their 2019 hotel revenue levels, San Francisco's revenue per available room night (RevPAR) was only about 80 percent of September 2019 levels. Tourism in the City has been adversely affected by the decline of business travel, a loss of tourists from China, and a slow recovery of business conventions.

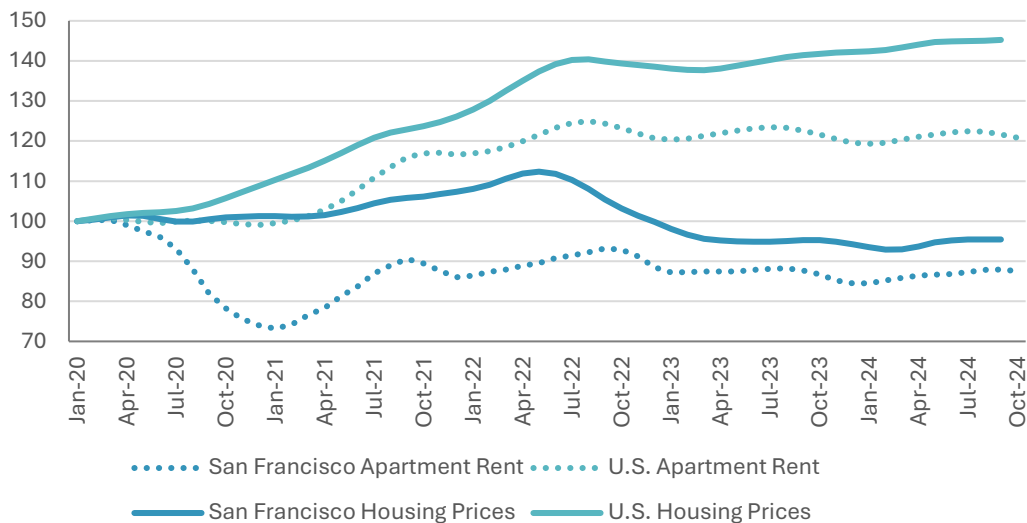
Figure 5: Monthly Hotel Revenue Available per Room Night, Selected Cities



Aside from office workers and hotel guests, downtown and the City have also experienced a significant loss in resident population since 2020. According to Census data, San Francisco’s population loss between July 2020 and July 2021 was the steepest of any U.S. City above 50,000 in population, at 6.3 percent. While the City’s population began to grow again with the July 2023 estimate, its population then was still 7.5 percent below the April 2020 estimate.

San Francisco’s population loss has also been associated with softness in the City’s housing market. As the chart below illustrates, both apartment rents and owner-occupied housing prices in San Francisco have diverged from the U.S. average since the beginning of 2020. The gap is clearest with housing prices, which by March 2024 had dropped 8 percent in San Francisco since the start of the pandemic, even as U.S. housing prices grew by 43 percent. Apartment rents suffered a major shock due to population loss in 2020 and are only slowly recovering by late 2024.

Figure 6: Apartment Asking Rents and Housing Prices in San Francisco and the United States, 2020-2024 (Jan. 2020 = 100)



The structural changes in the City's economy initiated by the pandemic will take a long time to resolve. In time, the office market will stabilize, and that will lead to a broader recovery in downtown business activity, transit, and the housing market. While the switch to remote work and a hybrid office environment has delivered a powerful shock to the City's economy, it was a one-time shock, and not the start of a downward spiral.

The City's economy has contracted since 2022, but this is more explained by cyclical rather than structural factors. These cyclical factors include the burst of inflation in 2021-2022 and the subsequent rise in interest rates beginning in 2022. For San Francisco, this has led to a marked reduction in venture capital investment, which has slowed start-up hiring and been a factor in big-tech layoffs as well. High interest rates also put an additional damper on construction, another critical and lagging industry in San Francisco.

Like the U.S. economy as a whole, San Francisco will very likely benefit from a continued soft landing following the Federal Reserve's rate increases, which had the desired effect of bringing inflation back in line with its long-term targets. However, U.S. GDP growth is forecast to be lower in 2025 and 2026. The Blue Chip median forecast for GDP growth is 2.1 percent for 2025 and 2026, down from 2.7 percent in 2024 and 2.9 percent in 2023.

Going forward, the incoming Trump administration is very likely to make major shifts in policy that could lead to higher inflation and higher federal deficits. The President-elect has promised to deport millions of undocumented workers, which would exacerbate labor shortages and lead to wage-driven inflation. He has also pledged to increase tariffs – not only on imports from China, but from all U.S. trading partners. This too is likely to fuel inflation. The administration is also likely to pursue significant tax cuts: cuts to the corporate tax rates and eliminating the tax on social security earnings have both been mooted. If corresponding cuts to spending are not found, the deficit will have to rise.

Both structurally higher inflation and higher federal deficits will put upward pressure on interest rates, as the Federal Reserve would likely seek to keep short-term rates higher for longer, and government borrowing would fuel demand for longer-term debt. As a result, San Francisco could face headwinds in its economic recovery that it did not experience during recent past periods of recovery.



Five-Year Base Case Projection

PURPOSE OF THE PLAN

The Five-Year Financial Plan is part of a comprehensive effort by the City to engage in long-range financial management and planning. This section, the Base Case projection, is a joint effort by the Mayor's Budget Office, the Controller's Office, and the Board of Supervisors' Budget and Legislative Analyst's Office to forecast the impact of current service levels and policies on revenues and expenditures over the next five years. As part of its long-term financial strategy, the City is currently implementing the following initiatives:

- **The Five-Year Financial Plan:** The City is forecasting revenues and expenses for the next five years on a Citywide basis, including departmental operations, facilities, debt management, capital, and technology.
- **Two-Year Budgeting:** The FY 2012-13 and FY 2013-14 budget was the first Citywide two-year budget adopted by the Mayor and the Board of Supervisors. The City has continued to utilize two-year rolling budgets and most recently adopted the FY 2024-25 and FY 2025-26 budget.
- **Citywide Capital and Technology Plans:** These plans, which are released by March 1 every other year, include detailed financial information and project descriptions outlining the City's planned spending on capital over the next ten years and technology over the next five years. This Five-Year Financial Plan incorporates, to the extent possible, standards and assumptions that will be included in the upcoming Capital and Technology Plans.
- **Financial Policies:** The City has adopted several financial policies to strengthen its fiscal management, including the creation of an Economic Stabilization Reserve, adjustments to the General Reserve to increase deposits and allow for more flexible withdrawals during economic downturns, and restrictions on the use of one-time revenues. The forecast assumes that the City will continue making the required deposits into both the General Reserve and the Budget Stabilization Reserve. While these deposits will contribute to growing reserve levels, they will not be enough to fully restore reserves to their pre-pandemic target of 10 percent of General Fund revenue.

Multi-year budgeting and forecasting are recognized as best practices for governments. The Five-Year Financial Plan is designed to help the City better understand and manage the key factors driving its revenues, expenditures, and public service needs. The projected gap between revenues and expenditures is historically high due to sharp cost increases at a time of slow growth in tax revenues, including the loss of federal revenues and other one-time sources. This five-year planning process will enable San Francisco to thoughtfully plan for the evolving fiscal picture and adapt programs accordingly. By planning beyond the immediate two-year budget horizon, the City aims to reduce volatility and risk, ensuring more stable and reliable public services for its residents.

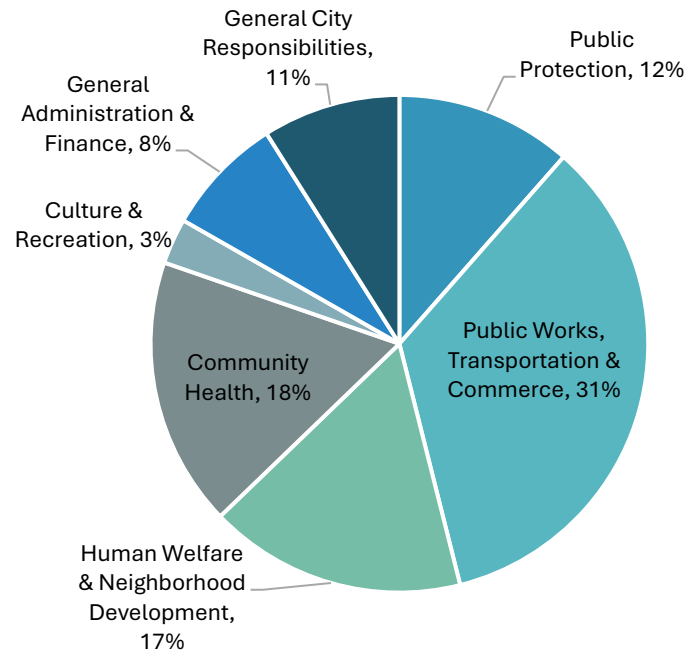
BUDGET OVERVIEW

The City and County of San Francisco's budget for FY 2024-25 is \$15.9 billion. Over half of the budget, \$9.1 billion, is comprised of self-supporting activities at the City's enterprise departments, which focus on city-related business operations and include the Port, the Municipal Transportation Agency (MTA), the Airport, the Public Utilities Commission (PUC), and others. The remaining 43 percent, or \$6.9 billion, is comprised of

General Fund monies, which support public services such as public health, police and fire services, and public works. The City’s budget can be broken down into six major service areas: Public Protection; Public Works, Transportation & Commerce; Human Welfare & Neighborhood Development; Community Health; Culture & Recreation; and General Administration & Finance.

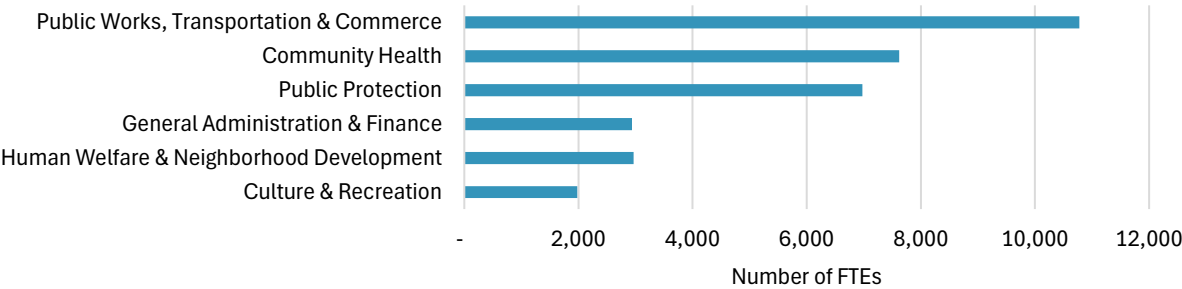
Figure 7 shows the total \$15.9 billion citywide budget by major service area. The Public Works, Transportation & Commerce major service area has the largest overall budget, due primarily to the budgets of large enterprise departments.

Figure 7: Total Budget by Major Service Area FY 2024-25



There are 33,262 full-time equivalent positions (FTEs) budgeted and funded between all six major service areas in FY 2024-25. As shown in Figure 8, the Public Works, Transportation, and Commerce service area also has the largest share of FTEs, which is largely driven by the MTA.

Figure 8: Full Time Equivalent Positions (FTEs) by Major Service Area FY 2024-25



FIVE-YEAR OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

San Francisco Administrative Code Section 3.6(b) requires that in each odd-numbered year, the City must submit a Five-Year Financial Plan; in even-numbered years, a similar report, called the Joint Report, must be issued with an update to the remaining four years of the previous year's Five-Year Financial Plan. In both the Five-Year Financial Plan and the Joint Report, the Mayor, the Controller, and the Board of Supervisors' Budget and Legislative Analyst must forecast expenditures and revenues during the projection period. In the Five-Year Financial Plan, the Mayor's Office must also propose actions to balance revenues and expenditures during each year of the plan and discuss strategic goals and corresponding resources for City departments. This Five-Year Financial Plan provides expenditure and revenue projections for FY 2025-26, FY 2026-27, FY 2027-28, FY 2028-29, and FY 2029-30.

Summary of 'Base Case' Projections and Findings

This Five-Year Financial Plan describes the 'Base Case' – a forecast of revenues and expenditures that projects revenue trends and the costs to support current service levels, adjusting for adopted or proposed policy changes where noted. Significant changes include known revenue and expenditure changes in all areas where there is reasonable information or a basis for a projection. Key assumptions are also detailed below.

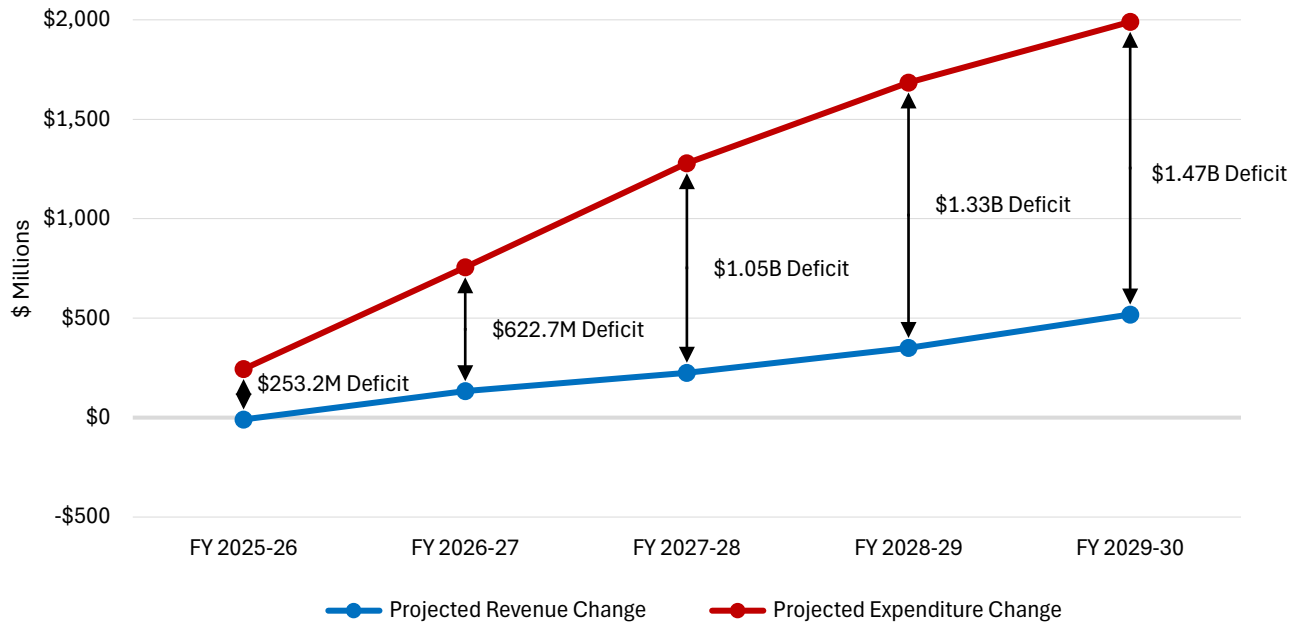
Table 2 summarizes the projected changes in General Fund-supported revenues and expenditures over the next five years. As previously shown in Table 1, this report projects shortfalls of \$253.2 million in FY 2025-26, \$622.7 million in FY 2026-27, \$1,053.3 million in FY 2027-28, \$1,334.5 million in FY 2028-29, and \$1,471.2 million in FY 2029-30.

Table 2: Base Case – Summary of FY 2025-30 General Fund-Supported Projected Budgetary Annual Surplus/(Shortfall) (\$ millions)

	Change from AAO Budget	Projection				
	2025-26	2025-26	2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	(203.2)	(9.2)	132.9	225.8	350.4	518.6
Uses						
Baselines & Reserves	(1.5)	(53.6)	(147.1)	(232.1)	(255.8)	(254.0)
Salaries & Benefits	0.4	(175.7)	(350.4)	(607.0)	(795.3)	(943.1)
Citywide Operating Budget Costs	(7.0)	(18.7)	(125.0)	(235.4)	(316.1)	(392.5)
Departmental Costs	(41.8)	4.0	(133.1)	(204.6)	(317.8)	(400.2)
USES Decrease / (Increase)	(50.0)	(244.0)	(755.7)	(1,279.1)	(1,684.9)	(1,989.8)
Projected Cumulative Projected Surplus / (Shortfall)	(253.2)	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)
Two-Year Deficit		(875.9)				

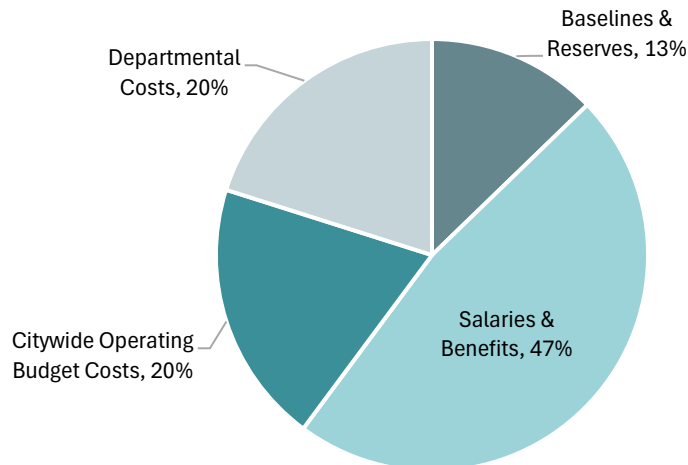
The projection demonstrates that revenue growth during the projection period is exceeded by expenditure growth by a larger amount each year. This is primarily due to a combination of exhaustion of one-time sources and the changes to, and new reality of, San Francisco's economy. The City currently projects revenue growth of \$518.6 million, or 7.5 percent over the five-year period of this report, and expenditure growth of \$1,989.8 million, or 29.0 percent, as shown in Figure 9.

Figure 9: Projected Growth in General Fund Expenditures and Revenues



Total expenditure growth is shown below in Figure 10, which illustrates that salaries and benefits represent the largest driver of the City’s deficit with 47 percent of the growth over the next five years, or \$943.1 million over the projection period. The next largest drivers of expenditure growth are department-specific cost increases of \$400.2 million (20 percent) and Citywide operating costs of \$392.5 million (20 percent). Baselines and deposits in reserves represent a cost growth of \$254.0 million (13 percent).

Figure 10: General Fund-Supported Expenditure Increases by Expenditure Type FY 2026-30



While the projected shortfalls previously shown in Table 2 reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco’s Charter requires that each year’s budget be balanced. Balancing the budget will require some combination of

expenditure reductions and additional revenues. To the extent that each year's budget is balanced with new on-going solutions, future shortfalls will decrease.

A key driver of projected shortfalls is increases in mandated costs. Many of the projected expenditure increases are unavoidable under current law, with limited ability to reduce spending to balance the budget. The City is required by law to fund certain voter-mandated baselines and set-asides at specific levels. Additionally, assuming a constant City workforce, non-discretionary health benefits will continue to rise. This limits the funding available for other uses such as employee wage increases, cost-of-doing-business increases for non-profit service providers, capital and technology investments, and other improvements to services to the public.

KEY ASSUMPTIONS AFFECTING THE FY 2025-26 THROUGH FY 2029-30 PROJECTIONS

No major changes to service levels or number of employees: The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2024-25 and FY 2025-26 budgeted levels unless specified below.

Weak growth but no recession: San Francisco's economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism. This report assumes changes in office use that occurred during the pandemic will continue, affecting commercial and residential real estate and taxable gross receipts. The recovery in travel and tourism is slower than prior forecasts, reflecting weakness in business travel and convention activity. The Citywide Revenue Projections section of this report more fully details revenue assumptions.

Implementation of measures adopted by voters in the November 2024 election: Projections assume a net new expenditure of \$35.0 million in FY 2025-26, which will increase incrementally by \$16.0 million in FY 2026-27, \$4.5 million in FY 2027-28, \$17.2 million in FY 2028-29, and \$11.1 million in FY 2029-30 from these measures, including: prohibiting the Student Success Fund from being used to meet children's services funding requirements at cost of up to \$35 million in FY 2024-25 and at least \$35 million every year thereafter; funding a new rental subsidies baseline (up to \$8.25 million beginning in FY 2026-27); funding a reduction in the retirement age of firefighters (\$3.7 million annually beginning FY 2025-26), new retirement benefits for nurses and 911 operators (\$3.8 million to \$6.7 million annually beginning FY 2025-26); creation of a new Office of the Inspector General within the Controller's Office; supporting the setup of a first responder student loan and training reimbursement fund.

Implementation of new business tax structure: The General Fund projection reflects changes in business tax revenue resulting from voter approval of Prop 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. Because of adjusted tax rates, the measure will result in a projected revenue decline of \$40 million between tax years 2025 and 2026. Scheduled rate increases in 2027 and 2028 will yield additional revenue of nearly \$50 million in each of the following tax years.

Previously negotiated wage increases and inflationary increases for open contracts in line with CPI: This report reflects the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed memorandums of understanding (MOU) through FY 2025-26. Miscellaneous unions have closed MOUs through FY 2026-27. This report does not assume the recession trigger in the Police and Firefighters' MOUs is met; this assumption will be re-evaluated in future projection updates. After the expiration of these closed contracts, this report projects salary increases equal to the change in CPI using the average projection of the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI. This corresponds to 2.67 percent in FY 2026-27, 2.69 percent in FY 2027-28, 2.41 percent in FY 2028-29, and 2.40 percent in 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 meet expectations and assume a partial supplemental COLA: This report assumes a return on San Francisco Employees' Retirement System (SFERS) assets of 7.2 percent, the actuarially assumed rate of return. Under the City Charter, returns of 7.3 percent starts to generate a trigger a supplemental COLA for the non-Prop C retirees. The projection assumes half of a full supplemental COLA each year for non-Prop C retirees. The impact of future supplemental COLA on contribution rates and funded status is most negative when investment returns are just high enough to trigger a full supplemental COLA. Since preparing the estimated cost of retirement, the Retirement Board on December 11, 2024 reported that the FY 2024 returns triggered a supplemental COLA that resulted in an additional 0.5% increase for non-Prop C retirees. The forecast update in March 2025 will incorporate this update, along with other new information.

Health insurance cost increases: Based on healthcare utilization trends and benchmarks, this projection assumes that the employer share of health insurance costs for active employees will increase by 7.0 percent in FY 2025-26, 6.0 percent in FY 2026-27, 5.7 percent each year in FY 2027-28 and FY 2028-29, and then 6.0 percent in FY 2029-30, for an average of 6.1 percent annually over the five years. Retiree health costs have a higher growth trend due to high utilization and low rates of increase from Medicare resulting in higher premiums. These costs are assumed to grow by 6.8 percent in FY 2025-26, 7.5 percent in FY 2026-27, 7.6 percent in FY 2027-28, and 7.7 percent in each of the remaining two years, an average of 7.4 percent annually over the five years.

Inflationary increase on non-personnel operating costs: This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the rate of Consumer Price Index (CPI) starting in FY 2025-26 and thereafter. The projection reflects the adopted FY 2024-25 and FY 2025-26 budget, which included a 3.0 percent cost-of-doing business increase for General Fund nonprofit contracts in FY 2024-25 and remained flat in FY 2025-26.

Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment: For capital, this report assumes an increase to the adopted FY 2024-25 budget funding levels of \$57 million in FY 2025-26, with annual increases of \$30 million through FY 2027-28 and \$25 million thereafter, in line with the forthcoming recommendations in the City's upcoming FY 2026-35 Ten-Year Capital Plan. The IT investment projection assumes a \$5 million increase in FY 2025-26 funding of projects in the City's Information and Communications Technology (ICT) Plan and annual 10 percent increases in the following four years. For equipment, this report assumes the budgeted level of funding in FY 2025-26, remaining flat for the four years of the forecast period.

Deposits to and withdrawals from reserves: Because General Fund revenue is forecasted to grow slowly year-over-year, the City is not eligible to withdraw from its Rainy Day or Budget Stabilization reserves. The projection assumes \$138.0 million of withdrawals from other reserves as approved in the adopted FY 2024-25 and FY 2025-26 budget. In accordance with Administrative Code Section 10.60(b), deposits to the General Reserve are assumed in all years of the plan period, increasing from 2.5 percent of General Fund revenue in FY 2025-26 to 3.0 percent in FY 2027-28. Deposits to the Budget Stabilization Reserve are expected in FY 2026-27 through FY 2029-30, as real property transfer tax revenues exceed the prior five-year average.

State fiscal condition: State subvention revenues are updated for FY 2023-24 year-end results and current sales tax projections, and we assume excess ERAF allocations continue under existing law. In its November 2025 multiyear budget outlook, the state Legislative Analyst's Office projects the state's FY 2025-26 General Fund budget will likely remain balanced, as spending increases are projected to be offset by the recent stock market rally, which increased earnings of the highest-income residents and state income tax revenue. However, given underlying weakness in employment and consumer spending, anticipated annual revenue growth of 4.0 percent will not keep pace with spending growth of 5.8 percent through the forecast period, resulting in deficits from FY 2026-27 onward. The City should therefore be prepared for continued legislative proposals to shift more ERAF to schools, which would reduce state school funding burdens and reduce excess ERAF that reverts to the City. In addition, any deficit would likely reduce discretionary state funding for housing, criminal justice, and other local government grants.

Non-General Fund revenue declines: This forecast only projects changes in General Fund revenues and General Fund-funded expenditures. Thus, changes in special revenue funds, including special purpose tax funds, are not directly incorporated in the deficit.

Health Care Security Ordinance (HCSO) Fund revenue: This fund holds the balances of medical reimbursement accounts created pursuant to the HCSO, which requires employers in San Francisco to provide either health insurance or contributions on their employees' behalf via the San Francisco City Option. The Department of Public Health is conducting outreach efforts to increase the number of activated accounts and claims submitted during the required three-year dormancy period of March 2023 to April 2026, after which inactive account balances will be moved (or "escheated") to the General Fund beginning in summer 2026. While it is possible this escheatment will ultimately affect General Fund revenue, this forecast does not assume any revenue is escheated to the General Fund since account holders may claim inactive funds. The FY 2023-24 ending cash balance of the fund was approximately \$930 million; the forecast does not assume any revenue is escheated to the General Fund.

KEY FACTORS THAT COULD AFFECT THESE FORECASTS

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

Inflationary pressures lead to higher interest rates and slower, or negative, economic growth. This report assumes very modest revenue growth over the forecast period given continued but tepid economic recovery. It does not assume a recession. The incoming Trump administration has put forth a series of policy changes that could lead to higher inflation and higher federal deficits, including higher tariffs and deportation of undocumented workers, which would exacerbate labor shortages and lead to wage-driven inflation. Cuts to corporate tax rates and eliminating the tax on social security earnings could increase the deficit unless balanced by spending cuts. Both structurally higher inflation and higher federal deficits will put upward pressure on interest rates, creating headwinds in the City's economic recovery. If policy and economic factors tip the nation into recession, and if local policymakers chose to completely deplete the City's economic stabilization reserves to manage it, we estimate such a recession would increase the total shortfall amount by \$339.0 million over the forecast period.

Pending or proposed new programs or legislation: No pending or proposed legislative changes with a fiscal impact are assumed in this projection. Legislation adopted by the Mayor and Board of Supervisors with a fiscal impact would increase the projected shortfalls. Several appropriations for new program initiatives are pending at the Board of Supervisors, and others may be proposed. Subsequent projections will include impacts from any final adopted legislation.

New business tax structure: Administrative decisions including methods of apportionment and business decisions to delay filings as allowed by the measure that are different than those assumed in this forecast could affect revenue amounts and timing.

State fiscal condition: These projections assume state subvention revenues updated for FY 2023-24 year end results and current statewide sales tax projections, and that excess ERAF allocations continue under existing law. In its November 2024 Fiscal Outlook, the state Legislative Analyst's Office projects the state's FY 2025-26 General Fund budget will likely remain balanced, as the recent stock market rally will boost income tax payments of high-income individuals. Looking forward, however, employment and consumer spending weakness will erode temporary income tax gains, and average revenue growth of 4.0 percent will not keep pace with spending growth of 5.8 percent through the rest of the forecast period (FY 2028-29), resulting in deficits from FY 2026-27 onward. The City should anticipate legislative proposals to reduce the state's school funding burden by increasing schools' ERAF draws, which would reduce excess ERAF that reverts to the City. In addition, discretionary state funding for housing, criminal justice, and other local government grants could decline.

Federal funding changes: The FY 2024-25 budget includes approximately \$1.8 billion in federal funding, including funds received directly from the federal government and federal funding that is passed through the state. Health care services are the single largest program funded through the federal budget, largely via Medicare and Medicaid. To the extent the new presidential administration and Congress pursue changes to health care programs, these could affect City revenues and expenditures. For example, previously proposed actions such as reducing health insurance premium subsidies under the Affordable Care Act would likely reduce coverage and increase the demand for uncompensated services in the public health care system, as would seeking to reduce Medicaid enrollment by reducing matching funds for states and imposing work requirements and benefit limits. The forecast assumes no changes to federal policy regarding these or any other programs, and assumes the City is reimbursed for just under \$245 million of pandemic and winter storm emergency response costs, which are subject to Congressional appropriation.

On the following pages, tables 3 and 4 explain revenue and expenditure changes in the Citywide deficit in detail. First, revenue changes will be discussed, followed by expenditures changes, including changes to baselines and reserves; salary and benefit costs; Citywide operating costs; and department-specific changes.

Table 3: Base Case – Key Changes to General Fund-Supported Sources & Uses – INCREMENTAL CHANGE
Sources & Uses FY 2026-30 (\$ millions)

		Chg. from AAO	Projection				
SOURCES Increase/(Decrease)		2025-26	2025-26	2026-27	2027-28	2028-29	2029-30
Fund Balance & Reserves							
1	Use of Fund Balance - Gain/(Loss)	(118.0)	(116.2)	-	-	(110.5)	-
2	Reserves - Use	-	(12.8)	(54.8)	-	-	-
	Subtotal Fund Balance & Reserves	(118.0)	(129.0)	(54.8)	-	(110.5)	-
Revenues							
3	General Fund Taxes, Revenues and Transfers net of items below	(131.9)	35.0	262.7	72.9	208.6	140.6
4	FEMA Revenue	(1.7)	74.0	(152.3)	-	(1.7)	-
5	Public Health - One-time Revenues	-	(78.9)	-	-	-	-
6	Public Health - Operating Revenues	52.9	78.0	66.2	22.4	20.6	20.0
7	Other General Fund Support	(4.5)	11.7	20.4	(2.4)	7.6	7.5
	Subtotal Revenues	(85.2)	119.8	197.0	92.9	235.1	168.2
	TOTAL CHANGES TO SOURCES	(203.2)	(9.2)	142.2	92.9	124.6	168.2
USES Increase/(Decrease)							
Baselines & Reserves							
8	Contributions to Baselines	(2.1)	(45.7)	(63.4)	(17.7)	(47.3)	(30.8)
9	Contributions to Reserves	0.6	(7.9)	(30.1)	(67.4)	23.7	32.5
	Subtotal Baselines and Reserves	(1.5)	(53.6)	(93.5)	(85.0)	(23.6)	1.7
Salaries & Benefits							
10	Previously Negotiated Closed Labor Agreements	2.5	(148.1)	(116.1)	(122.9)	-	-
11	Projected Costs of Open Labor Agreements	-	-	(20.9)	(68.0)	(110.2)	(101.7)
12	Health & Dental Benefits - Current & Retired Employees	0.4	(36.4)	(37.8)	(37.4)	(38.2)	(45.8)
13	Retirement Benefits - Employer Contribution Rates	(2.6)	8.2	2.3	(26.2)	(39.1)	0.9
14	Other Salaries and Benefits Savings/(Costs)	(0.0)	0.6	(2.2)	(2.1)	(0.8)	(1.2)
	Subtotal Salaries & Benefits	0.4	(175.7)	(174.7)	(256.6)	(188.3)	(147.8)
Citywide Operating Costs							
15	Capital, Equipment, & Technology	(7.4)	29.3	(33.0)	(33.3)	(28.6)	(29.0)
16	Multiyear Inflation on Nonprofit Grants	-	-	(24.1)	(25.3)	(17.4)	(17.7)
17	Minimum Compensation Ordinance	-	(4.6)	(0.4)	(0.4)	(0.4)	(0.4)
18	CPI on Non-personnel	-	-	(10.2)	(10.6)	(9.7)	(9.9)
19	Debt Service & Real Estate	(1.9)	(28.1)	(22.3)	(24.7)	(8.7)	(3.0)
20	Sewer, Water, and Power Rates	(0.7)	(7.7)	(6.6)	(5.7)	(5.0)	(4.7)
21	Workers' Compensation Claims	-	(3.3)	(3.4)	(3.5)	(3.6)	(3.8)
22	Citywide Technology Operating Costs	1.5	(3.6)	(3.7)	(3.9)	(4.0)	(4.2)
23	Other Citywide Costs	1.5	(0.8)	(2.6)	(2.9)	(3.3)	(3.8)
	Subtotal Citywide Operating Costs	(7.0)	(18.7)	(106.3)	(110.4)	(80.7)	(76.4)
Departmental Costs							
24	City Administrator's Office - Convention Facilities Subsidy	(0.9)	(0.4)	(4.4)	5.4	(4.1)	(0.8)
25	Elections - Number of Scheduled Elections	(0.1)	2.2	(0.8)	(0.8)	(2.6)	2.6
26	Ethics Commission - Public Financing of Elections	(1.2)	5.8	(1.1)	(1.2)	(3.1)	4.6
27	Affordable & Permanent Supportive Housing Costs	(2.1)	(13.2)	(8.1)	(9.5)	(18.7)	(8.0)
28	Homelessness - Expiring Grants for Shelters	-	-	(20.5)	(0.5)	(0.7)	(0.7)
29	Human Services Agency - IHSS and Other Benefit Costs	0.3	(15.1)	(20.5)	(31.8)	(29.9)	(27.9)
30	Public Health - Operating Costs	(1.2)	(31.2)	(46.9)	(36.5)	(39.5)	(43.2)
31	Economic Recovery and Activation	-	24.2	(16.2)	4.4	4.9	4.9
32	Ballot Initiatives w/Major Impact	(35.0)	(35.0)	(16.0)	(4.5)	(17.2)	(11.1)
33	Major Department Savings from FY 2024-25/FY 2025-26	-	61.8	-	-	-	-
34	All Other Departmental Savings / (Costs)	(1.5)	5.0	(2.6)	3.4	(2.3)	(2.9)
	Subtotal Departmental Costs	(41.8)	4.0	(137.1)	(71.5)	(113.2)	(82.4)
	TOTAL CHANGES TO USES	(50.0)	(244.0)	(511.7)	(523.4)	(405.8)	(304.9)
	Projected Surplus/(Shortfall) vs. Prior Year	(253.2)	(253.2)	(369.5)	(430.5)	(281.2)	(136.7)
	Annual Projected Surplus/(Shortfall)	(253.2)	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)
	Two-Year Surplus/(Shortfall)		(875.9)				

Table 4: Base Case – Key Changes to General Fund-Supported Sources & Uses – ANNUAL CHANGE Sources & Uses FY 2026-30 (\$ millions)

		Change from AAO Budget		Projection			
SOURCES Increase/(Decrease)		2025-26	2025-26	2026-27	2027-28	2028-29	2029-30
Fund Balance & Reserves							
1	Use of Fund Balance - Gain/(Loss)	(118.0)	(116.2)	(116.2)	(116.2)	(226.7)	(226.7)
2	Reserves - Use	-	(12.8)	(67.7)	(67.7)	(67.7)	(67.7)
Subtotal Fund Balance & Reserves		(118.0)	(129.0)	(183.9)	(183.9)	(294.4)	(294.4)
Revenues							
3	General Fund Taxes, Revenues and Transfers net of items below	(131.9)	35.0	297.7	370.6	579.2	719.9
4	FEMA Revenue	(1.7)	74.0	(78.3)	(78.3)	(80.0)	(80.0)
5	Public Health - One-time Revenues	-	(78.9)	(78.9)	(78.9)	(78.9)	(78.9)
6	Public Health - Operating Revenues	52.9	78.0	144.2	166.6	187.3	207.2
7	Other General Fund Support	(4.5)	11.7	32.0	29.7	37.2	44.7
Subtotal Revenues		(85.2)	119.8	316.8	409.7	644.8	813.0
TOTAL CHANGES TO SOURCES		(203.2)	(9.2)	132.9	225.8	350.4	518.6
USES Increase/(Decrease)							
Baselines & Reserves							
8	Contributions to Baselines	(2.1)	(45.7)	(109.1)	(126.8)	(174.1)	(204.9)
9	Contributions to Reserves	0.6	(7.9)	(38.0)	(105.4)	(81.7)	(49.1)
Subtotal Baselines and Reserves		(1.5)	(53.6)	(147.1)	(232.1)	(255.8)	(254.0)
Salaries & Benefits							
10	Previously Negotiated Closed Labor Agreements	2.5	(148.1)	(264.2)	(387.1)	(387.1)	(387.1)
11	Projected Costs of Open Labor Agreements	-	-	(20.9)	(88.9)	(199.1)	(300.8)
12	Health & Dental Benefits - Current & Retired Employees	0.4	(36.4)	(74.2)	(111.6)	(149.8)	(195.6)
13	Retirement Benefits - Employer Contribution Rates	(2.6)	8.2	10.5	(15.7)	(54.8)	(53.9)
14	Other Salaries and Benefits Savings/(Costs)	(0.0)	0.6	(1.6)	(3.7)	(4.5)	(5.7)
Subtotal Salaries & Benefits		0.4	(175.7)	(350.4)	(607.0)	(795.3)	(943.1)
Citywide Operating Costs							
15	Capital, Equipment, & Technology	(7.4)	29.3	(3.7)	(37.0)	(65.6)	(94.6)
16	Multiyear Inflation on Nonprofit Grants	-	-	(24.1)	(49.4)	(66.8)	(84.5)
17	Minimum Compensation Ordinance	-	(4.6)	(5.0)	(5.4)	(5.9)	(6.3)
18	CPI on Non-personnel	-	-	(10.2)	(20.8)	(30.5)	(40.4)
19	Debt Service & Real Estate	(1.9)	(28.1)	(50.4)	(75.1)	(83.8)	(86.8)
20	Sewer, Water, and Power Rates	(0.7)	(7.7)	(14.3)	(20.0)	(25.0)	(29.7)
21	Workers' Compensation Claims	-	(3.3)	(6.6)	(10.1)	(13.8)	(17.6)
22	Citywide Technology Operating Costs	1.5	(3.6)	(7.3)	(11.2)	(15.2)	(19.4)
23	Other Citywide Costs	1.5	(0.8)	(3.4)	(6.3)	(9.7)	(13.5)
Subtotal Citywide Operating Costs		(7.0)	(18.7)	(125.0)	(235.4)	(316.1)	(392.5)
Departmental Costs							
24	City Administrator's Office - Convention Facilities Subsidy	(0.9)	(0.4)	(4.8)	0.6	(3.5)	(4.3)
25	Elections - Number of Scheduled Elections	(0.1)	2.2	1.4	0.6	(2.0)	0.6
26	Ethics Commission - Public Financing of Elections	(1.2)	5.8	4.7	3.6	0.5	5.1
27	Affordable & Permanent Supportive Housing Costs	(2.1)	(13.2)	(21.2)	(30.8)	(49.4)	(57.5)
28	Homelessness - Expiring Grants for Shelters	-	-	(20.5)	(21.0)	(21.7)	(22.4)
29	Human Services Agency - IHSS and Other Benefit Costs	0.3	(15.1)	(35.7)	(67.5)	(97.4)	(125.3)
30	Public Health - Operating Costs	(1.2)	(31.2)	(78.2)	(114.6)	(154.1)	(197.3)
31	Economic Recovery and Activation	-	24.2	8.0	12.4	17.3	22.3
32	Ballot Initiatives w/Major Impact	(35.0)	(35.0)	(51.0)	(55.5)	(72.7)	(83.8)
33	Major Department Savings from FY 2024-25/FY 2025-26	-	61.8	61.8	61.8	61.8	61.8
34	All Other Departmental Savings / (Costs)	(1.5)	5.0	2.4	5.8	3.4	0.6
Subtotal Departmental Costs		(41.8)	4.0	(133.1)	(204.6)	(317.8)	(400.2)
TOTAL CHANGES TO USES		(50.0)	(244.0)	(755.7)	(1,279.1)	(1,684.9)	(1,989.8)
Annual Projected Surplus/(Shortfall)		(253.2)	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)
Two-Year Surplus/(Shortfall)			(875.9)				

BASE CASE PROJECTION DETAIL

Citywide Revenue Projections

The projections outlined in this section highlight expected changes in the City's key revenues over the next five years, incorporating the trends outlined in the Economic Overview section and the most recent data on revenue collections. Detailed revenue assumptions are provided below.

General Fund Taxes, Revenues & Transfers

San Francisco faces the same macroeconomic and structural pressures as other cities—elevated interest rates and the persistence of hybrid and work-from-home arrangements in office-using sectors. However, these trends have had a disproportionate impact on San Francisco compared to other cities because the economy is highly concentrated in sectors that are office-using and sensitive to interest rates. The City has seen population and employment declines, and tourism remains stagnant. The Base Case revenue forecast reflects the expectations of economic forecasters of very slow growth and long-lasting structural change associated with remote work. Although revenue is lower than previously projected, this does not indicate a recession. If a recession were to occur, revenue would fall below the levels forecasted in this report.

Overall growth rates of General Fund taxes, revenues, and transfers in are projected to be 2.6 percent in FY 2025-26, 1.9 percent in FY 2026-27, 1.0 percent in FY 2027-28, 3.1 percent in FY 2028-29 and 2.0 percent in FY 2029-30. The City's revenue picture is largely shaped by anticipated structural changes in the local economy impacting property taxes; the passage of Proposition M in November 2024, which simplifies and restructures the City's business taxes for a post-COVID-19 economy; continued weakness in the City's tourism and hospitality sector; and the expiration of one-time reimbursements from the Federal Emergency Management Agency (FEMA) for COVID-19 pandemic response costs.

Below are details on key revenue streams included in the General Fund Taxes, Revenues, and Transfers.

Property Tax

Overall General Fund property tax revenues are expected to initially decrease and then begin to grow slowly over the forecast period, from the budgeted total of \$2,469.6 million in FY 2024-25 to \$2,582.2 million in FY 2029-30. General Fund property tax revenue assumptions include:

- **Roll growth:** The locally assessed secured property roll typically grows based upon an annual statewide inflation factor (California CPI, capped at 2 percent) and new property value assessments triggered by changes in ownership or newly constructed buildings. The unsecured property roll grows or shrinks based upon the economic cycles and impacts on local businesses.

Projections for FY 2025-26 through FY 2029-30 assume 2.0 percent annual increases in the secured property roll and no changes in the unsecured property roll compared to the July 1, 2024, valuations for FY 2024-25 (reflected on the 2024 Certificate of Assessed Valuation, or CAV). The median taxable value of San Francisco single family residential properties (including condominiums) at the start of FY 2024-25 was \$742,590 while the market value tends to exceed \$1 million. This means that many sales of residential properties result in increases to the City's secured property tax roll value as taxable value typically resets to the market value sale price. However, the valuation of commercial properties is expected to be negatively affected by weak office, retail, and hotel demand.

- **Supplemental and escape assessments:** Supplemental assessments capture changes in value for the portion of the tax year remaining after a trigger date that results in a change in the base year assessed value of a property. The escape assessment captures a full year's increase in assessed value

up to four years after the trigger date. This report assumes supplemental assessment revenue of \$26.0 million in FY 2024-25 and \$30.0 million per year in FY 2025-26 through FY 2029-30. Escape assessment revenue of \$18.0 million per year is assumed in all years (FY 2024-25 through FY 2029-30), as the Assessor's Office is largely up to date with assessments.

- **Assessment Appeals Board reserve requirements:** General Fund property tax revenue required to fund Assessment Appeals Board (AAB) decisions is assumed at \$105.3 million for FY 2024-25, \$135.9 million for FY 2025-26, \$163.8 million for FY 2026-27, \$153.5 million for FY 2027-28, \$132.2 million for FY 2028-29, and \$107.7 million for FY 2029-30. These projections include estimates derived from a model developed by the Controller's Office of Economic Analysis to gauge the assessed values of office, hotel, retail, and multifamily residential properties at risk given their FY 2024-25 starting taxable values and the average sales prices over time as estimated by data obtained from CoStar Group. Single family residential properties' assessed values at risk are similarly analyzed and included in our AAB reserve forecast.

In general, properties that were most recently built or traded are the most likely to receive temporary reductions in assessed valuations, resulting in property tax refunds when applied to prior tax years. Properties that have not changed ownership in recent years or were built many years ago are more likely to be taxed at a rate below current market value, making it less likely such properties will receive temporary decreases. Timing of refund payments is dependent upon the appeals hearing schedule, with commercial properties sometimes taking a few years to resolve in AAB due to unique appraisal complexities. Appellants often waive the statutory deadline for hearings so that multiple years' appeals can be heard at the same time, increasing uncertainty and revenue volatility projections as several years' tax refunds and statutory interest might get triggered in one future year. This is the reason that the City reserves money to fund refunds in the year when the value at risk is identified, though refund payments are likely to be made at a future date.

- **Excess Educational Revenue Augmentation Fund (ERAF):** Excess ERAF represents the portion of California county, city, and special district property tax revenues that revert to taxing entities once a county's educational entities reach the level of funding stipulated in state Proposition 98. In the City and County of San Francisco, the only taxing entity contributing to ERAF, and therefore receiving excess ERAF, is the City and County itself. Projections assume student attendance numbers and Proposition 98 funding levels along with property tax revenues for the City to arrive at excess ERAF estimates. This report currently assumes excess ERAF revenue of \$298.0 million in FY 2024-25, \$264.6 million in FY 2025-26, \$239.3 million in FY 2026-27, \$230.8 million in FY 2027-28, \$235.1 million in FY 2028-29, and \$245.2 million in FY 2029-30.

Business Taxes

General Fund business tax revenue is projected to grow from \$995.4 million in FY 2024-25 to \$1,371.5 million in FY 2029-30. Business taxes include the gross receipts tax, overpaid executive tax, administrative office tax, and registration fees.

Business taxes have changed multiple times in the past ten years. Prior to 2014, businesses paid a tax of 1.5 percent 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 office 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, in 2019 the top ten taxpayers paid 19 percent of the tax and paid 26 percent in 2023. The Overpaid Executive Tax is even more concentrated with the top ten taxpayers responsible for 61 percent of the revenue.

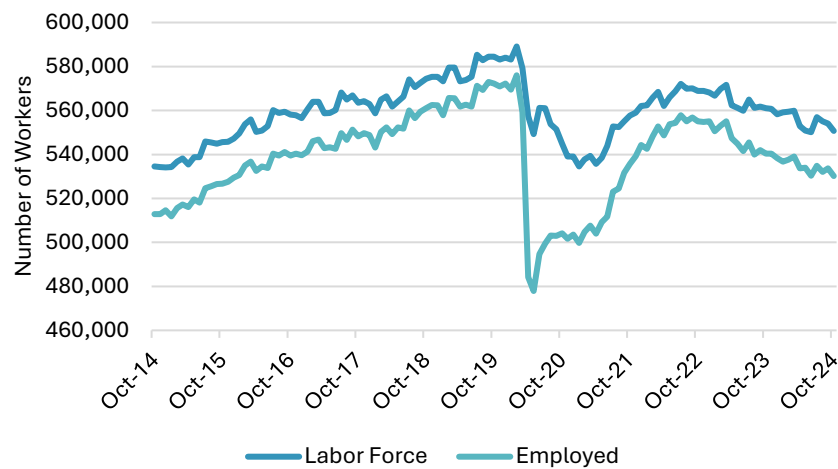
To ameliorate these vulnerabilities and to promote equity across business categories and business sizes, voters again restructured the City's business taxes with Proposition M (November 2024). The proposition made five major changes to business taxes. First, it reduces the Overpaid Executive Tax, a tax that is particularly volatile and dependent on a small number of taxpayers, by 80 percent. Second, it approximately doubles the small business tax exemption to \$5.0 million. Third, it mitigates revenue volatility and promotes equity by changing tax rates to shift the burden across a greater number of taxpayers. Fourth, it calculates gross receipts by increasing the weight given to sales in the City and decreasing the weight given to payroll. Finally, it initially lowers tax rates as the economy continues to recover and raises them in 2027 and 2028 by 4 percent and 3 percent, respectively.

The City continues to face significant legal disputes over tax collections. For these disputes, the City reserves tax revenue that would be available in the event the City is required to refund revenue. At the end of Fiscal Year 2023-24, the City held reserves of \$334.1 million in General Fund revenue and \$237.7 million in Non-General Fund revenue. These are largely for business tax -related disputes. Resolution of these disputes could potentially take years and additional disputes will continue to arise.

Revenues from business taxes track economic conditions in the City. While Proposition M should help shore up City finances, the City still faces a slow recovery in the coming years. Perhaps the most important indicator of the City's economy is the office vacancy rate. Since the pandemic, according to the office security firm Kastle, office attendance in the San Francisco metro area is still less than half of what it was pre-pandemic and shows almost no increase in the past year. With fewer employees in the office, companies consolidated their office space. Prior to the pandemic, office vacancy rates were less than 5 percent, but in the third quarter of 2024, vacancy rates reached 34.5 percent. This is significantly higher than the vacancy rates seen in either the Dot-Com recession or the Great Recession.

With the increase in office vacancy rates, employment in the City has fallen. The figure below shows the monthly labor force, which is the number of people employed or seeking work, and employment from October 2014 to October 2024 from the California Employment Development Department. After the steep declines at the beginning of the pandemic, employment and labor force numbers increased steadily until peaking in July 2022 at levels still below those seen pre-pandemic. Since then, they have been slowly declining. The decline reflects workers leaving the San Francisco labor force, including the effects of out-migration.

Figure 11: San Francisco Employment and Labor Force, October 2014 through October 2024



The measured labor force is not only declining but is well below the long-term trajectory from pre-pandemic trends. If it had continued to grow at the same rate as it did pre-pandemic, the labor force would now be approximately 630,000 workers. The difference between the two lines in Figure 11 is the number of unemployed San Francisco residents. The current unemployment rate is 3.7 percent, which is about one and a half percentage points higher than it was in the year leading up to the pandemic.

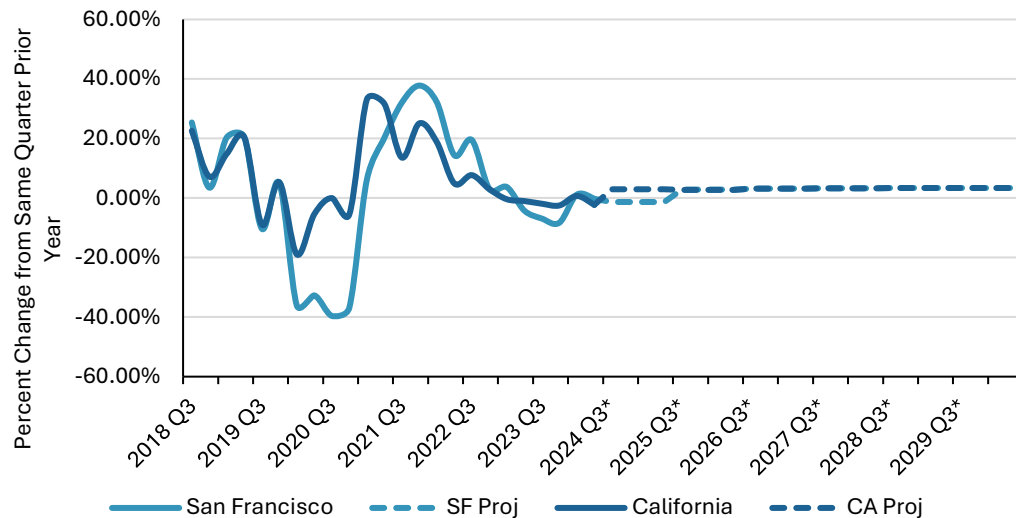
Despite these downward trends, the City is expected to recover. The California Department of Finance projects that the San Francisco's population will increase from 848,019 in 2023 to 873,417 in 2030, an average annual increase of 0.4 percent. Data from the Census Bureau shows that total wages increased 0.6 percent from the first quarter of 2023 to the first quarter of 2024. Moody's Analytics forecasts that total wages in San Francisco will grow at an average annual rate of 4.2 percent. In recognition of these early positive signs, the forecast assumes that the gross receipts tax base will increase 3 percent annually through FY 2029-30.

Sales Tax

Sales tax revenues are expected to grow from \$188.0 million in FY 2024-25 to \$220.1 million by FY 2029-30, just surpassing pre-pandemic levels in the last year. As shown in Figure 12, San Francisco sustained significant losses in FY 2019-20 and FY 2020-21, with sales tax revenues declining as much as 39.4 percent in the third quarter of 2020. Although businesses have resumed some level of in-office activity, the City continues to see lower daytime populations from travelers and in-commuters. The Census Bureau estimated that San Francisco's resident population declined 7.5 percent between April 2020 and July 2022 and between July 2022 and July 2023 grew slightly, by 0.2 percent.

Since FY 2021-22, overall sales tax collections have stayed constant or declined slightly, reflecting lower post-pandemic daytime and residential populations, as well as major store closures and changes in spending habits. The forecast assumes recent negative sales tax trends continue in FY 2024-25 and then begin to grow slowly. Recent negative trends in the business & industry, fuel, and general consumer goods industry groups are expected to continue in FY 2024-25. Sales tax growth in FY 2025-26 and FY 2026-27 is expected to be extremely modest, with the greatest growth in autos & transportation, restaurants and hotels, the State and County pools, and building and construction industries. In FY 2027-28 through FY 2029-30, the projection assumes that San Francisco and California's growth keep pace with each other, at 3.2 percent and 3.4 percent for the last two years, respectively.

Figure 12: Change in State and Local Sales Tax Revenues from Same Quarter Prior Year, FY 2018-19 through FY 2029-30



Source: FY 2017-18 to FY 2023-24: HdL. FY 2025-2030: Controller's Office

Hotel Tax

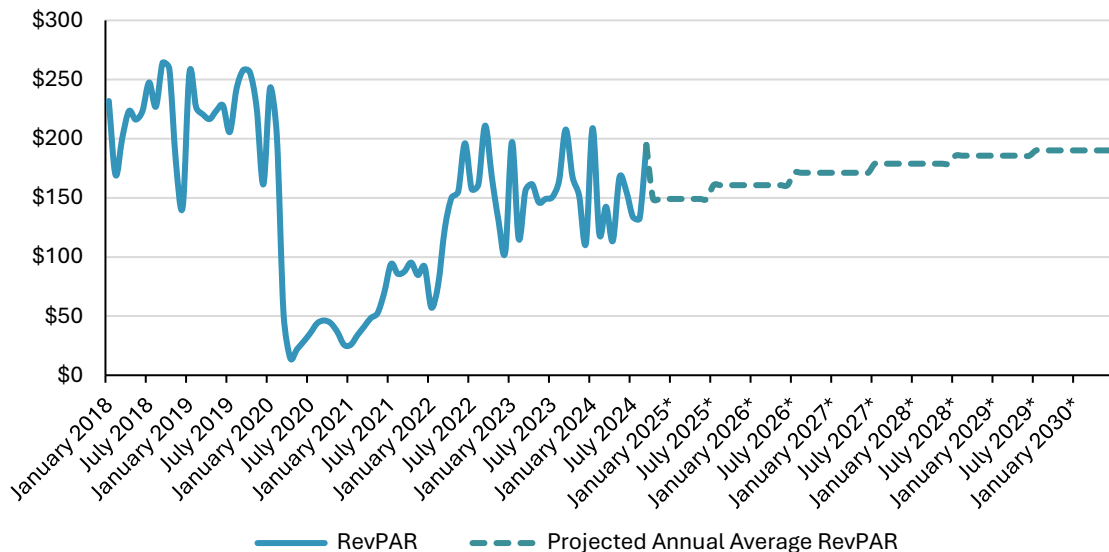
Hotel Tax revenue across all funds is expected to grow from \$288.1 million in FY 2024-25 to \$367.3 by FY 2029-30. General Fund hotel tax is expected to grow from \$254.1 million in FY 2024-25 to \$326.7 million by FY 2029-30. Total hotel tax revenue declined drastically in the early months and years 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, total hotel tax revenue across all funds began to recover and totaled \$179.1 million in FY 2021-22, \$283.5 million in FY 2022-23, slowing to \$287.5 in FY 2023-24. With nearly no growth in hotel tax in FY 2023-24 and consistent with industry observers, this forecast is lower than previous forecasts. The hospitality sector is expected to reach pre-pandemic levels after 2030.

Hotel tax revenue is strongly correlated with revenue per available room (RevPAR), which is influenced by average daily room rates (ADR) and 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. The hospitality industry is gradually recovering, with annual average RevPAR of \$42.03, \$108.16, \$154.76, and \$155.83 in FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24, respectively. Initially boosted by leisure travelers, the recovery continued in FY 2021-22 through 2023-24 largely due to the return of conferences and conventions. 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, and in FY 2023-24 it hosted 37 events with over 427,000 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. Figure 13 provides actual and projected RevPAR from January 2018 through July 2030. The hotel tax forecast assumes annual average RevPAR of \$149.06, \$160.70, \$171.18, \$178.85, \$185.62, and \$190.08 for FY 2024-25 through FY 2029-30.

November 2018 Proposition E allocated 1.5 percent of the 14 percent hotel tax rate (or approximately 10.7 percent of revenue) to arts programming outside of the General Fund. Due to the unprecedented drop in

revenue, this allocation declined to \$4.5 million in FY 2020-21 and \$19.2 million in FY 2021-22 but was backfilled with General Fund by the Mayor and Board of Supervisors in those budget years. As hotel tax revenue recovers, the allocation is projected to increase to \$31.9 million in FY 2024-25 and \$40.6 million by FY 2029-30.

Figure 13: Actual Monthly and Projected Annual Average San Francisco Revenue Per Available Room (RevPAR), FY 2017-18 through FY 2029-30



Source: FY 2017-18 to FY 2023-24: STR and SF Travel. FY 2025-2030: Controller's Office

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to increase from \$229.6 million in FY 2024-25 to \$385.0 million by FY 2029-30, an anticipated average steady-state. While increasing year over year, these figures are substantially lower than the rate-adjusted highs in the lead up to the 2020 COVID-19 pandemic, reflecting lower expected office prices in the coming decade. RPTT is one of the most volatile of all revenue sources and is highly sensitive to economic cycles, interest rates, and other factors affecting global investment decisions. The forecast assumes that office and residential values are threatened by the high interest rate environment and persistence of working from home, resulting in lower values and fewer transfers compared to the rate-adjusted historical average.

Due to the tiered structure of the tax, a small number of high-value transactions, primarily commercial, generate a disproportionate amount of revenue. For example, in FY 2023-24 transactions over \$10.0 million accounted for 0.9 percent of total transactions but generated 41.3 percent 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 \$57.4 million in FY 2024-25, growing to \$96.3 million by FY 2029-30.

Federal Emergency Management Agency Reimbursements

The plan assumes the City's General Fund will receive FEMA reimbursements of \$87.0 million, \$154.0 million, \$1.7 million, and \$1.7 million in FY 2024-25 through FY 2027-28. These reimbursements are largely for COVID-19-related expenditures incurred in prior years, however, a small portion represents reimbursements for the 2023 Winter Storms.

Table 5: Summary of General Fund Operating Revenues and Transfers in FY 2023-24 through FY 2029-30
(\$ millions)

	FY 2023-24	FY 2024-25	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Year-End	Original Budget	Projection					
Property Taxes	2,539.4	2,469.6	2,465.0	2,432.6	2,407.3	2,437.8	2,503.1	2,582.2
Business Taxes	993.4	1,023.0	995.4	1,057.6	1,269.5	1,243.5	1,339.5	1,371.5
Sales Tax	190.5	193.7	188.0	193.4	199.5	205.9	212.9	220.1
Hotel Room Tax	251.2	285.2	254.1	276.2	294.2	307.4	319.0	326.7
Utility Users Tax	121.9	110.7	115.2	116.4	117.5	118.7	119.9	121.1
Parking Tax	86.2	86.9	86.9	88.8	90.6	92.5	92.5	92.5
Real Property Transfer Tax	177.7	218.9	229.6	267.6	316.3	365.0	385.0	385.0
Sugar Sweetened Beverage Tax	11.6	12.7	11.6	11.6	11.6	11.6	11.6	11.6
Stadium Admission Tax	8.6	7.4	8.6	8.6	8.6	8.6	8.6	8.6
Access Line Tax	64.7	53.7	53.5	54.5	55.4	56.3	57.1	57.9
Cannabis Tax	-	-	-	-	6.2	6.2	6.2	6.2
Local Tax Revenues	4,445.1	4,461.8	4,408.0	4,507.2	4,776.6	4,853.6	5,055.4	5,183.4
Licenses, Permits & Franchises	29.7	31.8	32.6	24.5	24.3	24.1	24.0	23.9
Fines, Forfeitures & Penalties	6.5	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Interest & Investment Income	171.4	146.7	164.4	151.2	131.7	114.3	106.9	106.9
Rents & Concessions	12.5	14.1	14.1	15.4	15.4	15.4	15.4	15.4
Licenses, Fines, Interest, Rent	220.1	196.6	215.1	194.9	175.3	157.7	150.2	150.1
Social Service Subventions	320.7	354.0	354.0	360.8	360.8	360.8	360.8	360.8
Disaster Relief - FEMA	73.3	80.0	87.0	154.0	1.7	1.7	-	-
Other Grants & Subventions	(6.5)	2.4	2.4	1.7	1.7	1.7	1.7	1.7
Federal Subventions	387.5	436.4	443.4	516.4	364.1	364.1	362.4	362.4
Social Service Subventions	339.3	314.6	314.6	319.4	319.4	319.4	319.4	319.4
Health & Welfare Realign. - Sales Tax	218.9	238.5	228.9	236.3	244.0	251.9	260.2	268.7
Health & Welfare Realignment - VLF	45.7	45.1	40.4	41.5	42.2	43.1	44.1	44.2
Health & Wel. Realign. - CalWORKs	34.5	22.5	22.5	23.7	23.7	23.7	23.7	23.7
Health/Mental Health Subventions	188.6	89.2	89.2	90.2	90.2	90.2	90.2	90.2
Public Safety Sales Tax	97.2	99.6	96.9	98.9	102.0	105.2	108.7	111.3
Motor Vehicle In-Lieu (County & City)	-	-	-	-	-	-	-	-
Public Safety Realignment (AB109)	55.6	55.4	54.9	56.3	57.7	59.2	60.8	62.4
Other Grants & Subventions	26.6	15.2	15.2	15.2	15.2	15.2	15.2	15.2
State Subventions	1,006.4	880.2	862.7	881.7	894.6	908.2	922.5	935.2
General Government Service Charges	42.7	51.1	51.1	51.5	51.5	51.5	51.5	51.5
Public Safety Service Charges	39.4	45.6	45.6	46.2	46.2	46.2	46.2	46.2
Recreation Charges - Rec/Park	23.7	26.9	26.9	29.4	29.4	29.4	29.4	29.4
MediCal, MediCare & Health Svc. Chg	128.1	175.9	175.9	175.7	175.7	175.7	175.7	175.7
Other Service Charges	20.5	24.2	24.2	22.4	22.4	22.4	22.4	22.4
Charges for Services	254.5	323.8	323.8	325.1	325.1	325.1	325.1	325.1
Recovery of General Gov't Costs	26.2	27.7	27.7	27.7	27.7	27.7	27.7	27.7
Other Revenues	21.2	23.5	23.5	21.2	31.2	21.2	21.2	21.2
TOTAL REVENUES	6,361.0	6,349.8	6,304.1	6,474.2	6,594.6	6,657.5	6,864.5	7,005.1
Transfers in to General Fund								
Airport	55.6	58.3	58.3	61.7	65.3	67.8	70.7	73.5
Commercial Rent Tax Transfer In	28.4	28.1	28.1	27.7	27.7	28.0	28.0	28.0
Other Transfers	144.4	120.1	120.1	115.1	115.1	115.1	115.1	115.1
Total Transfers-In	228.4	206.5	206.5	204.5	208.1	210.9	213.9	216.6
TOTAL GF Revenues and Transfers-In	6,589.5	6,556.2	6,510.6	6,678.7	6,802.8	6,868.5	7,078.3	7,221.7

Changes in Use of One-Time Sources

The change in use of one-time sources consists of a combination of the change in use of starting fund balance and use of reserves as described below.

Changes in Fund Balances

This report assumes the use of \$331.5 million of fund balance, which includes:

- \$228.5 million of fund balance previously appropriated in the FY 2025-26 adopted budget
- \$154.9 million of unappropriated fund balance held for subsequent years and previously assumed as a source in FY 2026-27 in prior forecasts

These balances are partially offset by \$51.8 million of FY 2024-25 General Fund weakness compared to the approved budget. Of this amount, \$37.6 million is due to projected General Fund revenue weakness and \$14.2 million is due to better-than-anticipated daytime population growth in 2023 resulting in an increased current year transfer of General Fund to the Municipal Transportation Agency in accordance with November 2014 Proposition B.

In this report, the \$331.5 million of fund balance is evenly spread across FY 2025-26 through FY 2027-28, fully depleting fund balance mid-way through the forecast period.

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 shocks. Other reserves fund Citywide expenses for labor, litigation, and other costs. The table below outlines the projected balances of the City's major reserves.

As shown in the table below, the forecast assumes the deposit of \$45.8 million and withdrawal of \$108.2 million to and from General Fund reserves in FY 2024-25. In FY 2025-26, it assumes deposits of \$58.9 million and withdrawals of \$94.6 million; in FY 2026-27, deposits of \$81.8 million and withdrawals of \$32.9 million; in FY 2027-28 deposits of \$148.4 million and withdrawals of \$32.9 million; in FY 2028-29 deposits of \$125.0 million and withdrawals of \$33.4 million, and in FY 2029-30 deposits of \$92.4 million and withdrawals of \$34.0 million.

Selected key reserves are detailed below:

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 2.25 percent of General Fund revenue in FY 2024-25 to 3.0 percent by FY 2027-28, incrementally increasing by 0.25 percent each year. During the COVID-19 public health emergency, the City's eligibility to draw from the Rainy Day Reserve allowed the General Reserve required deposit to drop from 3 percent to 1.5 percent. This report assumes no use of the General Reserve in any year.

Rainy Day Economic Stabilization Reserve: Charter Section 9.113.5 establishes the Rainy Day Reserve Economic Stabilization Fund, an economic stabilization reserve funded by 50 percent of revenue growth over 5 percent that can be used to support the General Fund and San Francisco Unified School District (SFUSD) operating budgets in years when revenue declines. Proposition C (November 2014) divided the existing Rainy Day Economic Stabilization Reserve into a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve) with each reserve account receiving 50 percent of the existing balance. Beginning in FY 2015-16, 25 percent of Rainy Day deposits went to the School Reserve, and 75 percent went to the City Reserve. No withdrawals from or deposits to this reserve are projected, because General Fund revenues grow such that the withdrawal and deposit thresholds are not met.

There are also no anticipated deposits to the Rainy Day School Reserve. Withdrawals from the School Reserve are made at the discretion of SFUSD. In FY 2020-21, SFUSD authorized a \$33.5 million withdrawal from this reserve, leaving a balance of \$1.0 million.

Budget Stabilization Reserve: Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The Budget Stabilization Reserve is funded by the deposit each year of 75 percent of real property transfer taxes above the prior five-year average (adjusted for policy changes) and ending unassigned fund balance above the amount appropriated as a source in the subsequent year's budget. Consistent with the Rainy Day Reserve, this report assumes no withdrawals from the Budget Stabilization Reserve. The City is anticipated to make deposits to the Budget Stabilization Reserve in FY 2026-27, FY 2027-28, FY 2028-29 and FY 2029-30, given anticipated growth of transfer tax projections over its prior five year average, which has been relatively depressed.

Fiscal Cliff Reserve: The previously adopted FY 2023-24 budget initially appropriated \$90.2 million of this reserve but only needed to use \$38.0 million to close the year, resulting in a return of \$52.2 million to this reserve and ending balance of \$182.4 million. No other deposits or withdrawals are assumed for this reserve.

Student Success Fund Reserve: FY 2023-24 marked the first year in which \$1.5 million of uncommitted funds were deposited into the Student Success Fund Reserve account. As outlined under Charter Sec. 16.131, any funds not spent or encumbered are to be deposited into reserve. The City does not anticipate depositing or withdrawing funds during the forecast period.

Table 6: Projected Uses, Deposits & Balances of Reserves FY 2023-24 through FY 2029-30 (\$ Millions)

		FY 2024-25			FY 2025-26			FY 2026-27			FY 2027-28			FY 2024-25			FY 2024-25		
	Ending Balance	Deposit	Use	Proj. Balance	Deposit	Use	Proj. Balance	Deposit	Use	Proj. Balance	Deposit	Use	Proj. Balance	Deposit	Use	Proj. Balance	Deposit	Use	Proj. Balance
General Reserve	128.1	\$14.6	-	142.7	\$19.1	-	161.8	\$19.5	-	181.3	\$18.4	-	199.7	\$6.2	-	205.9	\$4.2	-	210.1
Rainy Day Economic Stabilization	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization	275.2	-	-	275.2	-	-	275.2	30.0	-	305.2	97.1	-	402.3	85.3	-	487.6	54.2	-	541.8
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	30.0	-	419.7	97.1	-	516.8	85.3	-	602.1	54.2	-	656.4
<i>Percent of General Fund Revenues</i>	<i>6.1%</i>			<i>6.2%</i>			<i>6.0%</i>			<i>6.4%</i>			<i>7.8%</i>			<i>8.8%</i>			<i>9.4%</i>
Budget Stabilization One Time	54.8	-	-	54.8	-	(54.8)	-	-	-	-	-	-	-	-	-	-	-	-	-
Rainy Day Econ. Stabilization SFUSD	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Fed. & State Emerg. Grant Disallow.	81.3	-	(38.2)	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1
Fiscal Cliff	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4
Business Tax Stabilization	29.5	-	(29.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Revenue Management	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9
Free City College	7.6	-	(7.5)	0.1	8.0	(8.0)	0.1	-	-	0.1	-	-	0.1	-	-	0.1	-	-	0.1
Student Success Fund	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5
Other Reserves	507.1	-	(75.2)	431.9	8.0	(62.8)	377.0	-	-	377.0	-	-	377.0	-	-	377.0	-	-	377.0
Litigation	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits	1.8	20.2	(22.0)	-	20.8	(20.8)	-	21.3	(21.3)	-	21.9	(21.9)	-	22.4	(22.4)	-	23.0	(23.0)	-
Annual Operating	1.8	31.2	(33.0)	-	31.8	(31.8)	-	32.3	(32.3)	-	32.9	(32.9)	-	33.4	(33.4)	-	34.0	(34.0)	-
TOTAL, General Fund Reserves	1,026.7	45.8	(108.2)	964.3	58.9	(94.6)	928.6	81.8	(32.3)	978.1	148.4	(32.9)	1,093.5	125.0	(33.4)	1,185.1	92.4	(34.0)	1,243.5

Department of Public Health Revenues

The Department of Public Health (DPH) budget includes \$32.7 million in revenue from Medi-Cal settlements in FY 2024-25, dropping to \$23 million in FY 2025-26 through the rest of the projection period. Additionally, the DPH FY 2024-25 budget includes \$69.2 million in one-time reimbursements from the California Department of Public Health for Laguna Honda Hospital, however this source goes away in FY 2025-26. Combined, these result in a year-over-year \$78.9 million revenue decline in FY 2025-26.

Overall, DPH operating revenue is projected to increase by \$78.0 million in FY 2025-26, \$66.2 million in FY 2026-27, \$22.4 million in FY 2027-28, \$20.6 million in FY 2028-29, and \$20.0 million in FY 2029-30. The major driver in FY 2025-26 and 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 in FY 2025-26 and FY 2026-27 as it has begun admitting new patients since being recertified in June 2024. Throughout the projection period, this report assumes fee-for-service and capitation payments at the Zuckerberg San Francisco General Hospital increase in line with CPI projections: by 2.74 percent in FY 2025-26, 2.67 percent in FY 2026-27, 2.69 percent in FY 2027-28, 2.41 percent in FY 2028-29, and 2.40 percent in FY 2029-30.

Other General Fund Revenues

Several other General Fund sources vary in their year-over-year change, and in total are projected to increase by \$11.7 million in FY 2025-26 and \$20.4 million in FY 2026-27, then decrease by \$2.4 million in FY 2027-28, increasing again by \$7.6 million in FY 2028-29 and \$7.5 million in FY 2029-30. These sources include Human Services Agency revenues and Airport revenues, among others.

Human Services Agency Revenues: The Human Services Agency (HSA) is projected to draw incremental state and federal revenues to pay for a portion of salaries and fringe benefit cost growth included in this report. This results in a revenue increase of \$4.3 million in FY 2025-26, \$5.1 million in FY 2026-27, \$3.1 million in FY 2027-28, \$2.9 million in FY 2028-29, and \$2.9 million in FY 2029-30.

Airport Transfer In: The General Fund receives 15 percent of Airport concessions revenue annually, with revenues projected to increase by \$3.3 million in FY 2025-26, \$3.6 million in FY 2026-27, \$2.6 million in FY 2027-28, \$2.9 million in FY 2028-29, and \$2.8 million in FY 2029-30. The increase over the years reflects higher revenues from public parking, car rental, ground transportation trip fees, duty-free, food and beverage, and retail activities as it is expected that passenger traffic will continue to grow.

Citywide Expenditure Projections

Uses – Baselines

The Charter specifies baseline-funding levels for various programs or functions that are generally linked to changes in discretionary General Fund revenues (known as aggregate discretionary revenue or “ADR”), though some are a function of Citywide expenditures or base-year program expenditure levels.

The City’s mandated contribution to baselines is growing by \$45.7 million, \$63.4 million, \$17.7 million, \$47.3 million, and \$30.8 million in FY 2025-26 through FY 2029-30. All projected baseline contributions, property tax set-asides, and spending requirements are summarized in Table 7 and detailed following it. Please note that Table 7 is fully consistent with the General Fund projection presented in Table 1 and described above, however the bottom-line figures will not match. That is because Table 7 includes both General Fund and non-General Fund contributions to baselines, property tax set-asides; other mandated spending requirements; as well as the impacts of November 2024 Proposition G (Funding Rental Subsidies for Affordable Housing) and J (Funding Programs Serving Children, Youth, and Families).

Table 7: Projected Baselines, Set-asides and Other Mandated Costs, FY 2024-25 through FY 2029-30
(\$ millions; * indicates baseline funding level has deficit trigger)

	Budget	Projection					
	FY24-25	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
General Fund Aggregate Discretionary Revenue (ADR)	4,532.2	4,504.3	4,587.0	4,846.2	4,896.2	5,087.8	5,217.1
Municipal Transportation Agency (MTA)							
MTA – Municipal Railway Baseline	320.3	318.3	324.2	342.5	346.0	359.6	368.7
MTA – Parking & Traffic Baseline	113.6	112.9	115.0	121.5	122.8	127.6	130.8
MTA – Population Adjustment	74.5	88.7	90.5	92.4	94.8	97.2	100.0
MTA – 80% Parking Tax In-Lieu	69.5	69.5	71.0	72.5	74.0	74.0	74.0
Subtotal Municipal Transportation Agency	577.9	589.5	600.7	628.9	637.5	658.3	673.5
Library Preservation Fund							
Library – Baseline*	103.6	103.0	104.9	110.8	111.9	116.3	119.3
Library – Prop. Tax: \$.025 per \$100 Net Assessed Valuation (NAV)	79.3	79.9	79.7	79.3	80.7	83.1	85.9
Subtotal Library	182.9	182.9	184.5	190.1	192.6	199.4	205.1
Children's Services							
Children's Services Baseline – Requirement	218.9	217.5	221.5	234.1	236.5	245.7	252.0
Transitional Aged Youth Baseline – Requirement	26.3	26.1	26.6	28.1	28.4	29.5	30.3
Early Care and Education Baseline (Jun 2018 Prop C) – Req. *	76.6	76.6	80.1	78.6	100.9	102.0	107.0
Public Education Services Baseline (50% GF + 50% Non GF)	13.1	13.1	13.3	14.1	14.2	14.8	15.1
Children & Youth Fund Property Tax Set-Aside: \$0.4 per \$100 NAV	126.9	127.9	127.4	126.9	129.1	133.0	137.4
Public Education Enrichment Fund	138.5	137.7	140.2	148.1	149.7	155.5	159.5
1/3 Annual Contribution to Preschool for All	46.2	45.9	46.7	49.4	49.9	51.8	53.2
2/3 Annual Contribution to SF Unified School District	92.4	91.8	93.5	98.8	99.8	103.7	106.3
Student Success Fund (SFUSD)*	35.0	35.0	45.0	60.0	60.6	63.0	64.6
Subtotal Children's Services (Required)	635.4	633.9	654.2	689.9	719.4	743.4	765.8
Recreation and Parks							
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	79.3	79.9	79.7	79.3	80.7	83.1	85.9
Recreation & Parks Baseline – Requirement*	85.2	85.2	88.2	89.3	90.3	93.8	96.2
Subtotal Recreation and Parks (Required)	164.5	165.1	167.8	168.7	171.0	176.9	182.0
Other Financial Baselines							
Our City, Our Home Baseline (Nov 2018 Prop C) - Requirement	215.0	215.0	215.0	215.0	215.0	215.0	215.0
Housing Trust Fund	50.8	50.8	51.7	54.7	55.2	57.4	58.8
Dignity Fund*	59.1	59.1	62.1	65.1	65.8	68.3	70.1
Street Tree Maintenance Fund*	22.8	23.0	23.4	24.7	25.0	26.0	26.6
Affordable Housing Opportunity Fund	N/A	N/A	N/A	8.3	8.3	8.6	8.8
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.4	4.4	4.5	4.6	4.6	4.7	4.8
City Services Auditor: 0.2% of Citywide Budget	28.1	28.1	28.6	29.6	30.6	31.4	32.0
Subtotal Other Financial Baselines (Required)	380.2	380.3	385.3	393.6	396.2	402.8	407.4
Total Financial Baselines	1,941.0	1,951.6	1,992.5	2,071.2	2,116.7	2,180.8	2,233.8

Key Baselines are Detailed Below:

Municipal Transportation Agency Baselines: Charter Sec. 8A.105 establishes 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 ADR. In addition, this baseline is required to be adjusted for significant service increases. Beginning in FY 2023-24, the MTA

baseline was re-based due to the opening of the Central Subway for revenue service. Also included in the MTA baseline total is an amount equal to 80 percent of annual parking tax revenue as mandated by Charter Section 16.110. Proposition B, passed by the voters in November 2014, additionally adjusts these baselines by the growth in population; first, 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 and parking tax transfers, the MTA is expected to receive \$589.5 million in FY 2024-25, increasing to \$673.5 million by FY 2029-30.

Library Preservation Fund: Charter Sec. 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The City may temporarily suspend the required increases in any year in which a General Fund deficit of \$300 million, which is adjusted annually by ADR or more is forecasted, as discussed below. In addition, the Charter established a property tax allocation of \$0.025 for each \$100 valuation of taxable property. A Charter Amendment to renew the Library Preservation Fund for 25 years was adopted by voters in November 2022. The combined baseline and property tax set-aside for the Library is projected to be \$182.9 million in FY 2024-25, increasing to \$205.1 million by FY 2029-30.

Children's Services: Several voter-approved measures support children's services in the City. These include the Children and Transitional Aged Youth baselines, Early Care and Education baseline, Children's Fund property tax set-aside, Public Education Enrichment Fund, and Student Success Fund. Together, these requirements total \$633.9 in FY 2024-25, increasing to \$765.8 million by FY 2029-30.

- **Children and TAY Baseline:** Charter Sec. 16.108 established a Children and Youth Fund for Children and TAY, where a base amount of required spending was established, adjusted annually by changes in ADR. Table 8 shows expenditure amounts required by the measure. In November 2024, voters passed Proposition J (Funding Programs Serving Children, Youth, and Families), which, among other things, stipulated that Student Success Fund expenditures not be counted toward the Children's Baseline. Thus, while the FY 2025-26 budget complied with the Children's Baseline funding requirement in our prior forecast, it is now \$23.4 million below the required funding level, growing to \$48.4 million below the requirement by FY 2029-30.
- **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 198-24 temporarily amended the baseline requirement to allow a reduction of the requirement of \$16.6 million and \$16.9 million, equal to the amount of interest earnings in FY 2024-25 and FY 2025-26, respectively.
- **Children and Youth Fund Property Tax Set-aside:** November 2014 Proposition C extended a property tax set-aside for Children and Youth through 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.
- **Public Education Enrichment Fund, Contribution and Baseline:** November 2014 Proposition C also extended the Public Education Enrichment Fund (PEEF) Annual Contribution for 26 years, until June 30, 2041, eliminated a provision that allowed the City to defer up to a quarter of the contribution to PEEF in any year the City had a budget shortfall of \$100 million or more, and eliminated a credit for in-kind services as an offset against the contribution.
- **Student Success Fund:** Charter Sec. 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, which is adjusted annually by ADR, or more is forecasted, as discussed below.

Recreation and Parks: Similar to the Library Preservation Fund, Charter Sec. 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 appropriations by \$3.0 million annually through FY 2025-26, after which the baseline is adjusted by changes in ADR. The City may temporarily suspend the required increases in any year in which a General Fund deficit of \$200 million, which is adjusted annually by ADR, or more, is forecasted, as discussed below. The combined baseline and property tax set-aside for the Recreation and Parks Department is projected to be \$165.1 million in FY 2024-25, increasing to \$182.0 million by FY 2029-30.

Other Financial Baselines: The City Charter also establishes several other baselines. In November 2024 voters adopted Proposition G, which created the Affordable Housing Opportunity Fund, into which the City is required to deposit \$8.25 million starting FY 2026-27 and growing annually thereafter. The City may temporarily suspend increases in any year in which a General Fund deficit of \$250 million is forecasted, adjusted annually by ADR.

Baseline Suspensions

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 to \$350 million in FY 2026-27. This report does not assume suspension of required increases in any years because the deficit triggers are activated by the deficit forecasted in the March Update to the Five-Year plan. Should the March forecast remain the same as the current forecast, with a deficit of \$253.2 million in FY 2025-26, growth in the Street Tree Maintenance Fund, Early Care and Education, Dignity Fund, and Student Success Fund baselines could be suspended for one year.

Table 8: Deficit Threshold Levels for Baseline Suspension in FY 2025-26
(\$ millions)

Library Presentation Fund (Est 21-22)	319.5
June Prop C Early Care and Education Baseline (Est 18-19)	206.3
DPW Street Tree Baseline (Est 18-19)	206.3
Recreation & Parks MOE Baseline (Est 16-17)	269.8
Dignity Fund (Est 17-18)	249.3
Student Success Fund (Est 22-23)	205.7

Uses – Salaries & Benefits

This report projects General Fund supported salaries and fringe benefits to increase by \$175.7 million in FY 2025-26, \$174.7 million in FY 2026-27, \$256.6 million in FY 2027-28, \$188.3 million in FY 2028-29, and \$147.8 million in FY 2029-30 for a total increase of \$943.1 million over the five-year period. These increases, discussed in greater detail below, reflect current staffing costs 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 salary 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. The rise in salary and benefit costs over the five years

of this plan represents 47 percent of projected expenditure growth – the largest expenditure driver of the escalating deficit. Employer pension contributions continue to fall since peaking in FY 2020-21, but actual contribution rates will vary year-to-year based on investment returns. Further, employer costs associated with employee health benefits continue to outpace general inflation.

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 include prior-year cost of living adjustments (COLAs) and known increases on closed MOUs and are projected to be \$148.1 million in FY 2025-26 and \$116.1 million in FY 2026-27, and \$122.9 million in FY 2027-28 to annualize the cost of miscellaneous employee union contracts' final wage increases scheduled for FY 2026-27. Costs of open contracts are discussed in the next section.

Projected Costs of Open Labor Agreements

Police officers and firefighters' unions have open contracts starting in FY 2026-27. This report assumes wage increases for these groups equal to the projected 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, and equal to 2.74 percent in FY 2025-26, 2.67 percent in FY 2026-27, 2.69 percent in FY 2027-28, 2.41 percent in FY 2028-29, and 2.40 percent in FY 2029-30.

Most miscellaneous labor unions have open contracts starting in FY 2027-28. Beginning in FY 2027-28, this projection assumes that these unions will also have wage increases equal to the projected change in CPI. Typically, projections assume wage increases effective July 1 of each fiscal year, however, this report assumes the increase due to change in CPI will occur half-way through the fiscal year (January 2028) in FY 2027-28 and July 1 for the fiscal years thereafter. This is because of the scheduled wage increases at the end of these unions' contracts in FY 2026-27 discussed in the previous section.

The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be \$20.9 million in FY 2026-27, \$68.0 million in FY 2027-28, \$110.2 million in FY 2028-29, and \$101.7 million in FY 2029-30. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in FY 2025-26 for police officers and firefighters and in FY 2026-27 for most other employees.

Health and Dental Benefits for Current Employees

Each spring, the San Francisco Health Service System (HSS) negotiates subsequent calendar year rates. The Health Service Board adopts these rates in June, with approval by the Board of Supervisors in July. HSS holds open enrollment for employees every October.

Projections in this report assume average increases of approximately 6.1 percent in health rates each year for active employees. Given these assumptions, health and dental insurance premium costs paid by the employer for current employees are projected to increase by \$28.1 million in FY 2025-26, \$26.5 million in FY 2026-27, \$25.0 million in FY 2027-28, \$24.8 million in FY 2028-29, and \$27.0 million in FY 2029-30.

These rates are driven by high utilization trends and the cost of health care which is projected to continue to grow faster than CPI. While the number of City employees is assumed to remain relatively stable, price increases on the provider side for specialty pharmacy, and higher demand for health care services, 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 steeply rising cost of pharmaceuticals and high labor costs that can result in higher premiums.

Health and Dental Benefits for Retired City Employees

Charter Sec. 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 7.4 percent per year over the next five years. General Fund support for retiree health costs increases by \$8.3 million in FY 2025-26, \$11.3 million in FY 2026-27, \$12.4 million in FY 2027-28, \$13.4 million in FY 2028-29, and \$18.8 million in FY 2029-30. Proposition B, passed by voters in June of 2008, began to address the City's unfunded liability by requiring employees hired after January 10, 2009, and the City to contribute 2 percent and 1 percent of pre-tax compensation, respectively, into a Retiree Health Care Trust Fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's effects by requiring all remaining employees to begin contributing to this fund beginning in FY 2016-17 with corresponding employer contributions. Starting July 1, 2016, employees hired before January 10, 2009, began contributing 0.25 percent of pre-tax compensation into the retiree health care trust fund with an additional 0.25 percent in each subsequent year, up to a maximum of 1 percent, with the City matching the contribution commensurately.

Key uncertainties for retiree health care costs are the low-rate increases paid by the federal government, which increase private premiums, the impact of increasing costs 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 benefit plans.

Employer Retirement Contribution Rates

Most City employees are members of the San Francisco Employees' Retirement System (SFERS) which is overseen by the Retirement Board. A small number of primarily public safety employees are members of the California Public Employees' Retirement System (CalPERS). Employer contributions to SFERS peaked in FY 2020-21, and since then have decreased due to significant investment returns in that fiscal year. Rates are projected to continue to decrease until FY 2026-27, then projected to increase in FY 2027-28 and FY 2028-29, and then projected to decrease again in FY 2029-30 after the Proposition B (June 2008) amortization is no longer in effect. In FY 2021-22 the Retirement Board lowered their assumed rate of return from 7.4 percent to 7.2 percent. Additionally, voter approval of Proposition A (November 2022) results in supplemental cost of living adjustments to pre-1996 retirees, which also increases the employer contribution rate.

The projected employer contribution rates, shown in Table 9 below, are based on projections prepared by the Retirement System's actuary in October 2024. The employer contribution varies based on three salary bands for employees. The highest percentage rate for the City contribution is for the first band, representing employees' estimated earnings up to \$72,173 per year. The City percentage of the contribution decreases in the second band, which represents employee salary earnings between band one and \$144,347 per year, and the third band for earnings above \$144,347 per year. All employees contribute 7.5 percent of 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. Future employer contribution rates may differ significantly from the projections due to multiple factors including plan experience differing from the economic and demographic assumptions, changes in economic or demographic assumptions, and changes in plan provisions or applicable law.

The employer contribution for the five-year outlook for employees in band two is projected to decrease from 14.4 percent in FY 2025-26 to 14.3 percent in FY 2026-27, then increase to 15.3 percent in FY 2027-28. Rates are projected to continue to increase to 16.4 percent in FY 2028-29, and then decrease to 15.2 percent 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 2025-26 for police officers and firefighters is 14.1 percent, lowering to 14.0 percent in FY 2026-27, rising to 14.8 percent in FY 2027-28, 16.0 percent in FY 2028-29, and lowering to 14.7 percent in FY 2029-30.

Depending on the date of hire, employees participating in CalPERS contribute a minimum of 7.5 percent to 9.0 percent of salary to retirement, plus an additional contribution based on labor agreement provisions. CalPERS rates are projected to increase over the forecast period, from 62.3 percent in FY 2025-26, to 62.8 percent in FY 2026-27, 63.7 percent in FY 2027-28, 68.8 percent in FY 2028-29, and 68.0 percent in FY 2029-30.

The net result of these changes to the employer share of SFERS and CalPERS contribution rates are decreases in costs of \$8.2 million in FY 2025-26 and \$2.3 million in FY 2026-27, then increases of \$26.2 million in FY 2027-28 and \$39.1 million in FY 2028-29, and a decrease of \$0.9 million in FY 2029-30. Failure to meet the assumed rate of return or future, unbudgeted supplemental COLAs could materially affect this forecast.

The projected employer contribution rates and the cost changes discussed above do not reflect the cost impact from the voter-approved November 2024 propositions. The estimated cost of Proposition H, which lowers the age from 58 to 55 for members of the Fire Department hired on or after January 7, 2012, to receive the highest pension, and Proposition I, which changes retirement benefits for nurses and public safety dispatchers, are discussed in a subsequent section of this report.

Table 9: Estimated Contribution Rates for the San Francisco Employees Retirement System (SFERS)

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Estimated Total Contribution Rates	24.1%	24.0%	25.5%	26.7%	25.4%
Non-Safety Employees					
Employee Contribution ⁽¹⁾					
Band 1, < \$34.70/hour	7.7%	7.7%	7.7%	7.7%	7.7%
Band 2, < \$69.40/hour	9.2%	9.2%	9.7%	9.7%	9.7%
Band 3, > \$69.40/hour	9.7%	9.7%	10.2%	10.2%	10.2%
Additional Rate Factors					
Band 1, < \$34.70/hour	0.6%	0.6%	0.6%	0.6%	0.6%
Band 2, < \$69.40/hour	0.5%	0.5%	0.5%	0.6%	0.5%
Band 3, > \$69.40/hour	0.5%	0.5%	0.5%	0.6%	0.5%
Estimated Net Employer Contribution ⁽¹⁾					
Band 1, < \$34.70/hour	15.8%	15.7%	17.2%	18.4%	17.1%
Band 2, < \$69.40/hour	14.4%	14.3%	15.3%	16.4%	15.2%
Band 3, > \$69.40/hour	13.9%	13.8%	14.8%	15.9%	14.7%
Police and Fire Safety Employees ⁽²⁾					
Estimated Total Contribution Rates	24.8%	24.7%	26.2%	27.4%	26.1%
Employee Contribution and additional rate factors	10.7%	10.7%	11.4%	11.5%	11.4%
Estimated Net Employer Contribution	14.1%	14.0%	14.8%	16.0%	14.7%

(1) Employees' contribution is based on wages. The wages shown are based on the estimated FY 2025-26 wage floors.

(2) Employees' base contribution rates vary with hire date.

Other Salaries and Fringe Benefits Costs

Other salary and benefit cost changes include contributions toward retiree health costs, unemployment insurance, as well as overtime, holiday, and other non-typical wage costs. The report projects a cost decrease of \$0.6 million in FY 2025-26, cost increase of \$2.2 million in FY 2026-27, \$2.1 million in FY 2027-28, \$0.8 million in FY 2028-29, and \$1.2 million in FY 2029-30.

Uses – Citywide Operating Costs

Over the next five years, the City will also incur increasing non-salary operating costs. Citywide non-salary operating costs are projected to increase by \$18.7 million in FY 2025-26, \$106.3 million in FY 2026-27, \$110.4 million in FY 2027-28, \$80.7 million in FY 2028-29, and \$76.4 million in FY 2029-30 for a total increase of \$392.5

million over the five-year period. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Capital, Equipment & Technology

Changes in funding for capital, equipment, and technology will result in General Fund net savings of \$29.3 million in FY 2025-26, followed by a cost increase of \$33 million in FY 2026-27, \$33.3 million in FY 2027-28, \$28.6 million in FY 2028-29, and \$29 million in FY 2029-30.

Capital: This report assumes increased funding of the City's General Fund capital program by \$30 million annually for FY 2026-27 and FY 2027-28, and \$25 million thereafter. This General Fund capital program projection is expected to align with the updated FY 2025-35 Ten Year-Capital Plan, to be released in spring 2025. Additionally, the City will incur costs to furnish and equip new and upgraded City facilities.

Equipment: Citywide equipment costs are projected to decrease by \$10.3 million in FY 2025-26, as reflected in the previously adopted FY 2024-25 and FY 2025-26 budget. Costs in FY 2026-27, 2027-28, FY 2028-29, and 2029-30 are projected to remain flat. Equipment is defined as an item costing \$5,000 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: This report assumes an increase of \$5.0 million in FY 2025-26 to the total Citywide technology projects allocation, and growth of 10 percent every fiscal year thereafter. Citywide costs for annual information technology projects are projected to increase by \$1.0 million in FY 2025-26 and \$7.4 million in FY 2026-27, \$3.1 million in FY 2027-28, \$3.6 million in FY 2028-29, and \$4.0 million in FY 2029-30.

The Citywide costs for major information technology projects are forecast to increase by \$3.7 million in FY 2025-26, decrease by \$4.4 million in FY 2026-27, increase by \$0.2 million in FY 2027-28, and remain flat in FY 2028-29 and FY 2029-30. The primary driver of the FY 2025-26 increase is the investment to replace the City's Computer Aided Dispatch (CAD) systems. The major and annual allocation is consistent with the City's Information and Communication Technology (ICT) Plan for FY 2025-26 through FY 2029-30, to be released in spring 2025.

Finally, Citywide technology operating costs, which are built into the Department of Technology's service rates, are based on estimated cost growth on technology contracts and are projected to increase by \$3.6 million in FY 2025-26, \$3.7 million in FY 2026-27, \$3.9 million in FY 2027-28, \$4.0 million in FY 2028-29, and \$4.2 million in FY 2029-30 due to inflationary increases on technology services and contracts.

Inflation on Non-Personnel Costs and Non-Profit Grants

This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the rate of Consumer Price Index (CPI) starting in FY 2025-26 and thereafter at a rate of 2.74 percent in FY 2025-26, 2.67 percent in FY 2026-27, 2.69 percent in FY 2027-28, 2.41 percent in FY 2028-29, and 2.40 percent in FY 2029-30. The projection reflects the adopted FY 2024-25 and FY 2025-26 budget, which included a 3 percent cost-of-doing business increase for General Fund nonprofit contracts in FY 2024-25 and no increase in FY 2025-26. These assumptions are provided for planning purposes only; actual costs will be determined during the budget process and are subject to appropriation in the FY 2025-26 and FY 2026-27 budget. 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.

In sum, these changes result in an increase in General Fund costs of \$4.6 million in FY 2025-26, \$34.8 million in FY 2026-27, \$36.3 million in FY 2027-28, \$27.5 million in FY 2028-29, and \$28.0 million in FY 2029-30.

Debt Service & Real Estate

Over the next five years, total debt service and real estate costs are projected to increase by \$28.1 million in FY 2025-26, \$22.3 million in FY 2026-27, \$24.7 million in FY 2027-28, \$8.7 million in FY 2028-29, and \$3.0 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 increases related to the City's leased and owned real estate portfolio. The increases are primarily due to the repayment of new Certificates of Participation (COPs) for critical repair and recovery stimulus projects, street repaving, exit from and relocation of office buildings, and debt service payments on other large capital facilities.

Sewer, Water, and Power Rates

The projection assumes increased General Fund transfers to the Public Utilities Commission (PUC) for the cost of sewer, water, and power expenses, which includes the cost of natural gas provided by Pacific Gas & Electric Company. These costs are modeled using projected utility rates and volume usage by General Fund departments, factoring in other macroeconomic inputs. Power rates are projected to increase by three cents per kilowatt hour per year until cost of service is reached. For FY 2025-26, approved increases to water and sewer rates of 5 percent and 9 percent, respectively, are included in this projection. Sewer rates are then projected to increase by 14 percent annually in FY 2026-27 and FY 2027-28, 13 percent in FY 2028-29, and 12 percent in FY 2029-30. Water rates are projected to increase by 7.5 percent annually from FY 2026-27 through FY 2028-29, and 6.5 percent in FY 2029-30. Escalating utility rates, increasing capital expenditures and new regulatory requirements are the main drivers of increasing water and sewer costs. As a result, this projection assumes increased costs of \$7.7 million in FY 2025-26, \$6.6 million in FY 2026-27, \$5.7 million in FY 2027-28, \$5.0 million in FY 2028-29, and \$4.7 million in FY 2029-30.

Worker's Compensation

This report assumes that Worker's Compensation costs will increase by \$3.3 million in FY 2025-26, \$3.4 million in FY 2026-27, \$3.5 million in FY 2027-28, \$3.6 million in FY 2028-29, and \$3.8 million in FY 2029-30. The projected cost increases are attributed to generally increasing claim filing rates and the more severe nature of reported injuries. Additional factors contributing to projected cost growth include increased benefit rates adopted by the California Division of Workers' Compensation, inflation on medical services, and increased employer assessments from the California Department of Industrial Relations.

Other Citywide Costs

This category includes increases in other costs across Citywide services, including fleet maintenance, risk management, and printing. Additionally, it includes labor negotiation and Soda Tax expenditures. These items together result in General Fund cost increases of \$0.8 million in FY 2025-26, \$2.6 million in FY 2026-27, \$2.9 million in FY 2027-28, \$3.3 million in FY 2028-29, and \$3.8 million in FY 2029-30.

Uses – Departmental Costs

This section provides a high-level overview of significant departmental costs over the next five years. These costs are either direct or indirect costs non-salary costs assumed to have General Fund cost impacts. This report projects that starting from the current fiscal year, departmental costs will decrease by \$4.0 million in FY 2025-26, then increase by \$137.1 million in FY 2026-27, \$71.5 million in FY 2027-28, \$113.2 million in FY 2028-29, and \$82.4 million in FY 2029-30.

City Administrator's Office – Convention Facilities Subsidy

This report assumes the Convention Facilities Fund General Fund subsidy will increase by \$0.4 million in FY 2025-26 and \$4.4 million in FY 2026-27, decrease by \$5.4 million in FY 2027-28, and increase by \$4.1 million in

FY 2028-29 and \$0.8 million in FY2029-30. These projections are based on currently scheduled conventions and projected attendance, which remain lower than pre-COVID-19 pandemic levels.

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 elections during the projection period, shown in Table 10. This schedule results in a projected cost decrease of \$2.2 million in FY 2025-26, increases of \$0.8 million in FY 2026-27, \$0.8 million in FY 2027-28, \$2.6 million in FY 2028-29, and a decrease of \$2.6 million in FY 2029-30. Any special election not included in this projection would result in increased General Fund costs dependent on the complexity of the ballot and the size of the electorate.

Table 10: 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. In the case of a Mayoral vacancy, the fund is required to contain \$8.00 per resident for that election and for the next regularly scheduled Mayoral election. Funds not used in one election are carried over for use in the following election, and any funds exceeding \$7.0 million will be returned to the General Fund.

This projection assumes that eligible candidates qualified and accepted funds for the November 2024 election based on historical trends, and the General Fund will appropriate an amount equal to \$2.75 per resident in FY 2025-26. Therefore, costs are projected to decrease from the current fiscal year budget by \$5.8 million in FY 2025-26, then increase by \$1.1 million in FY 2026-27, and \$1.2 million in FY 2027-28. This projection assumes the General Fund will appropriate an amount equal to \$8.00 per resident in for the next Mayoral election, resulting in a cost increase of \$3.1 million in FY 2028-29, and a decrease of \$4.6 million in FY 2029-30.

Affordable & Permanent Supportive Housing Project Costs

The City expects to incur significant costs in all years of the five-year projection related to its current affordable and permanent supportive housing projects. The Local Operating Subsidy Program (LOSP) subsidizes housing for formerly homeless individuals and families, allowing them 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 operating costs and new projects coming online. This forecast also includes projected lease inflationary costs for non-LOSP permanent supportive housing sites in the City’s portfolio. The costs related to these projects and programs are projected to grow by \$13.2 million in FY 2025-26, \$8.1 million in FY 2026-27, \$9.5 million in FY 2027-28, \$18.7 million in FY 2028-29, and \$8.0 million in FY 2029-30.

Department of Homelessness and Supportive Housing – Maintaining Shelter Capacity

The Department of Homelessness and Supportive Housing is currently relying on one-time State grant funds to operate three of its non-congregate shelters that offer 288 total beds. These state sources will expire in FY 2026-

27, creating an ongoing shortfall of \$20.5 million that grows by \$0.5 million in FY 2027-28, \$0.7 million in FY 2028-29, and \$0.7 million in FY 2029-30. To maintain this shelter capacity, this update assumes the General Fund will backfill the State source loss.

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 25,000 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 24,000 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 the base wages for several types of workers, including IHSS workers, above the San Francisco minimum wage. In the current fiscal year, the MCO base wage for IHSS care providers is slated to reach \$21.50 per hour, subject to annual appropriation. 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 a \$300 million General Fund cost by FY 2029-30.

Based on current estimates, which include CPI-based wage increases, City costs for IHSS are expected to increase annually by \$14.7 million in FY 2025-26, \$20.6 million in FY 2026-27, \$21.8 million in FY 2027-28, \$25 million in FY 2028-29 and \$26.7 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 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 through FY 2027-28 to cover the funding gap caused by the loss of federal funding. This will result in no General Fund cost in FY 2025-26 and FY 2026-27, an increase of \$9.2 million in FY 2027-28, followed by an increase of \$4.4 million in FY 2028-29 that remains flat in FY 2029-30.

Finally, HSA projects that aid payments to clients, including County Adult Assistance Programs (CAAP), Foster Care, CalWORKs, Care Not Cash, and other programs, will increase costs by \$0.5 million in FY 2025-26, decrease by \$0.1 million in FY 2026-27, increase by \$0.8 million in FY 2027-28, increase by \$0.5 million in FY 2028-29, and increase by \$1.2 million in FY 2029-30, for several reasons. One driver is the growth in CAAP caseload, which had higher than projected growth in the non-homeless component, as well as a steady growth instead of an expected decline in the Homeless component. Additionally, CalWORKs saw 3 percent higher actuals compared to the budget, but a General Fund surplus is projected due to lower County share.

Public Health – Operating Costs

Department of Public Health (DPH) operating cost projections increase by \$31.2 million in FY 2025-26, \$46.9 million in FY 2026-27, \$36.5 million in FY 2027-28, \$39.5 million in FY 2028-29, and \$43.2 million in FY 2029-30. These increases reflect inflationary pressures exceeding projected CPI at the department’s hospitals and clinics for pharmaceuticals, food, and laundry, and cost increases related to the UCSF Affiliation Agreement,

which provides the clinical staff at Zuckerberg San Francisco General Hospital. Additionally, this report assumes that beginning in FY 2026-27, the General Fund will assume costs of some programs currently funded through the Opioid Settlement of 2023, as ongoing revenues from the settlements stabilize at a lower level of \$20 million to \$30 million annually versus approximately \$70 million in FY 2023-24.

Downtown Recovery and Activation

The City budgeted one-time funds of \$18 million in FY 2024-25 to bolster 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. After one-time funds, this report assumes \$3 million in funding for subsequent years to support Downtown Activation.

Ambassadors engage with residents and visitors, support people in need and connect them with services, address safety issues, and support the cleanliness of the area. This report assumes \$25.6 million in the current fiscal year, \$23.9 million in FY 2025-26, and \$24.5 million in FY 2026-27, after which funding ramps down by five million per fiscal year. Along with the Ambassadors, the program also funds activations of public spaces and ground floor retail spaces. Any expansions of these programs will be part of later policy decisions and are not incorporated into this report.

Combined, this projection assumes these various programs' expirations of one-time funds and ramp downs create a cost decrease of \$24.2 million in FY 2025-26, an increase of \$16.2 million in FY 2026-27, and decreases of \$4.4 million in FY 2027-28, \$4.9 million in FY 2028-29, and \$4.9 million in FY 2029-30.

2024 Election Measures

The report assumes the costs of implementing several measures that San Francisco voters passed in November 2024. All other measures not mentioned explicitly in this report are not part of the deficit projection. In total, Propositions C, G, H, I, J, and N, will increase General Fund costs by \$35.0 million in FY 2025-26, \$16.0 million in FY 2026-27, \$4.5 million in FY 2027-28, \$17.2 million in FY 2028-29, and \$11.1 million in FY 2029-30.

Proposition C creates the position of Inspector General within the Controller's Office and provides the Controller's Office with new investigative powers. The measure will add an estimated \$1.0 million in annual costs beginning in FY 2025-26 for staffing and basic operations.

Proposition G establishes the Affordable Housing Opportunity Fund for Seniors, Families, and People with Disabilities, a dedicated fund for rental subsidies for extremely low-income households, funded by the General Fund. Proposition G will cost no less than \$4.0 million in FY 2026-27 and \$8.25 million in FY 2027-28, and will increase by three percent annually through FY 2045-46.

Proposition H enables all members of the Fire Department to retire at age 55 and become eligible for higher maximum benefits at earlier ages. In November 2011, San Francisco voters passed a pension reform measure that raised the retirement age from 55 to 58 for all members of the Fire department who were hired on or after January 7, 2012. This same measure stipulated that members who were hired before January 7, 2012, can still retire at 55. Reverting to retirement at age 55 for all eligible employees will cost \$3.7 million in FY 2025-26 and increase incrementally by CPI through FY 2040-41.

Proposition I expands pension benefits for registered nurses who worked for the City on a temporary basis. These registered nurses can purchase up to three years of retirement service credit for the time they served as per diem nurses at a cost of \$1.5 million to \$4.4 million each year in increased City retirement contributions, depending on how many employees decide to purchase retirement service credits and how many credits would be purchased. The measure also shifts public safety communications personnel from the City's miscellaneous plan in SFERS to the miscellaneous safety plan in SFERS, resulting in higher pension benefits. The cost of this shift is \$2.3 million in increased retirement contributions annually. In its entirety, the cost of Proposition I could range from \$3.8 million to \$6.7 million in increased retirement costs to the City.

Proposition J prohibits the Student Success Fund to be used to meet other mandatory baseline obligations for children in San Francisco, such as the Child and Youth Fund baseline and the Public Education Enrichment Fund. As such, it will create General Fund costs of \$23.4 million in FY 2025-26, increasing by \$7.6 million in FY 2026-27, \$4.1 million in FY 2027-28, \$16.7 million in FY 2028-29, and \$10.6 million in FY 2029-30.

Proposition N establishes a First Responder Student Loan and Training Reimbursement Fund that may cost up to \$0.3 million annually starting in FY 2025-26. The fund may receive private donations or money appropriated by the Mayor and Board of Supervisors. The fund is required to accumulate \$1.0 million before making disbursements and is intended to help the City's first responders to pay for student loans and job-related education and training costs incurred during their City employment. This cost estimate reflects only the cost of City staff to administer the fund.

Separate from the cost projections at the beginning of this section, Proposition M makes a series of significant reforms to the City's business taxes to better support San Francisco businesses and provide greater simplicity, predictability, and certainty in the City's business tax system. Because of adjusted tax rates, the measure will result in a projected revenue decline of \$40 million between tax years 2025 and 2026. Scheduled rate increases in 2027 and 2028 will yield additional revenue of nearly \$50 million in each of the following tax years.

Previous Budget Cycle New Departmental Savings

The FY 2025-26 budget assumes the Department of Public Health, Department of Homelessness and Supportive Housing, and Police Department collectively realize savings of \$61.8 million in FY 2025-26 that were developed during the previous budget cycle (FY 2024-25 & FY 2025-26). 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 smaller departmental changes, such as the expiration of limited-term funding costs and several other relatively small changes which together result in savings of \$5.0 million in FY 2025-26, costs of \$2.6 million in FY 2026-27, savings of \$3.4 million in FY 2027-28, and costs of \$2.3 million in FY 2028-29 and \$2.9 million in FY 2029-30.

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Fiscal Strategies

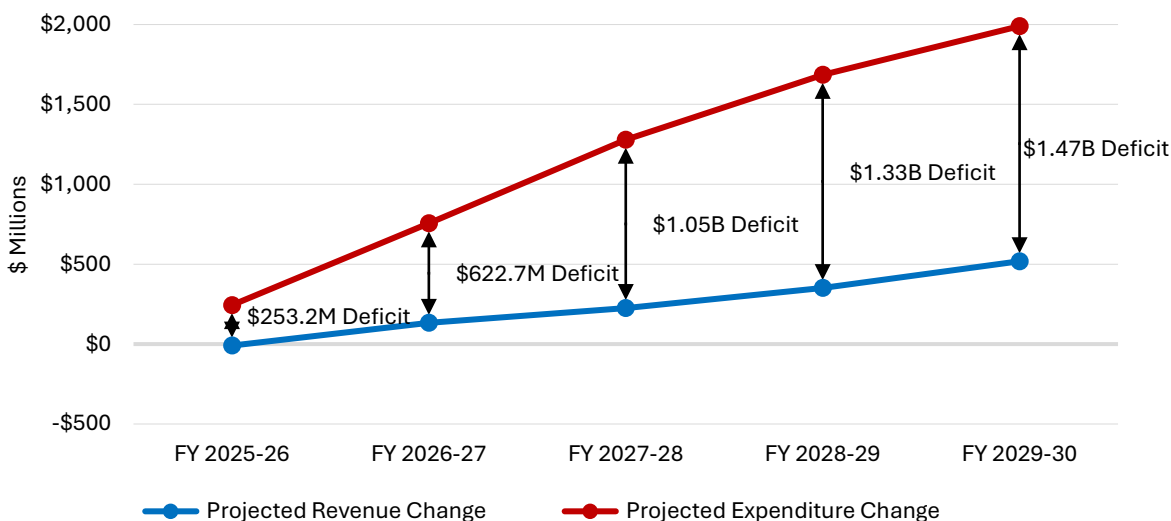
Implementation of Responsible Fiscal Practices for Long-Term Deficit Reduction

The COVID-19 pandemic, beginning in March 2020, altered the financial landscape for the City and County of San Francisco. The City faced an unprecedented two-year deficit projection of \$1.5 billion for FY 2020-21 and FY 2021-22 due to sharp revenue losses. Despite these challenges, the City successfully managed this deficit through a combination of federal support, strategic use of reserves, and disciplined spending reductions. By January 2022, the City's financial outlook briefly improved, with a modest surplus projected for FY 2022-23 and FY 2023-24, primarily driven by record-setting returns from the City's pension investments.

This optimistic position was short-lived. With the expiration of one-time federal funding, the City's financial trajectory has shifted. A persistent structural deficit is now projected, with expenditures growing at a pace that continues to outstrip revenues. This long-term imbalance reflects deeper fiscal challenges, distinguishing the current situation from the temporary deficits seen in previous economic downturns.

On the revenue side, there has been a notable shift. Earlier projections anticipated minimal revenue growth in FY 2024-25, followed by stagnation. In contrast, this report forecasts ongoing revenue increases, largely attributed to tax reforms enabled by Proposition M. While this improved revenue outlook is encouraging, it is overshadowed by the pace of expenditure growth. The City's financial outlook remains strained, as the cost of maintaining existing programs continues to grow faster than revenues. The figure below shows the expansion of the annual gap to almost \$1.5 billion by FY 2029-30.

Figure 14: Expenditures Growth Projected to Outpace Growth in General Fund Revenues



To close this gap over the long term, City leaders will need to consider major structural changes focused on reducing the City's spending.

This section outlines a framework for potential spending reductions as the City works to develop more detailed, long-term savings and operational proposals. These proposals will require multi-year planning and engagement with multiple stakeholders for successful implementation.

Overview

The financial outlook of the current projection reflects the long-term structural deficit and post-COVID-19 economic realities challenging San Francisco. Each year between FY 2025-26 and FY 2029-30, the budget gap is projected to grow by between \$280 million and \$460 million. To the extent each year's budget is not balanced with ongoing solutions, it exacerbates the shortfall, resulting in the \$1.5 billion annual deficit by FY 2029-30.

Current possible strategies to address the immediate \$876 million two-year budget deficit, as well as the longer-term projected five-year deficit, focus on spending reductions and are divided into departmental solutions and Citywide policy decisions.

Additionally, identifying redundancies in City operations offers a cross-departmental opportunity for ongoing savings. City leaders will review proposed savings from departments and Citywide stakeholders that aim to eliminate duplicate efforts, consolidate and centralize functions, and promote long-term efficiency. This initiative is supported by the Mayor's budget instructions, which require departments to reorganize, eliminate redundancies, and identify consolidation opportunities.

Departmental Solutions

While the City's overall revenue outlook has improved with projected growth, expenditure growth significantly exceeds revenue growth. Departments will need to find ways to reduce their spending through ongoing changes to reduce the deficit.

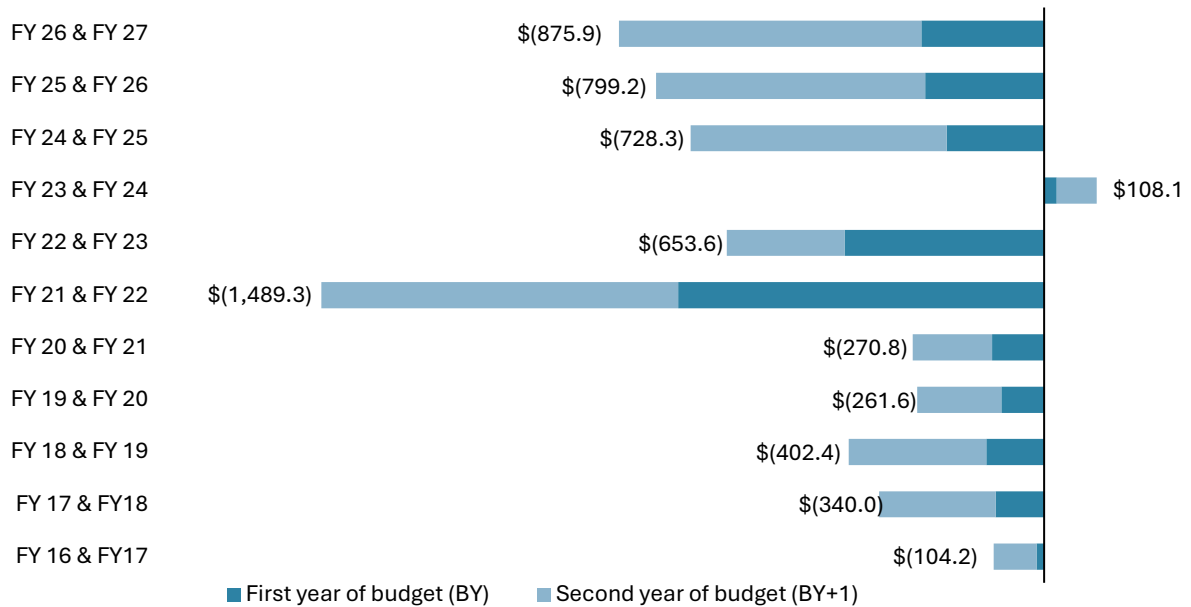
In December 2024, the Mayor instructed departments to reduce ongoing General Fund support by 15 percent in both FY 2025-26 and FY 2026-27. This decrease in support is generally directed to be achieved through permanent spending reductions. To inform the decreases, departments are instructed to:

- Assess community-based organization (CBO) grant allocations for efficiency, with focuses on strong outcomes, cost-effectiveness, and direct services
- Re-examine all contractual services and non-personnel expenditures for efficiencies
- Hire for core department functions and eliminate vacant budgeted positions
- Consider department-level hiring freezes, and if necessary, identify specifics for layoffs

All departments meeting the required budget targets will generate sufficient savings to close approximately \$815 million, or 93 percent, of the currently projected two-year \$876 million deficit. Savings that are truly ongoing will make a significant contribution to reducing the outer projection years' projected deficits as well.

Target reduction amounts of 15 percent are not the highest the City has directed departments to make; in the five years following the 2008 economic downturn, targets ranged from 5 percent to 25 percent each year. Additionally, target reductions are a regular element of addressing deficit projections for the City. The following figure shows a deficit has been projected for nine of the last ten budget cycles, demonstrating the need for the regular application of targets as a cost containment strategy.

Figure 15: Current and Previous Two-Year Deficit Projections
(\$ millions)



Although most of the immediate two-year deficit can be resolved through departments meeting this iteration of target reductions, future budget cycles will necessitate further target reductions. However, in future cycles the broad percentage of future targets will depend on the amount of spending reductions that are permanently on-going and the capacity of departments to continue identifying savings solutions. Over the long-term, departmental solutions that build up on-going savings cycle by cycle have the potential to close more than 70 percent of the projected five-year deficit.

Citywide Policy Decisions

City leaders can leverage a Citywide perspective to develop savings solutions that span across departments. High level directions from the Mayor in collaboration with other City stakeholders will both guide and fit together with departmental solutions to fully close both the two-year deficit and future projected deficits. The main cost categories for City leaders to consider are labor, infrastructure, and contracted services (including grants). These three groups are interrelated, meaning any savings solutions identified in one will affect the others.

Labor

City employee salaries and benefits represent the largest driver of cost in both the two-year deficit and over the entire projection period. The Base Case assumes implementation of previously negotiated labor contracts for police officers and firefighters through FY 2025-26, and for miscellaneous employees through FY 2026-27. With all labor contracts closed during the upcoming budget cycle, City leaders will be constrained in the short term on methods to bring down direct labor costs. As departments potentially exhaust removing vacant positions for savings, more significant changes to the City's workforce or service areas will need consideration.

Management of pension and health benefit costs presents an additional Citywide approach to cost reductions. Employer contributions to the San Francisco Employees' Retirement System (SFERS) are down from the FY 2020-21 peak but are projected to grow mildly throughout the projection period of this report. The City, led by the Retirement Board (RET), will need to continue skillful investment and implement responsible policies to constrain future cost growth. Although growth in employer contributions for active and retiree health benefits is projected to come down from its 2024 level of approximately 10 percent, it will settle at rates between 6 and 7

percent, still significantly outpacing inflation. The Health Service System (HSS) will continue to explore innovative ways to bring down overall cost growth, while sustainably keeping health care affordable for current and future members. This will be achieved through value-driven decisions, programs, designs, and services.

General Fund savings from either direct or indirect labor cost reductions will require collaboration and agreement between City leaders, employee unions, and health care providers.

Infrastructure

The City's Capital and Information and Communication Technology (ICT) Plans set out goals for the annual General Fund cash investment in City-owned physical and technology infrastructure. The Base Case assumes alignment with the updated Ten Year-Capital Plan, to be released in spring 2025, with funding then increasing by \$30 million each year in FY 2026-27 and FY 2027-28 then \$25 million each year for the remainder of the projection. For the ICT plan with a current year budget of approximately \$25 million, the Base Case assumes 10 percent growth in annual project budgets with \$15 million available for major projects.

Savings from the Capital and ICT Plans could be realized by lowering or holding flat the rates of growth assumed, or potentially deferring projects beyond the projection period of this report to steadily reduce investments over the long term. City leaders would need to weigh the risks and future costs as infrastructure continues to age and ongoing maintenance is delayed.

Contracts

Contract costs represent another major component of City spending on operations and services. These include grants to community-based organizations (CBOs), material purchase agreements with suppliers, and contracts with vendors who provide external or technical support services. The Base Case assumes that departments will generally absorb increases in contract costs in FY 2025-26, with costs assumed to grow with CPI in most cases or inflators indexed to CPI in the case of certain CBO contracts, contributing significantly to the cost increases for the last four years of the projection.

Savings from service contracts could be realized by directing departments to absorb external increases within their current budgets. Further, City leadership could direct specific reductions in contract spending based on service type or target savings percentage. In either case, City leaders would need to consider the impact of reductions on departments' operations and production of deliverables.

For CBO grants, City leaders may direct departments to hold funding levels flat or pause issuing new requests for proposals (RFPs) in expectation of funding reductions. Additionally, funding access could be restricted to a narrower definition of CBO service type with more stringent performance criteria. In many cases, CBOs provide a specialized service tied to a specific population. As their operations are affected by their own workforce and non-personnel inflation costs, changes to City-provided funding could affect their delivery of specialized services. City leaders would need to consider how a reduction or loss of CBO-provided services would impact certain populations and potentially add new service obligations to City agencies.

Planning Scenario: Spring 2025 Recession

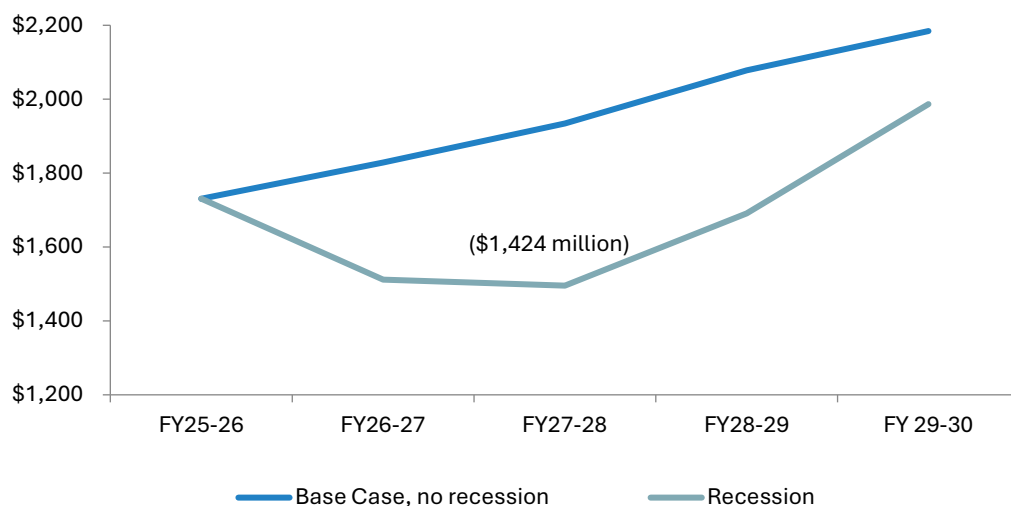
Given the challenges in predicting recessions, the Base Case of this report does not forecast an economic contraction over the next five years, though the possibility of a recession is always present. In a survey conducted by Wolters Kluwer in September 2024, leading financial firms on average estimated the probability of a recession over the next 12 months at 31 percent. The biggest impact on the City's budget deficit in a time of recession comes from reduced revenue and increased employer pension contribution rates. 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.

Historically, projection variances follow the economic cycle. Revenues tend to outperform expectations in times of expansion and underperform in recessions. Actual revenues exceeded budgeted revenues by over 6 percent in FY 2005-06, FY 2010-11, and FY 2018-19, years of rapid revenue growth. However, revenues were 2-4 percent below budget in FY 2002-03, FY 2008-09, and FY 2019-20, years of sharp economic contraction. To illustrate the effect of a hypothetical recession on San Francisco's fiscal condition, this section describes a scenario that assumes weakness in the California and San Francisco economies beginning in spring 2025.

Revenue

The recession scenario assumes that revenues decline by the average percent decline seen in the dot-com recession and the Great Recession. This scenario results in immediate revenue loss in major local tax sources that are most sensitive to economic conditions, including business, hotel, sales, transfer, and parking taxes. Business, transfer, and parking taxes fully recover in the year after the recession, but weakness continues with hotel and sales taxes. Reductions in the City's projected aggregate discretionary revenue would result in reduced contributions to baselines and set-asides. The revenue loss from a recession beginning in late FY 2024-25 would be approximately \$1,424.3 million through FY 2029-30. Reductions to baselines total \$300.1 million, resulting in an estimated net impact on revenue of \$1,124.2 million from FY 2025-26 through FY 2029-30. Figure 16 shows the difference between the Base Case and recession projections before General Fund savings from reduced baseline contributions are included.

Figure 16: Base Case vs. Recession Scenario, Selected Local Taxes



Pension Contributions

A recession will likely lead to pension system investment losses and related increases in employer contribution rates. Cheiron, the Retirement Board's actuary, performs stress testing scenarios to measure how employer retirement contributions would change with market returns that differ from the actuarial assumption of 7.2 percent. In its July 1, 2023, actuarial report, dated February 2024, Cheiron modeled the effect of a decline in investment returns of 13.7 percent in one year and returning to 7.2 percent thereafter. In this scenario, employer contribution rates would rise by approximately 10 percent in FY 2025-26 and by 26 percent in FY 2026-27. This estimate is intended to demonstrate sensitivity to a large negative return and should not be relied upon for any other purpose.

The revenue losses described above would reduce required reserve deposits by \$40.5 million and allow the City to draw \$389.7 million in economic stabilization reserves. Taken together, these changes in revenues and expenditures indicate that an economic downturn beginning in late FY 2024-25 would result in a net remaining deficit of approximately \$1,311.6 million over the five-year period, assuming policymakers chose to completely deplete economic reserves.

Table 11: Projected General Fund Shortfall in Recession Scenario

	FY25-26	FY26-27	FY27-28	FY28-29	FY29-30
Base Case Deficit Projection	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)
Updated Projection - Savings/(Cost)					
Reduction in base case revenue available	(316.9)	(439.1)	(387.0)	(197.7)	(83.6)
Reduction in mandatory baseline spending	53.3	93.1	86.0	47.9	19.8
Reduction in General Reserve deposits	39.4	8.3	(0.9)	(3.3)	(3.0)
Permissible withdrawal from reserves	-	157.0	130.7	102.0	-
Increase employer retirement contribution	(21.6)	(63.1)	(112.7)	(169.4)	(250.8)
Updated Deficit Projection	(499.0)	(866.5)	(1,337.2)	(1,555.1)	(1,788.7)
Amount of New Fiscal Strategies Needed	(245.8)	(243.8)	(283.9)	(220.6)	(317.5)

San Francisco's Charter requires that each year's budget be balanced. Balancing the budget under this recession scenario would require levels of expenditure reductions and additional revenues beyond those discussed in the fiscal strategies section above.

Existing Fiscal Strategies Not Sufficient in Recession Scenario

Under the recession scenario, the City's cumulative deficit in the final two years of the plan would increase from \$1,334.5 million and \$1,471.2 million to \$1,555.1 million and \$1,788.7 million, respectively. In this scenario, the fiscal strategies offered in this report, and the City's economic stabilization reserves, would not be sufficient to close the projected shortfall.



Citywide Strategic Initiatives

Citywide Long-Term Strategic Planning

San Francisco is committed to long-term planning to ensure the sustainable stewardship of public dollars. In addition to the Five-Year Financial Plan, the City publishes the Citywide Ten-Year Capital Plan and Five-Year Information and Communication Technology (ICT) Plan to identify and assess capital and information technology needs. These plans also help policymakers prioritize how to program limited City funds through a disciplined, coordinated planning process while allowing flexibility as critical needs arise.

In the three years following the pandemic, state and federal resources, along with new tax revenues and strong pension returns, enabled the City to maintain essential services and introduce new programs to address pandemic-related needs. These funding sources provided stability during uncertain times. However, the loss of one-time federal funds, reduced tax revenue growth, and rising costs have resulted in projected General Fund deficits of \$253.2 million for FY 2025-26 and \$622.7 million for FY 2026-27. Combined, the two-year General Fund deficit totals \$875.9 million and is expected to approach \$1.5 billion by the end of the five-year projection period.

Upcoming budget investments will focus on realizing an equitable and vibrant economic recovery and future for San Francisco. The initiatives described below highlight City programs in the following priority areas:

1. Driving new and recovered economic activity and promoting small business development;
2. Exploring new tools in public safety teamed with bolstering traditional approaches;
3. Investing in San Francisco's future through its children and families;
4. Decreasing homelessness in tandem with increasing the housing supply;
5. Continuing adaptable mental and behavioral health systems of care and treatment;
6. Maintaining long term core government operations, infrastructure, and a high talent workforce.

1. Driving new and recovered economic activity and promoting small business development

San Francisco's post-pandemic recovery is taking place during a time of continued economic uncertainty, as remote work patterns continue to evolve. While some economic realities are beyond the City's control, San Francisco has significant advantages as an economic engine for the region, and as a global center of innovation. City departments continue to implement strategies to bolster a Citywide recovery that build on San Francisco's strengths, while responding to changes in broader economic and work-place trends.

Investment in the City's Economic Core

A package of downtown-focused investments seeks to increase foot traffic with activations, entertainment, and free parking on nights and weekends. Union Square hosts expanded programming, while Powell Street features pop-ups and art exhibits. The City also provides for 24/7 patrol and Welcome Ambassadors, who offer a warm and friendly presence to residents and visitors alike. The ambassadors engage with the public, helping with wayfinding and recommendations.

Tourism & Business Travel

Tourism contributes significantly to the City's overall economy and job market. The City is working to restore tourism-related economic activity to pre-pandemic levels by both investing in its tourism infrastructure and attracting business travelers as well as international, regional, and domestic leisure visitors. The San Francisco International Airport continues to partner with international carriers to meet this goal. Passenger enplanements are expected to exceed pre-pandemic levels (FY 2018-19) in FY 2025-26 and are forecasted to continue increasing. The Tourism Improvement District (TID), created in 2009, was renewed in September 2022 for another 15 years. The TID assesses hotels and other accommodations to fund sales, marketing, and promotional activities related to tourism and special industry events designed to attract leisure travelers, conventions, meetings, and events. The increased TID assessment is projected to provide approximately \$5 million for incentives in FY 2025-26, eventually growing to \$10 million of incentive funds annually.

Prior to the COVID-19 pandemic, conventions at the City-owned Moscone Center represented a special revenue stream, annually drawing over one million convention attendees and exhibitors and accounting for 21 percent of San Francisco's travel and tourism industry. 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, and in FY 2023-24 it hosted 37 events with over 427,000 attendees.

Clean and Welcoming Streets

The City continues to invest funds for street cleaning operations across the City. This includes continued or expanded deployment of Public Works cleaning crews and contractors who power wash sidewalks, remove litter, and sweep gutters. Public Works also continues to provide courtesy graffiti removal for storefronts and other private property in the City's diverse neighborhood commercial corridors.

In November 2023, the Mayor and Board of Supervisors announced the implementation of a street vending moratorium along Mission Street in the Mission neighborhood to target the sale of illegal goods along this commercial stretch. To mitigate the impacts with the permitted vendors who have followed the rules, the City worked with the community to support permitted street vendors with various initiatives such as setting up temporary market spaces, launching a marketing campaign to promote those venues, and offering wraparound support services, including emergency relief funds for vendors for low-income households.

In February 2024, the moratorium was extended for an additional six months, through August. The decision was driven by data that showed improvements in the neighborhood, including a 30 percent decrease in assaults and robberies and 23 percent decrease in 311 service requests for street cleaning. Additionally, 67 percent of the 192 businesses surveyed in the neighborhood reported having seen a positive change in the neighborhood.

The City intends to bring back the permitted street vending along Mission Street and is currently working on a phased pilot project to allow a limited number of permitted vendors to return to a stretch of Mission Street while the City continues to assess how the area can remain safe and clean. The City is continuing its investment, funding new vending enforcement positions in Public Works to address organized retail crime, support permitted vendors and contribute to the vibrancy of the City's streets.

Supporting Small Businesses

City investments continue to fund the launch of new storefronts through the Vacant to Vibrant program and other budgeted grants will transform empty storefronts into active spaces, both downtown and throughout San Francisco's neighborhoods. The City also provides tenants with assistance with permitting, marketing, leasing and activation events, to help their businesses thrive.

Building on the success of the program's first cohort announced in fall 2023, the Vacant to Vibrant announced an expansion in May 2024 to include eight new storefronts in the East Cut, Financial District, and Yerba Buena neighborhoods. Each of these grantees was offered a rent-free storefront space for three months with the

potential to extend their leases. Of the original nine properties involved in the inaugural cohort of the program, seven local businesses have signed long-term leases downtown.

The City has continued the First-Year Free program, which promotes economic recovery for small businesses by waiving first-year permits, initial licenses, and initial business registration fees. Since its launch in 2021, more than 8,600 businesses have enrolled, and the program has waived \$4.5 million in fees.

Transit

Creating walkable neighborhoods, with bike lanes and safe streets is integral to the City's revitalization. The San Francisco Municipal Transportation Agency (SFMTA) is committed to making public transit more reliable, safe, and clean. SFMTA has increased fare compliance by adding 36 positions related to transit fare compliance. Other initiatives include service enhancements, advanced camera technology, increased staff presence, and investments in cleaning and upgrading transit shelters. In 2023, SFMTA officials announced that Muni received its highest customer rating in over 20 years. The survey found that 72 percent of Muni riders rated service as good or excellent, the highest rating since annual customer surveys started in 2001.

In 2024, the SFMTA celebrated 10 years of the City's Muni Forward program. Muni Forward was launched to redesign City streets and improve transit speed and reliability as part of the San Francisco's commitment to creating safer streets and more reliable transit options. Under this program, the City has completed 100 miles of new transit and reliability improvements, including red transit lanes, enhanced bus stops to help riders board faster and more efficiently, and traffic signals that stay green for buses and trains.

The SFMTA's Muni Forward has helped expand San Francisco's transit system. Per capita, the City now has over twice the transit-only lane miles compared to New York City.

Muni Forward projects have reduced travel times by up to 35 percent, resulting in more consistent arrival and departures times, and reduced injury collisions on multiple Muni Forward corridors by 50 percent or more.

Tax Reform

Business tax revenue increasingly relies on the technology, financial services, and related office industries. These industries have embraced remote work after the pandemic, and reduced the amount of office space they lease, both in San Francisco and elsewhere. In this context, the City's high business tax burden, compared to alternative Bay Area office locations, may make it vulnerable to large taxpayers consolidating offices outside of San Francisco.

In November 2024, San Francisco voters approved Proposition M, a major overhaul of the City's business tax system. This updated tax system is designed to reflect a post-COVID-19 economy, supporting businesses while preserving San Francisco's unique character and essential services. It achieves this by reducing the risk of tax loss from remote work and business relocating, minimizing volatility by diversifying the tax base and reducing reliance on a small number of payers, simplifying the tax structure for greater predictability for both businesses and the City, and promoting equity for small businesses.

2. Exploring new tools in public safety teamed with bolstering traditional approaches

San Franciscans deserve to feel safe in their City, and public safety remains a top priority for residents, workers, businesses, and visitors alike. The City continues to make investments in public safety efforts and improve street conditions to aid the City's economic revitalization and ensure communities feel safe and welcomed in their neighborhoods. While public safety includes enforcing laws and making arrests, it also means deploying creative solutions that effectively and efficiently reduce community harms and engaging with the City's diverse communities to build relationships, gather input, and collaborate to foster overall community safety.

Beginning in 2020, San Francisco began experiencing a decrease in police staffing, resulting in a chronic shortage of sworn staff that has become persistent both locally and in many urban regions across the country. While progress has been made in combatting retail theft and organized crime, gun-related violence, and the ongoing drug use and sales epidemic, building back the police force continues to be a priority. Increased investments in recruiting efforts for the San Francisco Police Department aim to build back a more robust uniformed force over time, while innovative, non-traditional public safety strategies will help ensure the appropriate responses to challenges on the streets that require other types of resources and staffing.

Building Back our Police Force

Over the last four years, the San Francisco Police Department has experienced high separation rates and reduced academy class sizes, reflecting broad national trends in interest in law enforcement careers and challenges that career sworn personnel face with strained staffing. A 22 percent decrease in full-duty staffing at the Department since FY 2018-19 has resulted in a sharp increase in reliance on overtime, which has increased from \$19.2 million five years ago to \$87.7 million last fiscal year. While these trends are not immediately correctable, recent investments and initiatives undertaken by the City have stabilized department staffing and overtime usage, and improvements are in sight.

Improved recruitment efforts, coordination, and support from the Mayor's Office and Controller's Office have resulted in increasing application volume, and four full academy classes are planned for FY 2024-25. Full-duty sworn staffing has stabilized across the last two fiscal years, and overtime usage will remain within budgeted levels. To meet recruitment, analytical, and program supervision needs in the Department, a comprehensive organizational review resulted in an overhaul of several dozen non-sworn positions, including support for the background investigations process to improve the applicant experience and timeline, resulting in fewer academy candidates dropping out due to administrative backlog.

The City has also made strides to make law enforcement careers in San Francisco more attractive to both potential candidates and officers already on the force. Last year, the City agreed to a new memorandum of understanding which adjusted both entry-level and continuing salaries for incoming and current officers, resulting in salary increases of 7.75 percent for all sworn staff across two fiscal years, as well as retention pay increases of an additional 3 percent when officers reach five, seven, and eight years of service. Taken together, these wage increases made new San Francisco police officers the highest paid among all large Bay Area cities.

Further, in November 2024, voters in San Francisco passed Proposition N, which creates a fund that the City may use in the future to help reimburse eligible City employees, including police officers, for student loans, educational programs, and training programs, potentially making the profession more attractive for those interested in pursuing educational opportunities or those already burdened by educational costs.

Alternatives to Policing

The City also recognizes that alternatives to policing are an effective means of promoting and enhancing public safety and continues to invest in initiatives across City departments that reduce community harm, build up community spaces, and foster collaboration.

In 2020, the San Francisco Police Department began the Retired Police Community Ambassadors Program, which provides an extra layer of protection and visibility in our public spaces through the presence of unarmed, former police officers in neighborhood commercial corridors. The City continues to build upon the success of this program in bridging the gap between the need for a visible police presence in our most trafficked neighborhoods and the agility of the Department to respond to calls for service and emergencies across San Francisco.

The City has also made strides in expanding upon the success of the Department's Police Services Aide (PSA) program. PSAs are civilian positions within the Police Department that provide support services to sworn law

enforcement personnel. PSAs allow officers to focus on responding to calls for services, investigating crimes, and conducting community policing efforts like walking foot beats, and allow for effective and efficient community harm reduction while engaging with and building relationships in our communities. The Department currently employs approximately 220 aides and 20 community police services aide supervisors.

Enhanced Public Safety Operations & Systems

With voter approval of Proposition E in March 2024, the City has at its disposal new technological tools that aid in the enhancement of public safety systems and operations, and deployment of more officers in the community. Proposition E modified the Police Department's use of force and vehicle pursuit policies and established a technology policy to allow the use of body-worn cameras and drones under certain circumstances, limited new restrictions on the Police Department's use of technology, and streamlined the process to install public safety cameras, and the City has positioned itself to make investments in these emerging technologies.

Since passage of Proposition E, the Mayor's Office and the Police Department have worked to implement change by issuing new directives and including new funding in the Fiscal Year 2025-26 budget. The \$3.7 million approved in the latest budget will expand the use of new technologies, including public safety cameras and drone technology. These expansions of new public safety strategies will help San Francisco continue to prioritize and build on public safety progress, which has seen its lowest crime rate in 10 years over the first six months of 2024.

911 Dispatchers

911 dispatchers are the City's first responders and ensuring that the 911 Call Center is fully staffed is essential to ensuring the safety of the public. The Department of Emergency Management (DEM) is progressing towards returning to pre-pandemic standards and meeting their operational goals. DEM is working towards fully staffing San Francisco's 911 dispatchers to help improve response times. In FY 2024-25, DEM received funding in their budget to fill three new dispatcher academies, with the goal of adding up to 45 additional dispatchers throughout the fiscal year. Additionally, DEM is working towards modernizing their Computer Aided Dispatching (CAD) System to upgrade and improve the critical tool used for the tracking, managing and dispatching of personnel for all 911 calls in San Francisco.

Street Crisis Response

The City will continue to address street conditions. The City's Street Response Teams provide non-law enforcement responses to 911 and 311 calls for people in behavioral health crisis and people experiencing homelessness. The Fire Department's Street Crisis Response Team (SCRT) is part of the City's Coordinated Street Response Program. The goal of SCRT is to provide a trauma-informed response to individuals in behavioral health crises and to serve as the point of entry for care for a variety of services. The teams consist of a specially trained Community Paramedic, an EMT, and a peer support specialist (individuals with lived experience), through partnerships between the Fire Department, the Department of Public Health (DPH), and the Department of Homelessness and Supportive Housing (HSH).

SCRT provides the appropriate resources for our City's residents in need, while at the same time decreases the strain on the 911 ambulance and hospital systems, as well as public safety and law enforcement. SCRT operates Citywide, seven days a week, 24 hours a day, with up to twelve teams that understand unique community characteristics and are responsive to the complex needs of individuals. While a portion of individuals who require acute medical care or are placed on involuntary mental health are transported to hospital emergency departments, the majority are either de-escalated in the community or transported to non-emergency resources such as mental health drop-in centers, drug or alcohol sobering facilities, community clinics, or shelters.

In FY 2023-24, units responded to over 17,000 calls for service, of which 15 percent were requests directly from law enforcement. Of these responses, when individuals were located, 25 percent were connected to a non-emergency resource, 21 percent were transported to a hospital, and 54 percent remained in the community

The Healthy Street Operations Center (HSOC) continues to coordinate the many City agencies involved in addressing homelessness and unhealthy street behaviors. HSOC is structured as a unified command with representatives of City departments all in one room to direct, plan, and coordinate responses to street behaviors and homelessness. HSH performs outreach, engagement, and placement of homeless individuals, DPH assists with harm reduction strategies and health treatment, Public Works is responsible for cleaning and implementation of environmental design changes, and the Police Department performs engagement and enforcement as a last resort to criminal issues. The Department of Emergency Management provides operational and logistical support, while the Controller's Office provides performance tracking analysis and SF 311 provides non-emergency intake of homelessness-related issues from the public.

3. Investing in San Francisco's future through its children and families

For San Francisco to remain a vibrant and resilient City for future generations, it is crucial to invest in the well-being of the City's children and families. This investment must include improving and maintaining early care and education facilities, as well as strengthening efforts to recruit and retain qualified early educators. By making the most of every dollar spent, these initiatives will help ensure that families have the support they need to settle and grow as part of the San Francisco community.

Expanding Early Care and Education

In a continued effort to support families and enhance early childhood care and education, the City has committed a \$120 million investment to expand eligibility for financial support for early learning, including childcare and preschool programs. This expansion includes families earning up to 150 percent of Area Median Income (AMI), or approximately \$224,800 for a family of four, an increase from the previous cap of 110 percent AMI.

The City maintains its groundbreaking Early Educators Pay Raise Initiative, with \$71 million annually providing wage increases, enhanced benefits, and improved working conditions for San Francisco's early education workforce. The initiative includes expanded support for educators pursuing permits and degrees, alongside enhanced professional development opportunities to strengthen the quality of early childhood education across the City. These investments demonstrate the City's commitment to building and maintaining a skilled, stable early education workforce.

Supporting Our Schools: PEEF & Student Success Fund

The Student Success Fund Initiative, approved by San Francisco voters in November 2022, provides vital additional resources for the San Francisco Unified School District (SFUSD). The initiative supports multiple critical areas including rapid response grants for crisis and emergency needs, critical non-core staffing positions, and School Readiness grants supporting community school coordinators. Technical assistance through School Site Council and Workforce Pipeline Innovation Grants addressing staffing shortages ensure that schools have the resources and support needed to serve students effectively.

The City continues to strengthen its partnership with SFUSD and City College of San Francisco through various initiatives. The STOP School Violence Program grant provides \$1 million annually for the School Crisis Support Coordination Project (SCSCP), enhancing school safety and crisis response capabilities. The Free City College

Program enters its sixth year, maintaining the City's commitment to accessible higher education and creating pathways to success for San Francisco students.

These comprehensive investments reflect San Francisco's unwavering dedication to creating equitable educational opportunities and supporting students' academic success and well-being across all grade levels. Through targeted funding, innovative programs, and strong partnerships, the City continues to build a robust educational ecosystem that serves all students, from early childhood through higher education. This creates a strong foundation for the next generation of San Franciscans to grow, learn, and thrive in our community.

4. Decreasing homelessness in tandem with increasing the housing supply

Preventing and ending homelessness in San Francisco continues to be one of the City's most important and most challenging priorities. A key to preventing homelessness is mitigating the chance a person or family loses their housing due to challenges in affordability or access to housing. The development of new housing across all income levels is key to countering the lack of housing affordability that can lead to homelessness, as well as making progress on other major Citywide goals including supporting workforce development and making San Francisco a vibrant home for families.

Housing Element & Affordable Housing

The Mayor's Office of Housing and Community Development (MOHCD) works closely with the City Planning Department to develop policy objectives that reinforce practices and programs in support of new affordable housing, housing preservation, and community stabilization. In 2023, the Mayor launched Housing for All, a strategy to fundamentally change how San Francisco approves and builds housing. Housing for All is the implementing strategy for the recently certified Housing Element, which sets the goals and policies to allow for 82,000 new homes to be built from 2023-2031. The Housing Element was adopted in January 2023 and is San Francisco's plan for meeting housing needs during the 8-year period. It is the City's first housing plan centered on racial and social equity. Additionally, in March 2024, San Francisco voters passed Proposition A, a \$300 million Affordable Housing Bond that will support the existing pipeline of affordable housing development as well as new acquisition and preservation sites.

Prohousing Designation: In 2024, the City and County of San Francisco received a Prohousing Designation from the State of California for the City's efforts to build more housing, faster. The Prohousing Designation Program (PDP) administered by the California Department of Housing and Community Development (HCD) recognizes cities and counties that demonstrate a commitment to enacting proactive policy changes and providing incentives and support to break down barriers to housing development. By earning the Prohousing Designation, communities receive exclusive access to Prohousing Incentive Program (PIP) grants and additional points in the scoring of competitive housing, community development, and infrastructure funding programs administered by HCD.

Operating Subsidies: The Local Operating Subsidy Program (LOSP) is a partnership between MOHCD, the Department of Homelessness and Supportive Housing (HSH), and nonprofit housing operators. As the City acquires and develops affordable housing sites, portions of these sites are reserved as supportive housing units for individuals exiting homelessness. The City provides a subsidy to housing operators to cover a portion of the operating cost of this housing and also provides supportive services to these formerly homeless individuals to assist them in permanently exiting homelessness. LOSP currently provides over 2,500 subsidized housing units for formerly homeless households through the Department of Homelessness and Supportive Housing. Approximately 118 permanent supportive housing LOSP units are under construction and are expected to be completed by June 2025.

Eviction Prevention: MOHCD funds community-based organizations to deliver essential anti-displacement services to residents, including eviction legal assistance (Tenant Right to Counsel), tenants' rights counseling and education, tenant-landlord mediation and technical assistance, ongoing and short-term rental subsidies, and one-time emergency rental assistance. MOHCD continues to provide guaranteed full-scope legal representation for all individuals facing unlawful detainer notices as well as continues to stabilize housing for San Francisco's most vulnerable residents through financial assistance, rent subsidies, and tenant counseling.

Faircloth to RAD Initiative: MOHCD is utilizing a new strategy to access federal funding to deliver nearly 3,700 much-needed affordable homes in San Francisco, helping expedite construction timelines. The new program will speed up the delivery of critical affordable homes and save local funding to be used for other housing projects and needs. MOHCD and the San Francisco Housing Authority (SFHA) have developed a Faircloth to RAD Plan, the initial phase of which is to accelerate the production of approximately 700 units of new affordable housing (Permanent Supportive Housing, Family and Senior). By leveraging RAD rents through the program, the City's operating subsidy costs will be reduced by 76 percent and will save approximately \$130 million over 20 years. SFHA and MOHCD will be submitting "placeholder" applications for the entirety of San Francisco's Faircloth Authority of 3,667 units.

Reducing Family Homelessness (Safer Families Initiative)

In response to a significant increase in families seeking emergency shelter, San Francisco has launched a comprehensive \$50.4 million Safer Families Initiative. This strategic investment addresses immediate needs while creating pathways to permanent housing for homeless families.

The initiative provides 115 emergency hotel vouchers, enabling temporary shelter for over 600 families in crisis. Additionally, it funds 215 new rapid rehousing and shallow rental subsidies, alongside 50 rapid rehousing subsidies specifically designated for young adult-headed families. This multi-faceted approach ensures various family configurations receive appropriate support.

The program also maintains support for more than 300 family shelter and transitional housing beds while preserving over 2,300 units of family housing for formerly homeless households. Through this comprehensive strategy, the City expects to successfully rehouse more than 450 families over the next two years, marking a significant step toward reducing family homelessness.

Expanding the City's Emergency Shelter Capacity

The City continues to maintain and expand its emergency shelter system, which now provides more than 4,000 beds Citywide. This expansion represents a strategic response to immediate housing needs while longer-term solutions are developed and implemented. The Department of Homelessness and Supportive Housing operates various shelter types including Emergency Shelters, Navigation Centers, Cabins, and Trailers, while maintaining the high performance standards that have resulted in near 95 percent utilization of available adult shelter beds.

5. Continuing to build on adaptable mental and behavioral health systems of care and treatment

San Francisco continues to build on successes in caring for people experiencing homelessness, mental illness, and substance use disorder. The City's unprecedented investment in behavioral health services enables the implementation of key strategies and programs with a focus on people experiencing homelessness, who also have behavioral health challenges. In recent years, the Department of Public Health (DPH) has led new initiatives, while maintaining core programs and services.

Investments in Behavioral Health and Crisis Response

The Department of Public Health's Behavioral Health Services Division (BHS) continues to expand services to make treatment more accessible, while increasing efforts to connect people to care and help them remain in

care. In 2023, more than 25,000 people received behavioral health services across the San Francisco Health Network, 15,000 of whom accessed specialty treatment and recovery services. Since January 2023, the department added more than 100 residential treatment beds for people with mental health and substance use disorders. The Behavioral Health Access Center (BHAC), which acts as an entry point into the substance use and mental health systems-of-care, is now open 7 days a week and has expanded evening hours, promoting easier access to care. As these expansions have been made permanent, treatment admissions have increased by 32 percent in the first eight months of 2024 compared to 2023.

Behavioral Health Services will also continue its proactive outreach work as part of the City's multi-department approach to helping people in crisis on its streets. As of December 2023, over 33,000 annual calls have been diverted from police to street response teams. The department continues to build on work begun in January 2023, with expanded direct street outreach to focus on people with complex behavioral health needs. The Bridge and Engagement Services Team (BEST) Neighborhoods Team is a neighborhood-based team of behavioral health clinicians and peer specialists who provide trauma-informed behavioral health assessments and connections to care to people living on the streets. BEST Neighborhoods operates primarily in the Tenderloin, SoMa, Bayview, Mission, and Castro neighborhoods. In its first year of operation, the team had 8,200 engagements and made over 1,100 direct connections to services. The Night Navigation team was also launched in the Tenderloin, now working seven days a week from 7:00 pm to 3:00 am to get people into treatment and shelter.

Addressing the Opioid Crisis

In May 2023, San Francisco secured historic settlements with pharmaceutical companies totaling over \$230 million to combat the opioid epidemic. This funding supports the Overdose Prevention Plan, with nearly \$20 million allocated in the current fiscal year to expand high-impact interventions such as the Night Navigator program, Safe Rest services, navigation services in the Mission, and the piloting of interventions to move people from the streets into treatment. The City is also strengthening methadone services and addressing racial disparities in overdose deaths. Over the next fiscal years, the City plans to invest between \$20 and \$30 million annually to continue tackling the crisis.

6. Maintaining long-term core government operations, infrastructure, and a high talent workforce

The City's long-term planning also includes sustaining a talented workforce to deliver crucial services to San Franciscans. Along with the employees themselves, the City invests in the assets and infrastructure necessary to enable the efficient delivery of those services.

Contract Agreements with Miscellaneous Unions

A key component to the City's continued post-pandemic recovery is maintaining core services to its neighborhoods. One major step to ensuring this was through the contract agreements negotiated in the spring of 2024 with the City's over 30 miscellaneous unions representing over 30,000 employees. All agreements provide a wage increase of at least 13 percent over three years, and at least 17.5 percent for the City's 1,900 nurses. Along with these broad wage increases, the City took steps to guarantee that every City worker will earn a minimum of \$25 per hour. These increased investments accompany an overall decrease in the City's vacancy rate down to 8.4 percent in May 2024 from 11.6 percent in July 2023, with nursing positions specifically progressing significantly with their vacancy rate down to 1.7 percent in May 2024 from 9.9 percent in June 2023.

Contracting Improvements & Accountability

The Government Operations Recovery initiative is a Citywide effort focused on improvements to hiring, contracting, and other City processes that support the efficient and timely delivery of City services. In contracting, projects include centralized contract review and the creation of a one-stop shop that consolidates

procurement plans from departments. In hiring, the Department of Human Resources (DHR) continues to increase the pace of administering civil service exams, building on the implementation of online, on-demand exams for certain position recruitments, as well as shortening the timeframes to onboard selected applicants.

The Controller's Office and other agencies monitor, manage, and hold the City and its contractors accountable for the dollars they spend. The Controller's Office's Citywide Nonprofit Monitoring and Capacity Building program has policies and tools to improve department oversight practices in contracting. This work includes:

- Setting new policies that outline specific performance oversight activities, such as setting performance measures, annual performance reporting, and standardizing monitoring procedures;
- Updating existing policies outlining how departments and the Controller's Office address persistent poor performance, such as clarifying the criteria and processes for fiscal and compliance monitoring, as well as criteria to guide departments on addressing and correcting performance issues with non-profits;
- Implementing a new policy requiring nonprofits receiving \$1,000,000 or more from the City to receive an audit by a certified public accountant (CPA).

Investment in Infrastructure & Resilience

The City's long-term planning focuses on the sustainability of its capital assets and resilience. In light of ongoing wear and tear, seismic risks, and climate change threats, these strategies and investments are vital to ensuring San Francisco's vibrant future.

Ten-Year Capital Plan: Developed by the Office of Resilience and Capital Planning (ORCP) and the Capital Planning Committee, the Ten-Year Capital Plan lays ahead a plan for the next decade of infrastructure development, construction, and maintenance. With input from Citywide stakeholders, the plan provides a road map for investments in San Francisco's streets, facilities, utilities, parks, waterfront, and transportation systems. The latest plan, set to be published in spring 2025, will cover FY 2025-26 to FY 2034-35. It will also set out the City's plans for issuing General Obligation (GO) Bonds to finance capital enhancements with long useful lives and high upfront costs. Priority areas for GO bond financing include public health, affordable housing, transportation, waterfront safety and climate change, earthquake safety and emergency response, and parks and open space.

Five Year Information and Communication Technology Plan (ICT Plan): Developed by the Committee on Information Technology (COIT), the ICT Plan outlines a path for coordination and planning to maximize current and future resources for IT projects. The current five-year ICT Plan, adopted in 2023, covers FY 2023-24 to FY 2027-28. The ICT plan is updated every two years. The next update will cover FY 2025-26 to FY 2029-30 and will be adopted in spring 2025.

Three major goals addressed by the current ICT Plan are online and accessible City services residents can use; integrated City operations that are efficient and cost-effective; and IT infrastructure you can trust. Investments include the implementation of the City's Digital Accessibility and Inclusion Standard, assuring all City digital assets and websites meet accessibility guidelines developed by the Department of Justice.

Additional investment included in the ICT Plan includes a replacement to the Department of Emergency Management's Computer Aided Dispatch (CAD) system. This new system will improve dispatch center operations, streamline street response and outreach for Street Crisis Response Teams (SCRT), and will include a pilot of a new mobile application to connect outreach workers and other community outreach teams to provide holistic care to people in crises.

The ICT Plan also includes resilience and disaster preparedness investments to strengthen and secure City Infrastructure. The Office of Cybersecurity, within the Department of Technology, is developing a Technology

Resilience Standard to outline specific requirements and timelines for implementation. The Office of Cybersecurity will also be developing a Citywide IT Risk and Resilience Application to assist City departments with risk assessment, business impact analysis, and implementation monitoring.

Climate Action Plan: San Francisco, like cities around the world, is faced with the threat of growing climate emergencies. To alleviate short-term impacts and plan for the future, the City adopted its initial Climate Action Plan in 2004 and has led the way in local climate action, environmental justice, and launching innovative community programs and outreach campaigns for residents and businesses. The City has achieved emissions reductions, driven primarily by cleaner electricity supply, improved energy codes, and City-wide energy efficiency. This progress has not just reduced emissions, but has also come with other important benefits, such as reduced air pollution and dampening of other environmental stressors. San Francisco aims to further reduce emissions by 61 percent below 1990 levels by 2030 and reach net-zero emissions by 2040.

Waterfront and Seawall Safety: In recognition of the need to address both seismic and flood risk, the Port has created the Waterfront Resilience Program (WRP) and is advancing assessments, policies, plans, and projects to reduce these risks as efficiently and effectively as possible. The Port will continue ongoing work with the U.S. Army Corps of Engineers on a detailed study of coastal flood risks and advancing a draft plan to address flood risk across the full seven-and-a-half miles of the Port's waterfront.

Conclusion

The Five-Year Financial Plan informs some of San Francisco's most important fiscal decisions for years to come. Long-term planning puts the City government in a good position to respond to both the day-to-day issues that arise as well as the unexpected crises that lie ahead. Looking ahead to the next five years, equity, accountability, and resilience will be the guiding values as San Francisco charts a robust path of adaptation to the changed economic realities that have come in the COVID-19 pandemic's aftermath.

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Appendices

Other Long-Range Financial Planning

Major Department Issues and Goals



City and County of San Francisco

FIVE-YEAR FINANCIAL PLAN

Appendix: Other Long-Range Financial Planning

In addition to this report, which outlines the City's projected revenues and expenditures over the next five years, San Francisco follows comprehensive long-term planning processes. These include focused reports on investments in capital projects and information technology. Below, we also highlight financial liabilities that extend beyond the scope of this five-year outlook. The Ten-Year Capital Plan and Five-Year ICT Plan are integrated into the Base Case of the Five-Year Financial Plan, with fiscal strategies guiding the funding of these plans.

LONG-TERM LIABILITIES

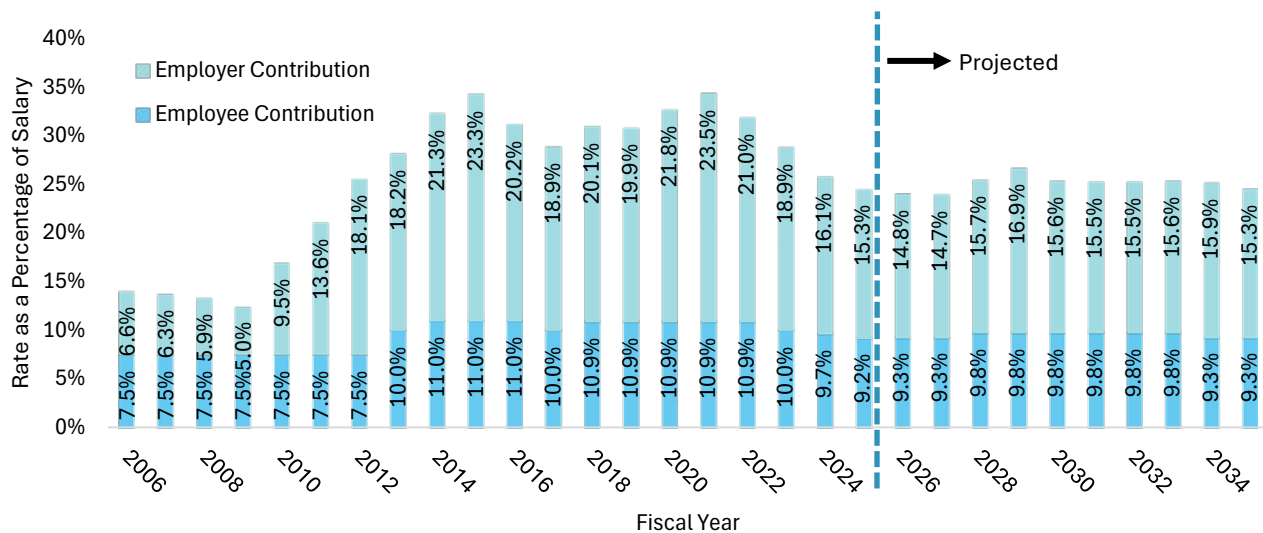
While this report focuses on the financial outlook of the City over the next five fiscal years, the City has financial obligations that extend decades into the future, such as its pension liability, the cost of providing health care to retirees and their dependents (OPEB, or Other Post-Employment Benefits), and capital and deferred maintenance.

Pension Liability

Employer contribution rates to the City's retirement system (SFERS) have changed significantly over the past decade, particularly the employer portion, which increased from 6.6 percent of payroll in FY 2005-06 to an estimated 15.27 percent in FY 2024-25, representing employer contributions of \$126.5 million and an estimated \$671.4 million, respectively. This plan anticipates contribution rates decline from their FY 2020-21 peak as exceptional investment returns of 35.8 percent in that year and the cost of retroactive supplemental COLAs and other demographic and financial assumption changes are fully amortized. Net liability is highly sensitive to year over year changes in the market value of the retirement system's assets. According to estimates presented by the system's actuary, Cheiron, in the 2023 actuarial valuation report, employer contribution rates are projected to increase 3.4 percent over the next decade, as illustrated in Figure 17 below.

Note that the rate estimates in this section vary from those presented in the base case discussion above as they are based in different assumptions about future supplemental COLA increases, prepayment discounts, and future wage increases. Projections are highly sensitive to actuarial assumptions, most notably investment returns, and fluctuations in these factors will need to be carefully monitored to effectively manage this long-term liability.

Figure 17: Actual and Projected Employer Retirement Contribution Rates FY 2005-06 through FY 2034-35



Other Post-Employment Benefits (OPEB) Liability

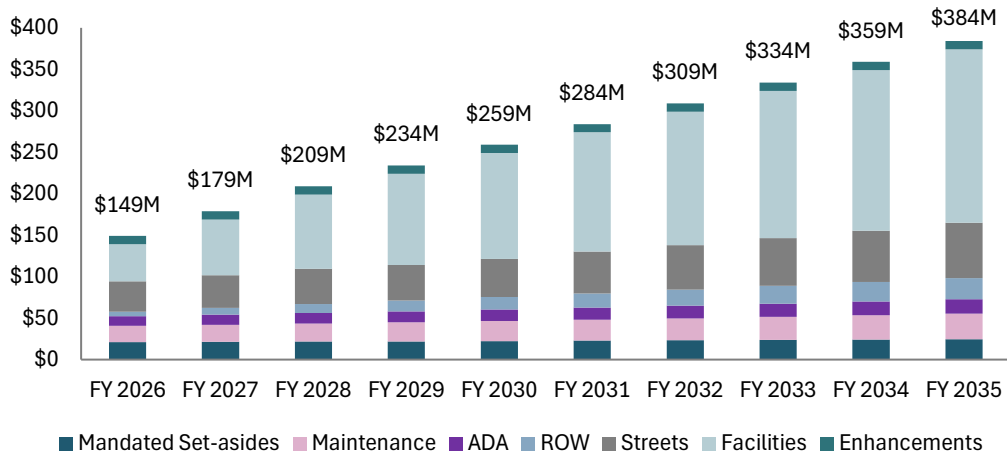
The City also carries a significant unfunded OPEB liability, predominantly due to a health benefit in place for retirees hired before January 2009, to whom the City guaranteed the full cost of health benefits after five years of City service. Voters have adopted several significant changes to these benefits in the past decade and a half, including the creation of a new lower-cost benefit plan for new employees, establishment of a trust to prefund OPEB, and requirements for both employees and the City to contribute to this fund. As result, projections indicate that the percent of liabilities that are covered by the trust will gradually increase over time, from 0.4 percent as of July 2012 to 29 percent by FY 2027-28, reaching full funding by 2047. The estimated actuarial liability measured on June 30, 2023, is \$3.9 billion, according to the most recent valuation report (October 2024).

As with all long-term projections, these incorporate assumptions regarding events far into the future, including the rate of investment returns, the size of the workforce, wage increases, and healthcare cost trends. The most significant cost driver is medical inflation, and to the extent the City can control future inflationary increases, future costs will be lower than projected. However, if medical inflation exceeds projections by one percentage per year compared to assumptions, the trust will likely never be fully funded. The City's ability to achieve full funding will depend heavily on the investment returns of the trust and employee demographics, among other factors, and will need to be monitored carefully in future years.

Capital and Deferred Maintenance

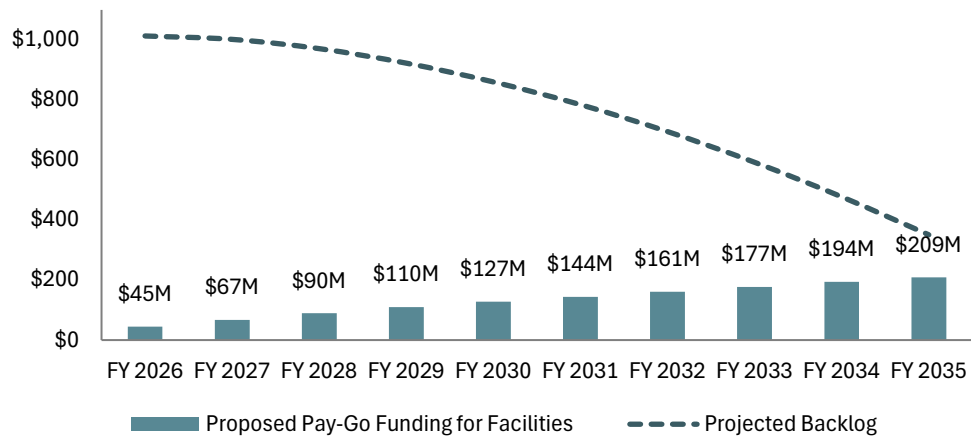
A strong economy and the support of the Mayor, Board of Supervisors, and citizens of San Francisco gave rise to historic levels of capital investment in the years leading up to 2020. Since then, the COVID-19 pandemic has led to shortfalls in the Pay-As-You-Go program. A funding gap remains for deferred facilities and other capital needs in General Fund departments over the next ten years. These funding levels will be supplemented by Critical Repairs Certificates of Participation (COPs) programmed into the Capital Plan.

Figure 18: Pay-As-You-Go Proposed Funding



Current projections estimate a facilities backlog of \$1.0 billion for General Fund facilities at the end of FY 2025-26. As shown in the figure below, at currently proposed funding levels (including the Critical Repairs COPs), this backlog is expected to be reduced to \$351.8 million by FY 2034-35.

Figure 19: Pay-As-You-Go Program Impact of Facility Renewal Funding Level on Facilities Backlog



OTHER LONG-TERM PLANNING DOCUMENTS

Ten-Year Capital Plan

The Ten-Year Capital Plan represents the City's commitment to building a stronger, more vibrant future for residents, workers, and visitors of San Francisco. Updated every other year, the Capital Plan is a fiscally constrained ten-year expenditure plan that lays out infrastructure investments over the next decade. The upcoming Capital Plan, set to be adopted by the Capital Planning Committee in spring 2025 and submitted to the Board of Supervisors and the Mayor, will cover FY 2025-26 to FY 2034-35.

There are two main funding sources for General Fund capital projects outlined in the plan:

Pay-As-You-Go program: Projects funded through this program are supported through the annual budget process with General Fund sources as described in the Capital Plan. It is used to fund on-going maintenance, American Disabilities Act (ADA) improvements, critical project development, right-of-way infrastructure investments, facility renewals, and critical enhancement projects.

Debt financing tools: This category of funding includes the General Obligation (GO) bond program and the Certificates of Participation (COP) program. Debt financing is an appropriate revenue source for major capital projects, given that these projects involve assets with long useful lives and high upfront costs, which the City would not be able to cover through its annual Pay-Go program. The City has adopted policies to limit the use of these debt programs, including:

- When issued, GO bonds proposed by the Capital Plan do not increase voters' long-term property tax rates above 2006 levels. Therefore, new GO bonds are typically used as existing approved and issued debt is retired and/or the property tax base grows.
- The City will maintain the percentage of the General Fund spent on debt service at or below 3.25 percent of discretionary revenues. As a result, the City's ability to issue secured debt is limited. Financing instruments will only be used when existing General Fund debt is retired and/or the City's General Fund grows.

Since the first Capital Plan was created in 2007, the City has made significant progress in addressing critical infrastructure needs. These investments enable the City to make critical capital investments that strengthen aging infrastructure, increase the City's ability to respond to and recover from an earthquake, foster safe and thriving communities, and promote economic development.

For more information on the City's Ten-Year Capital Plan please visit: <http://onesanfrancisco.org/>

Five-Year Information and Communication Technology Plan

The Five-Year Information and Communication Technology Plan (ICT Plan) provides a framework over the next five years for the City to proactively plan, fund, and implement projects which align with the City's goals of being innovative, sustainable, and resilient. The ICT Plan outlines a path for coordination and planning to maximize current and future resources for IT projects. As with the Capital Plan, it is updated every other year and released by March. The next iteration will cover FY 2025-26 through FY 2029-30 and is expected to be adopted by the Committee on Information Technology (COIT) in the spring of 2025.

Since the adoption of the last ICT Plan in 2023, the City has begun implementation of several key priorities, including upgrading the City's network and telephone systems, and replacing critical City systems such as the public safety radio system. The upcoming ICT plan will focus on continuing to support those projects as well as outline future IT funding priorities.

There are two main funding sources for General Fund IT projects outlined in the plan: <https://www.sf.gov/coit-strategy>

- **Information & Communications Technology investments:** this category is supported through the annual budget process with General Fund cash. It is used to fund projects such as enhancements, new projects, renewals, and critical project development.
- **Major IT investments:** this category is also supported through the annual budget process with General Fund cash; however, it is intended to address funding needs for major IT projects that are large in scale, complex, and that face longer timelines and need significant financial investments.

The total IT investment projection assumes a \$5 million increase in FY 2025-26 for funding of projects in the City's ICT plan with annual 10 percent increases in the following four years of the forecast period. COIT prioritizes funding towards proposed IT projects that support the City's strategic IT goals.

For more information on the City's Five-Year ICT Plan please visit: <http://www.sfcoit.org/>



Appendix: Major Department Issues & Goals

Over the next five years, each City department will strive to accomplish organizational goals in the face of distinct challenges. This section provides a high-level overview of major departmental issues and goals.

Academy of Sciences

- Revitalize connections with nature and champion global biodiversity and environmental education
- Foster collaboration through community events, alliances, and partnerships with BIPOC communities to advance social justice
- Provide inclusive science, technology, engineering, art, and museum (STEAM) education, focusing on underrepresented communities
- Expand the Museum for All program to include Night Life and Membership offerings
- Lead in workforce inclusiveness and promote racial equity to serve diverse communities

Adult Probation

- Launch and utilize a new Case Management System (CMS) to automate operational practices and data collection, and update court reports, case plans, and other documents
- Provide targeted coaching and support by implementing the National Institute of Justice (NIJ) Coaching Model for change
- Expand community partnerships and treatment options with emphasis on justice-involved BIPOC women and monolingual Spanish speakers
- Expand research capacity to inform decision-making, practices, and efficacy of programs
- Support and invest in the wellbeing of the department's workforce

Airport

- Empower a culture of safety and security excellence and provide outstanding guest experience
- Elevate SFO pride with exceptional employee experience
- Take bold climate action, ignite business innovation and achieve social impact through partnerships

Arts Commission

- Foster a thriving, diverse arts community, supporting sustainability and economic recovery for artists and organizations
- Enrich the urban environment by commissioning high-quality and diverse public artworks
- Raise the visibility of San Francisco's arts community by collaborating with City partners to shape innovative cultural policy and recovery policy, events, and activations
- Utilize racial equity and accessibility as a key lens to assess grant applications and guidelines, RFPs and RFQs, and artist agreements and ensure consistent racial equity training for staff and Commission to advance the agency's racial equity goals and action plan
- Streamline access to City resources, ensuring transparency and equitable opportunities for artists and applicants

Asian Art Museum

- Promote inclusivity, belonging, and cross-cultural dialogue throughout the museum experience

- Accelerate digital transformation to enable the museum to create new offerings to enliven the visitor experience at the museum and online
- Grow and diversify audiences to increase social impact and secure financial sustainability, serving both the local and global communities
- Make the museum one of San Francisco's most relevant and visited cultural destinations. Increase and diversify revenues by increasing attendance and related income and growing membership

Assessor-Recorder

- Modernize key technology platforms to improve access, transparency, and customer service; maintain operational excellence through standardized practices and strong data integrity
- Contribute to economic recovery by leading fair and accurate assessment activities and defending appraiser value determinations before the Assessment Appeals Board
- Advance an office that is grounded in fairness, inclusion, and equity; provide all communities, especially historically marginalized immigrant and low-income communities, with access to resources and education

Board of Appeals

- Enhance the appeal process with advanced technology and website improvements
- Foster workplace development through cross-training employees to always ensure coverage and service provision
- Expedite hearings to support economic recovery by resolving disputes promptly

Board of Supervisors

- Provide equitable access to legislative matters with public accommodation like language interpretation
- Engage marginalized communities through legislative outreach and civic engagement; maintain timely website updates for accessible public participation
- Promote diversity in the Department's workforce by recruiting highly qualified candidates and fostering meaningful collaborative partnerships with City departments and community stakeholders
- Implement new software systems for appeals and legislative management
- Preserve the Board's history by archiving records and restoring chamber facilities

Building Inspection

- Review plans and issue building permits safeguarding life and property in compliance with City and state regulations; perform inspections to enforce codes and standards to ensure safety and quality of life
- Deliver the highest level of customer service and utilize efficient and effective administrative practices; engage and educate stakeholders on DBI's services, functions, and programs
- Advance racial equity by continuing to increase recruitment efforts to include a diverse applicant pool and expanding outreach efforts with diverse communities to ensure building safety
- Aid economic recovery by increasing service delivery speed

Child Support Services

- Enhance efficiency and effectiveness in delivering child support services; collaborate with community partners to increase family access to resources; monitor outcomes to guide data-driven improvements
- Implement technology to streamline processes and improve service delivery
- Ensure compliance with regulations while focusing on customer service
- Empower staff through training and professional development

Children, Youth, and Their Families

- Continue implementing an equity-based funding framework, ensuring resources reach those with the greatest need
- Strengthen student academic and social-emotional well-being through the Student Success Fund Initiative; enhance school safety and crisis support through continued implementation of the School Crisis Support Coordination Project; maintain strong partnerships with SFUSD and City College
- Improve access to City programs and resources through Our415, a coordinated initiative providing enhanced referral and navigation systems for youth and families
- Expand mental health support through partnerships with UCSF
- Support workforce development through innovative programs addressing staffing shortages in after-school, para-professional, and school support positions

City Administrator

- Position the City Administrator to convene departments to incubate initiatives, such as capital project delivery process improvements and implementation of the Prop E commission review taskforce, that improve government processes citywide
- Improve the City's contracting processes to increase competition, improve access for small local businesses, and strengthen the capacity of City contracting staff
- Return the City's convention and meeting business to pre-COVID-19 levels through incentives, client engagement, and continuation services that provide a clean, safe, and welcoming environment
- Implement the Real Estate Strategic Plan to improve the quality and use of office space for City departments. With the Superior Court, advance replacement of the outdated Hall of Justice.
- Continue to centralize permit data into a single data warehouse to enable accountability and improve customer service; streamline application, plan review, and inspection processes across departments
- Advance a concrete building program and a waterfront sea-level rise strategy

City Attorney

- Collaborate to resolve legal issues related to efficiently and equitably administering the local government, delivering public services, and advancing policy priorities
- Represent the City in civil litigation matters to enhance the lives and well-being of San Franciscans and protect City finances and operations, while recommending changes in City policies, practices, and trainings to mitigate liability
- Recruit, retain, and promote exceptional employees while providing an inclusive, supportive workplace where employees are valued for their work and contributions to the Office and the City
- Identify, investigate and litigate cases on behalf of the City and the People of the State of California
- Ensure accountability and integrity in City government through ethics advice and public integrity investigations

City Planning

- Create opportunities for new housing, prioritizing affordable and workforce housing, support downtown through short-term activations and long-term diversification, and foster excellent design in the City's buildings and civic spaces
- Promote the City's neighborhood corridors through dense, transit-oriented housing alongside neighborhood-serving businesses
- Enhance customer service and organizational efficiency internally and with the Permit Center

- Center racial and social equity and environmental justice in all aspects of the Department's work

Civil Service Commission

- Amend rules, policies, and procedures to increase transparency and remove barriers to the expedited hiring of qualified candidates and expand racial equity within the merit system
- Expand employment opportunities by reviewing job classifications and minimum qualifications to determine if requirements are applicable or restrictive to the employee's ability to perform the work at the time of hire
- Expedite the timely resolution of investigations and appeals on matters such as examinations, discrimination, and future employment restrictions through the submission of appeals and complaints online
- Support the development and implementation of training programs for management and staff in partnerships with other departments and unions

Community Investment and Infrastructure

- Continue the wind-down of redevelopment activities, and the completion of existing enforceable obligations in the Major Approved Development Project Areas
- Accelerate the production of new housing and the creation of new public infrastructure and open spaces
- Invest in disadvantaged and at-risk communities while prioritizing connectivity, sustainability, and resilience
- Maximize opportunities for local business and workers, use low-cost public financing, and invest in and value employees

Controller

- Ensure government is accountable to City residents, provide high-quality financial services, support informed policy decisions, increase access to useful and timely information, and safeguard the City's long-term financial health
- Support streamlined government services to improve the efficiency of City processes including hiring, contracting, and financial operations processes
- Invest in and value employees

District Attorney

- Strengthen accountability and consequences in San Francisco's criminal justice system to enhance safety for residents and visitors
- Prioritize the creation of innovative new programs that can serve as tools for rehabilitation, while working to give offenders the opportunity to address the root causes of their criminal behavior
- Expedite case handling to reduce court backlogs and ensure progress during challenges
- Uphold fair and equal justice, promoting safe neighborhoods through ethical prosecution and victim protection; foster diversity within the Office to reflect the communities it serves
- Respect privacy, ensure due process, and provide transparent case outcomes to maintain fairness
- Leverage data to analyze crime factors, enhance prevention strategies, and improve efficiency

Department of Early Childhood

- Facilitate innovative work between organizations, communities, and public agencies to advance the well-being of children from birth to age eight and their families

- Build a Citywide system for high-quality early care and education for children birth to age five, while ensuring City-funded early education sites meet quality standards through the Quality Rating and Improvement System
- Establish a system of universal early identification and intervention for children birth to age five
- Strengthen the early childhood workforce with recruitment, retention, and professional development strategies
- Provide resources to support the social-emotional health of children in early care and education and family resource center settings

Economic and Workforce Development

- Forge a legacy for San Francisco as the place for business and innovation to drive investment in the City
- Streamline and support redevelopment opportunities downtown by reducing fees, taxes, and outdated codes to encourage housing and small business activity
- Ignite a renaissance of Arts, Culture, and Entertainment (ACE) through events that revive foot traffic
- Strengthen citywide economic diversity, resilience, and self-sufficiency by enabling opportunities for entrepreneurship and job creation
- Streamline operational excellence by reducing redundancy and improving service delivery, leading to better use of taxpayer funds

Elections

- Provide accessible, equitable, and convenient voter registration and voting options for all eligible San Francisco residents
- Strengthen outreach strategies to provide information about registration and voting to the City's vulnerable populations, including individuals experiencing homelessness, individuals involved in the criminal justice system, people with disabilities, and members of minority language communities
- Further equity in all public services and programs, internal policies and practices, and financial decision-making
- Maintain operational transparency to increase public awareness and confidence in local election processes

Emergency Management

- Improve emergency response by coordinating resources and ensuring citywide situational awareness
- Improve ability to recover from an emergency event or natural disaster, including the coordination and leveraging of funding opportunities with local, regional, state, and federal partners to collaboratively plan and respond
- Meet performance standards for answering 911 calls and dispatching police, fire, and medics; and enhance and improve call-taking and dispatching based on policy direction such as Alternatives to Policing, more training, and major system upgrades
- Increase equity in emergency preparedness; emphasize diversity, equity, and inclusion in the Department's recruiting, professional development, and training
- Manage the intra-departmental teams responding to street crisis outreach, engagement, enforcement, and cleaning to ensure tight coordination of City-led crisis response, outreach and engagement services

Environment

- Implement recommended strategies to achieve the City's environmental goals which include reaching net-zero emissions by 2040, advancing towards zero waste, electrifying our transportation and building

sector, supporting the construction of affordable housing units, and transitioning to 100% renewable energy

- Protect all San Franciscans by reducing the impact of toxic chemicals
- Expand biodiversity and compost initiatives to support healthy ecosystems, enhance livability, and improve quality of life for all
- Ensure a transition that trains new workforces, promotes equitable access to green jobs for BIPOC and low-income communities, and develops new local green industries
- Position Climate Action work to facilitate economic recovery and make San Francisco attractive to clean and climate technology companies and their workforces

Ethics Commission

- Strengthen ethics, lobbying, and campaign finance laws to ensure that they are effective and enforceable in practice
- Provide useful disclosure tools that support full compliance and strengthen public engagement in City elections and governance
- Conduct independent oversight that promotes accountability in government through fair, timely, and thorough audits, investigations, and administrative enforcement
- Standardize and improve the Commission's core functions to ensure efficiency, business continuity, and consistency

Fine Arts Museums

- Sustain and develop the City's prestigious collections; expand programming to bring Bay Area and California visitors as well as national and international tourists to the City
- Mirror and model the diversity of San Francisco in hiring, exhibitions, accessibility, programs, and community outreach that welcomes the underserved
- Increase engagement with BIPOC and other underrepresented groups to the Museums; continue to diversify staff through alternative recruitment strategies and updated outreach

Fire Department

- Maintain facility, fleet, and equipment to support front line Fire Suppression and Emergency Medical Services (EMS) operations
- Provide public safety and public health services to the City's most vulnerable populations through EMS and Community Paramedicine
- Support and enhance both internal and external equity and diversity initiatives

Health Services System

- Transform healthcare purchasing and delivery to provide quality, affordable, and sustainable care through value-driven decisions, programs, and services
- Move toward an integrated delivery system, focusing on primary care and prevention through targeted and personalized care that improves clinical outcomes
- Ensure services address the entire cycle of health, strengthening member knowledge and confidence in accessing and utilizing health plan benefits
- Offer a spectrum of design, cost, and services and collaborate with stakeholders to deliver on the whole person perspective
- Support members and their families in living holistically and fostering an environment of well-being
- Center racial equity within the Department's policies, practices, and budget in an intentional way, and address health disparities affecting historically marginalized communities, including Black, Indigenous and People of Color

- Cultivate organizational excellence as a reflection of the inclusive standards, processes, and employee culture that empowers the staff to deliver the highest standard of member services

Homelessness and Supportive Housing

- Continue to reduce family homelessness through the comprehensive Safer Families Initiative, providing both immediate shelter solutions and pathways to permanent housing
- Expand and strengthen housing options for transitional age youth, with particular focus on those exiting transitional housing, affected by violence, or justice-involved
- Continue to reduce unsheltered homelessness through a service-first approach that includes both traditional and innovative emergency shelter models and strengthen housing stability and prevention programs
- Improve system performance through coordinated service delivery, including integration with mental health services
- Advance racial equity through targeted investments and culturally responsive services

Human Resources

- Modernize tools and technologies to create an environment that allows employees to perform optimally. Champion diversity, fairness, and equity to provide an inclusive and safe work environment
- Improve candidate experience by streamlining the application process thus shortening the time-to-hire and increasing accessibility to City employment
- Provide career planning, training, and opportunities for employees to help achieve professional and organizational goals
- Teach best practices, provide training, and model an inclusive environment for the City
- Provide support and guidance to departments to help ensure external regulatory compliance

Human Rights Commission

- Establish organizational infrastructure to support robust, effective, and well-managed programs
- Connect community stakeholders to resources and supports to address hate incidents and discrimination
- Expand access to civil rights investigation and mediation services as provided by department staff, including those related to rights under the Sanctuary City ordinance
- Support youth development and economic opportunity through the department's internship initiatives and career development services
- Serve as liaison between City departments and community; provide oversight and accountability for Citywide equity-focused initiatives

Human Services Agency

- Continue to provide equitable access and outcomes across race, ethnicity, age, ability, gender identity, sexual orientation, immigration status, and neighborhood in all the Department's programs, services, and systems
- Implement and manage new mandates effectively, including Proposition F's substance use disorder screening and treatment program and expanded conservatorship services under SB43
- Address growing food insecurity through CalFresh enrollment and community-based food access programs while supporting individuals' and families' economic well-being
- Ensure that community members receive comprehensive support services including food, shelter, healthcare, and community connection to thrive
- Provide services that ensure safety in all stages of life, with enhanced focus on protecting vulnerable populations through conservatorship and other protective services

- Support staff and community partners in delivering high-quality services in safe and secure environments, while managing increased caseloads and new program requirements

Juvenile Probation

- Reimagine juvenile justice through collaboration with community and government partners, focusing on evidence-based practices and addressing racial disparities
- Prioritize diversion and service connections at all stages, ensuring timely family reunification and comprehensive support
- Implement a family-centered, equity-driven strategy to reduce justice system involvement and promote youth and family success
- Create a non-institutional, healing-centered secure setting for detained and incarcerated youth, emphasizing community presence and input
- Align department resources and leadership with caseload changes, community services, and Division of Juvenile Justice (DJJ) Realignment, fostering equitable opportunities for BIPOC staff and community partnerships

Law Library

- Expand outreach to the local community to promote legal information resource and service awareness and promote access to justice through print and online resources, one on one reference assistance, educational programs, comprehensive legal databases, resource guides, newsletters, and forms
- Continue to develop partnerships with local legal services and lawyers for San Franciscans in need of legal advice
- Collaborate and develop partnerships with local, state, and national legislators and agencies to expand resources to support the law library and outreach and awareness to the public
- Ensure continued exceptional services by maintaining and supporting staff and facilitating their professional development

Mayor's Office of Housing and Community Development

- Create permanent affordable housing through new construction, below-market housing access, rent-controlled property acquisition, preservation of affordable properties, and down payment assistance
- Through partnerships with CBOs, provide San Francisco's residents with critical tenant support resources
- Improve access to affordable housing and protect housing rights through housing counseling, application assistance, and eviction prevention services
- Promote resiliency and economic self-sufficiency for families and individuals through community-based services rooted in equity
- Stabilize communities through healthy physical, social, and business infrastructures, especially for communities at risk of displacement
- Continue to advance and improve programmatic outcomes for vulnerable and low-income residents by assessing programs, contracts, and procurements to ensure they advance the City's racial equity goals

Municipal Transportation Agency

- Deliver reliable and equitable transportation services
- Eliminate pollution and greenhouse gas emissions by increasing use of transit, walking, and bicycling
- Build stronger relationships with stakeholders and deliver quality projects on time and on budget.
- Identify and reduce disproportionate outcomes and resolve past harm towards marginalized communities

- Create a work environment that is responsive, equitable and inclusive and includes recruiting, hiring and investing in a diverse workforce

Police

- Improve public safety by building strong, respectful partnerships with the community and City agencies
- Improve ability to respond in a timely, informed, unbiased and procedurally just way, and work towards collaborative resolutions
- Align on a shared vision and transparent ways of measuring safety with respect to improve Department operations and relationships with the community
- Instill safety with respect into how the Department organizes, evaluates performance, recruits, trains, promotes, rewards, deploys, leads, and retains a diverse pool of talented, highly qualified personnel to serve our community
- Develop a future-focused, longer-term strategic plan for a more modern, evolving, and inclusive department with input from internal and external stakeholders

Police Accountability

- Address civilian complaints of police misconduct professionally and efficiently which include investigating all officer-involved shootings for police misconduct
- Ensure officers have access to view and submit case documents
- Regularly audit the Police Department's internal policies on use-of-force and officer misconduct and develop new technology solutions for increasing investigation transparency
- Educate vulnerable populations about their rights and resources through community outreach and provide internship and job training opportunities for students from underrepresented backgrounds
- Collaborate with the community, youth, and City agencies to develop educational material, review and revise Police Department policies and initiatives to align with best practices and ensure compliance with state transparency laws

Port

- Continue to attract tourism and help fill vacant restaurants, and grow business portfolio to create an economically successful and vibrant waterfront
- Create a diverse, equitable, and inclusive organization and waterfront, and empower the BIPOC community in Port operations and opportunities
- Reduce seismic and climate change risks to protect the waterfront, City neighborhoods, and infrastructure and advance environmental stewardship to limit climate change and protect the Bay

Public Defender

- Defend indigent youth and adults accused of crimes, facing deportation, or involved in conservatorship matters
- Expand representation of immigration defense for immigrants facing deportation and in immigration detention
- Protect and advocate for vulnerable populations by fighting for systemic changes in local, state, and federal policies and laws that adversely impact them; prevent youth and young adults from entering the criminal legal system with programs that empower historically underserved communities
- Advocate for clients' release from custody, and address the root causes of their system-involvement to reduce recidivism and seek long-term solutions
- Call for law enforcement transparency and accountability; expose and combat racial inequities in the criminal legal system inside and outside the courtroom

- Connect clients with social workers who provide referrals to housing, employment, and other essential social services immediately after they are booked into jail and before their first court appearance, and upon release from custody
- Recruit, hire, train, support, and mentor diverse public defenders to ensure that the office reflects the clients and communities it serves

Public Health

- Advance health equity and reduce health disparities
- Reduce overdose deaths and increase recovery rates
- Hire and develop the Department's diverse workforce
- Turn data into actionable knowledge anytime anywhere

Public Library

- Connect our diverse communities to learning, opportunities and each other; offer experiences, guidance and resources that support basic needs, encourage personal growth and enrich life in the City
- Cultivate the critical understanding necessary for meaningful participation in society through immersive and varied learning activities; facilitate cultural experiences that celebrate and deepen understanding of the diverse communities
- Serve as a caring and knowledgeable gateway, helping people find and use library, community and City resources to realize their goals

Public Utilities Commission

- Provide reliable service and value to customers by optimizing the operations, maintenance, replacement, and improvement of all assets in the most cost-effective manner
- Actively combat climate change and mitigate the environmental impacts of our operations
- Assure financial integrity and sustainability, meeting today's operating and capital investment needs while managing risk and long-term affordability for the future
- Build trust and strengthening engagement with customers, employees, and the communities the department serves through transparent, timely communication and impactful education initiatives
- Actively ensure the fair treatment of marginalized and neglected communities by embedding diversity, inclusiveness, and respect as core agency values. Proactively address the inequities impacting these communities by transforming policies and practices to prioritize equity and justice
- Attract, retain, and develop an effective workforce, reflective and supportive of the communities served, that delivers high-quality services to stakeholders

Public Works

- Provide career support; hire efficiently and timely for long-term success; and improve the workplace experience
- Improve key partnerships; optimize our core services; be a leader in climate resilience and sustainability; reinvigorate our Emergency Management Program; and assess organizational structure to determine the most effective framework for project delivery
- Revitalize the City by beautifying shared and public spaces, supporting Citywide housing priorities and initiatives, and identify and prioritizing ongoing maintenance funding for capital projects

Recreation and Parks

- Support the City's continuing economic recovery and directly align programming with the Department's strategic plan and commitment to equity

- Continue to uphold the essential role parks play by ensuring our spaces remain safe, clean, and accessible
- Preserve programs and services that support equitable park access, recreation, and youth development for high-needs families and vulnerable populations
- Deliver core services as effectively and efficiently as possible by relying on new partnerships, technologies, and work practices
- Honor voter investment in parks and facilities through dedicated funding for maintenance
- Sustain responsibility as environmental stewards and support the City's adaptation policies
- Continue to support and cultivate a diverse, connected, and engaged workforce that delivers outstanding service

Rent Arbitration Board

- Educate San Francisco's landlords and tenants on their rights and responsibilities around the complex Rent Ordinance in English, Chinese, Spanish, Filipino, Vietnamese and other languages
- Protect tenants from excessive rent increases and unjust evictions while assuring landlords fair and adequate rents through just and efficient decision-making
- Maintain a Housing Inventory of San Francisco's residential units and educate property owners and tenants on the reporting requirements
- Cultivate racial equity norms throughout all internal and external Departmental programming
- Grow and strengthen residential property data sharing across departments to help expedite permitting and decision-making processes
- With exceptional customer service, fully and accurately assess and collect the Rent Board Fee to wholly support the Department without reliance on the General Fund

Retirement System

- Replace and modernize technology systems and migrate to cloud to mitigate risk and support data management and security
- Enhance operational effectiveness and service quality
- Support a qualified and sustainable workforce
- Sustain investment excellence
- Relocate SFERS offices to meet the needs of our members, the team, and stakeholders

Sheriff

- Work with the community with respect and dignity and engage in public safety strategy development and relationship-building activities
- Invest in more effective and efficient systems for reducing crime and providing services to underserved communities
- Improve organizational accountability and provide all staff with the highest quality training to best address the City's needs
- Continue maximizing workforce potential through employee recruitment, managing workloads, minimizing stress, encouraging career success, and creating succession plans

Sheriff Accountability

- Perform all investigative, oversight, and recommendation functions
- Build the infrastructure for a fully functional and independent agency to meet all legal responsibilities and mandates for the Office of Inspector General/Sheriff's Department of Accountability
- Develop data-driven policies, procedures, and protocols by creating a team of analysts, auditors, and policy specialists

- Establish a mediation process for certain classes of misconduct allegations

Status of Women

- Advocate for gender equitable policies and laws both locally and beyond, and serve as the City's internal watchdog and accountability partner on all matters related to gender equality and inclusion
- Convene community partners and other government institutions to tackle longstanding and evolving societal problems that disproportionately and negatively impact women, girls and nonbinary people
- Promote the health and safety of all women, girls and nonbinary people with particular focus on mental wellness and an individual's connectivity to and interdependence on their environment and community
- Advance the economic security of women, gender nonconforming individuals and their respective families through education, programming and Citywide policies
- Recruit and energize women, girls, nonbinary people and other underrepresented communities to ensure greater civic engagement and the realization of political empowerment

Technology

- Deliver a digital workplace to enable the future of work through enterprise applications, modern IT infrastructure, smart office enablement, and internal and external collaboration technologies for City workers
- Leverage enterprise business systems to accelerate the transition to paperless, digital business processes and deliver quick system development, data-sharing capabilities, and enterprise analytics
- Expand fiber connectivity to support community access to the internet, student distance learning, telemedicine, and government operations
- Strengthen resiliency of core network and infrastructure systems that support the foundation of City business operations, including public safety and the City's emergency response
- Enhance cybersecurity efforts to secure networks and data, and remain vigilant against cyber threats
- Continue to implement a Racial Equity Action Plan and implement insightful metrics to create racial equity within the workplace

Treasurer-Tax Collector

- Maximize City revenue by building and executing high-quality collections and compliance systems that balance equity, security, and ease of use
- Manage the City's investment portfolio to preserve capital, maintain liquidity, and enhance yield
- Provide high quality customer service and diverse communication channels and equip San Franciscans with knowledge, skills, and resources to strengthen their financial health
- Design and extend programs that support small businesses
- Assess and reform fines, fees, and financial penalties that have a disproportionate impact low-income people and people of color

War Memorial

- Provide first-class facilities to all residents and visitors for cultural, artistic and educational programming
- Offer affordable places for performing arts organizations and other community organizations
- Maintain, upgrade and preserve important historic facilities and capital assets for the future
- Expand opportunities to promote more equitable and inclusive access to venue

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March Update to the Five-Year Financial Plan



Budget & Appropriations Committee

April 23, 2025

March Update to the Five-Year Financial Plan

- City publishes a Five-Year Financial Plan every other December, which is updated the following March. (The Plan is also updated in the off years - Joint Report).
- Prepared jointly by Mayor's Budget Office, Controller's Office, and Budget and Legislative Analyst's Office pursuant to financial policies adopted by the Board in 2011.
- Long-term financial planning exercise to forecast revenue and expenditure trends under current policies and law.
- This report updates the Financial Plan released in December 2024 and is the basis for the Mayor's Proposed Budget.

March Update – Five-Year Forecast

- The March Update projects an **\$817.5 million shortfall** for the upcoming two fiscal years, or \$58.5 million less than the \$875.9 million shortfall projected in the December 2024 Report.
- Long term structural shortfalls of ~\$1 billion annually remain absent corrective action.

	Projections				
	2025-26	2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	(6.4)	216.1	325.4	425.6	597.9
Uses					
Baselines & Reserves	(65.5)	(164.6)	(248.9)	(273.2)	(272.2)
Salaries & Benefits	(184.9)	(363.7)	(620.4)	(805.5)	(910.9)
Citywide Operating Budget Costs	(19.1)	(125.0)	(234.5)	(315.3)	(391.5)
Departmental Costs	3.6	(108.0)	(180.3)	(290.1)	(371.8)
USES Decrease / (Increase)	(265.9)	(761.3)	(1,284.1)	(1,684.1)	(1,946.4)
Projected Cumulative Surplus /(Shortfall) Change	(272.3)	(545.2)	(958.7)	(1,258.5)	(1,348.5)
Two-Year Deficit Change	(817.5)				

March Update – Net Change from Prior Forecast

- Sources: increased excess ERAF and business taxes offset reductions in hotel and state + local sales tax.
- Uses: Nov 2024 ballot benefit and baseline items moved from Departments Baselines and Salaries lines.

	Projections				
	2025-26	2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	2.8	83.2	99.5	75.1	79.3
Uses					
Baselines & Reserves	(12.0)	(17.5)	(16.8)	(17.5)	(18.2)
Salaries & Benefits	(9.2)	(13.3)	(13.4)	(10.2)	32.2
Citywide Operating Budget Costs	(0.4)	0.1	0.9	0.8	1.0
Departmental Costs	(0.4)	25.1	24.3	27.7	28.4
USES Decrease / (Increase)	(21.9)	(5.6)	(5.0)	0.9	43.4
Projected Cumulative Surplus /(Shortfall) Change	(19.1)	77.6	94.5	76.0	122.7
Two-Year Deficit Change	58.5				

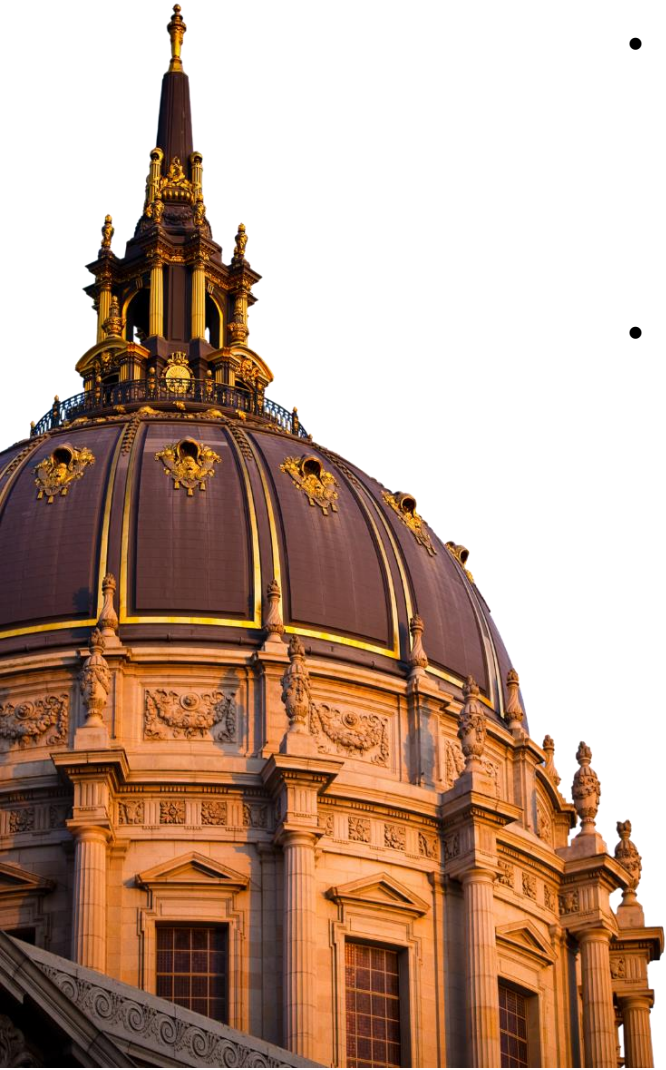
Revenue Changes – Local Taxes

- **Property Tax:** State revision of education funding formulas reduces draws from ERAF (Educational Revenue Augmentation Fund), increasing excess returned to City, partially offset by the effects of lower property values (lower enrollment revenue and higher refunds).
- **Business Tax:** Business tax projections increased \$69 million in the current year, growing to \$101 million in FY30. Tax Year 2024 returns filed by February 28 indicate 14% increase in worldwide sales. Revenue subject to litigation increased, but current year budget assumes a portion is funded in FY26.
- **Hotel Tax:** \$11.0 million below prior projections in FY26 and \$16.8 million below in FY27, reflects current year weakness and extended recovery timeline. Concerns about recession and tariffs, plus a strong US dollar, degrade outlook.
- **Sales Tax:** Projections decreased by \$13.7 million in FY26 and future years reflecting current year weakness and changes in factors such as inflation, interest rates, and consumer debt and purchasing choices.



Revenue Changes – Other Revenue

- **Federal Emergency Management Agency (FEMA):** Reduced expected FEMA reimbursement of COVID-19 response costs from \$147 million to \$80 million in FY26. Current year projection of \$80 million will be updated in the Nine-Month Report.
- **Public Health Revenue:** The Department of Public Health (DPH) projects improvements in operating revenue driven by patient revenues.



Reserves

	FY 2023-24	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	Deposit	Use	Projected Balance
General Reserve	\$ 128.1	\$ 14.6	(5.8)	\$ 136.9	\$ 24.3	-	\$ 161.2	\$ 21.4	-	\$ 182.6	\$ 19.0	-	\$ 201.6	\$ 6.3	-	\$ 208.0	\$ 4.3	-	\$ 212.3
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	275.2	-	-	275.2	-	-	275.2	30.0	-	305.2	97.1	-	402.3	85.3	-	487.6	54.2	-	541.8
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	30.0	-	419.7	97.1	-	516.8	85.3	-	602.1	54.2	-	656.4
<i>Percent of General Fund Revenues</i>	<i>6.1%</i>			<i>6.1%</i>			<i>6.0%</i>			<i>6.3%</i>			<i>7.7%</i>			<i>8.7%</i>			<i>9.3%</i>
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	-	-	1.0
Federal and State Emergency Grant Disallowance Reserve	81.3	-	(38.2)	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1
Fiscal Cliff Reserve	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4
Business Tax Stabilization Reserve	29.5	-	(29.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Revenue Management Reserve	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9
Free City College Reserve	7.6	-	(7.5)	0.1	6.2	(6.2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Success Fund Reserve	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5
Other Reserves	507.1	-	(75.2)	431.9	6.2	(61.1)	377.0	-	-	377.0	-	-	377.0	-	-	377.0	-	-	377.0
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	1.8	20.2	(22.0)	0.0	20.8	(20.8)	0.0	21.3	(21.3)	0.0	21.9	(21.9)	0.0	22.4	(22.4)	0.0	23.0	(23.0)	0.0
Annual Operating Reserves	1.8	31.2	(33.0)	0.0	34.3	(34.3)	0.0	34.8	(34.8)	0.0	35.4	(35.4)	0.0	35.9	(35.9)	0.0	36.5	(36.5)	0.0
TOTAL, General Fund Reserves	1,026.7	45.8	(114.0)	958.5	64.8	(95.4)	927.9	86.3	(34.8)	979.3	151.5	(35.4)	1,095.4	127.6	(35.9)	1,187.1	95.1	(36.5)	1,245.7

Risks and Uncertainties

- Lower GDP growth, higher risk of recession. Consumer and business confidence dropped sharply in recent months due to fears of inflation, federal government spending and job cuts, tariffs, etc.
- Fiscal effects of federal policy changes are not assumed.
- No changes in State funding levels is assumed.
- Retirement contribution rates increase if investment returns are below assumed rate of 7.2%.
- Pending policy decisions with fiscal impact.





Fiscal Outlook & Department Budget Instructions

February 2025

Content



1. Summary
2. Fiscal Outlook with Five-Year Financial Plan Update
3. Mayor's Priorities & Budget Instructions



Summary

Fiscal Outlook:

- Rate of expenditure growth far outpaces City's General Fund revenues – creating an **\$876M two-year deficit** (\$253M deficit in FY 2025-26, **\$623M** in FY 2026-27)
- **Expenditure growth of \$1.7B far surpasses revenue growth of \$520M** over the next five years

Budget Instructions to Departments:

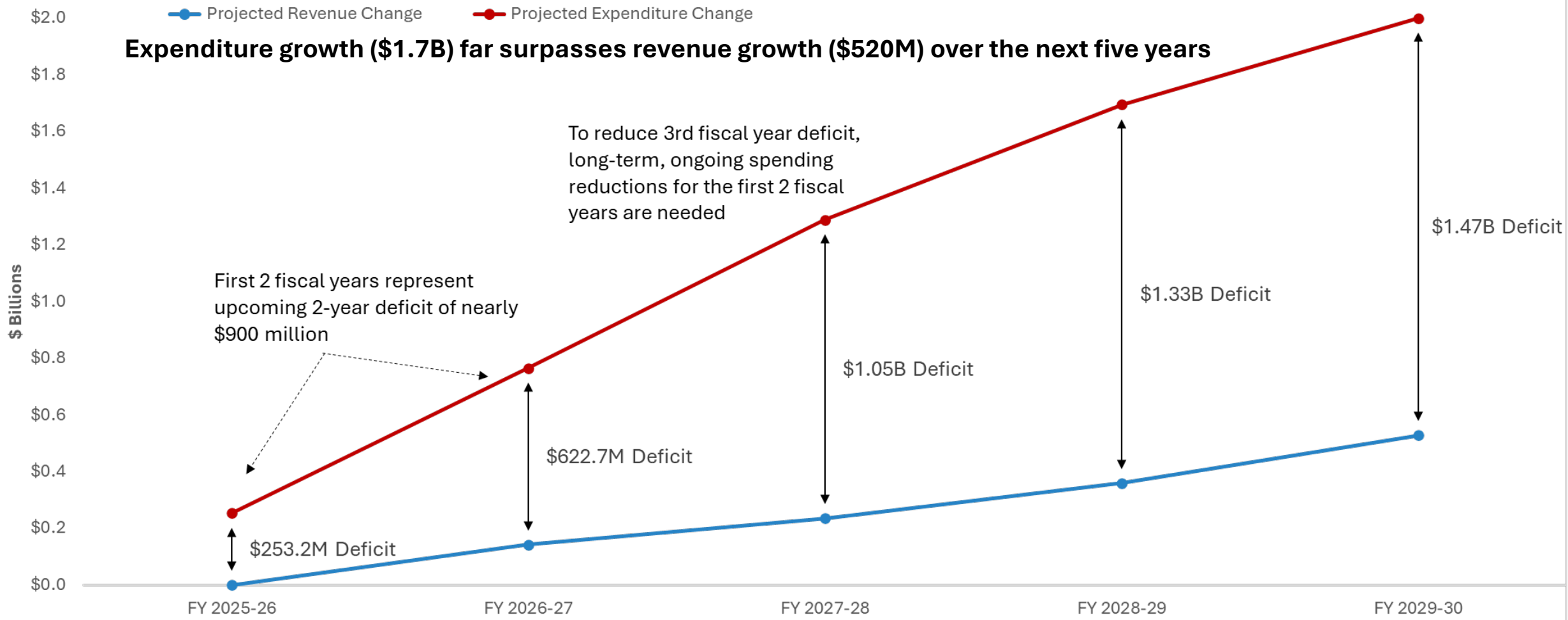
- **Ongoing, permanent spending reductions of 15% starting in FY25-26**



Fiscal Outlook with Five-Year Financial Plan Update



Fiscal Outlook: Spending Outpaces Revenue





Fiscal Outlook: FY26 and FY27

FY 25-26's \$253M deficit driven by \$203M revenue reduction

- FY24 year-end fund balance **lower by \$118M**; distributes more evenly across years
- **\$132M reduction** in expected General Fund revenue
 - \$35M in business tax shifts
 - \$30M in Excess ERAF
 - \$40M in Hotel Tax receipts
 - \$10M in DPW & DPH fees due to Prop M fee elimination
- **\$53M increase** in expected DPH revenues

Estimated changes since June 2024

FY 26-27's \$623M deficit driven by \$705M expense increase

- **\$305M increase** of Salary & Benefit costs
- **\$108M increase** in baseline contributions
- **\$55M in assumed backfill** to one-time funds for ongoing shelter and opioid programming
- **Inflation assumptions** for contracts, materials & supplies, etc.
- **\$50M cost increase** for November 2024 Ballot measure approvals



Fiscal Outlook: Major Assumptions in the Five-Year Forecast

- **Very modest economic and revenue growth**, does not assume a recession
- **Delayed or revised growth in major tax revenues**: shift of revenue timing for business tax as part of voter approval of Prop M, slower property tax recovery and hospitality sector rebound, reduced availability of one-time sources
- **Salary & Benefits**: CPI growth on all open contracts assumed July 1 from FY 2028-29 onward; 7.2% rate of return on pension investments
- **Citywide & Departmental Costs**: CPI growth on non-personnel costs, full funding of Ten-Year Capital & ICT Plans by FY 2026-27



Fiscal Outlook: Five-Year Report Summary

(\$ millions)	Change from AAO Budget	Projection			
	2025-26	2026-27	2027-28	2028-29	2029-30
SOURCES Increase / (Decrease)	(203.2)	132.9	225.8	350.4	518.6
Uses:					
Baselines & Reserves	(1.5)	(147.1)	(232.1)	(255.8)	(254.0)
Salaries & Benefits	0.4	(350.4)	(607.0)	(795.3)	(943.1)
Citywide Operating Budget Costs	(7.0)	(125.0)	(235.4)	(316.1)	(392.5)
Departmental Costs	(41.8)	(133.1)	(204.6)	(317.8)	(400.2)
USES Decrease / (Increase)	(50.0)	(755.7)	(1,279.1)	(1,684.9)	(1,989.8)
Projected Cumulative Surplus / (Shortfall)	(253.2)	(622.7)	(1,053.3)	(1,334.5)	(1,471.2)
Two-Year Deficit		(875.9)			



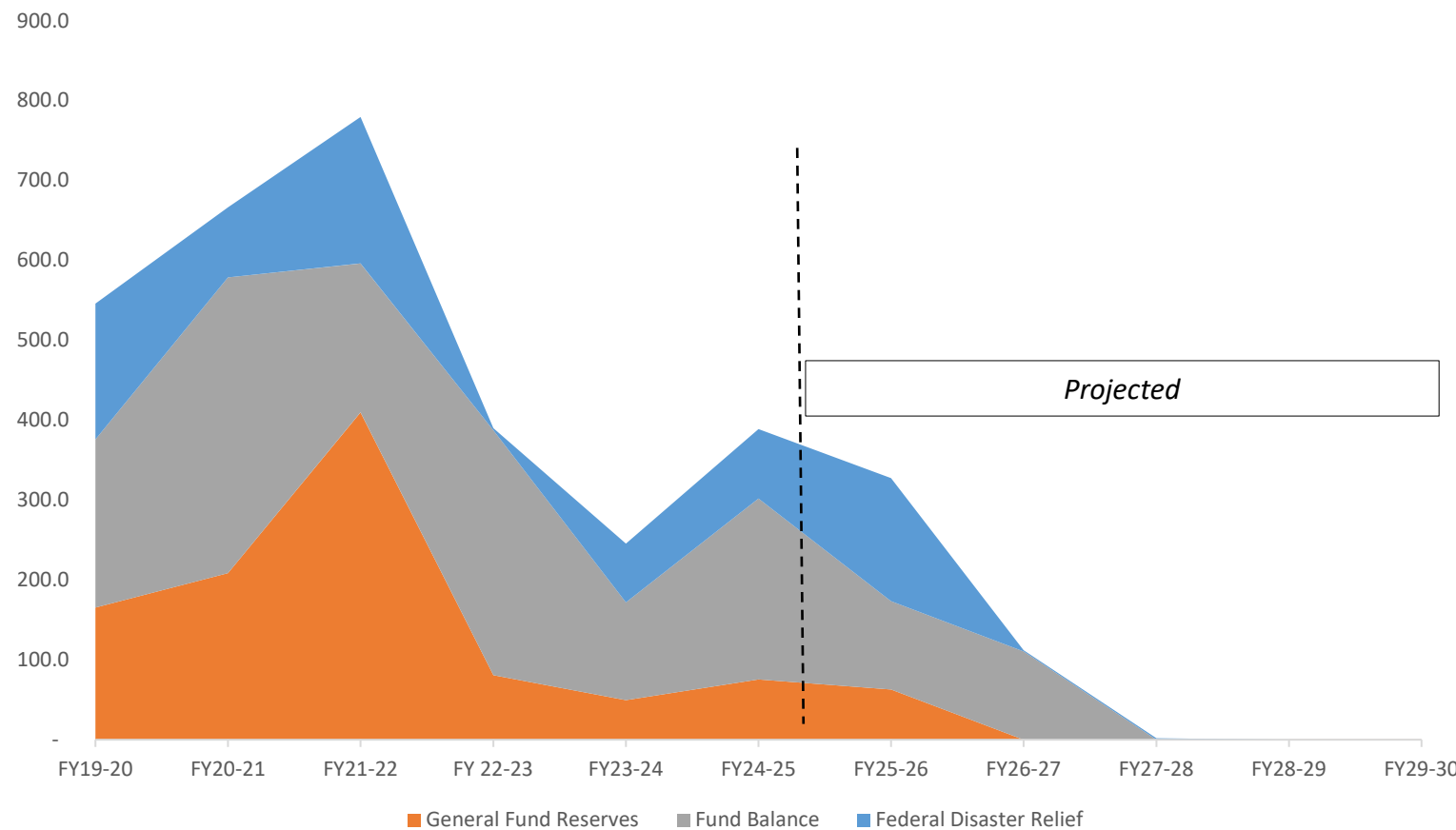
Fiscal Outlook: What's Changed Since July?

- **Revenue projections revised downward**, including from Excess ERAF and hotel tax. Voter-approved business tax overhaul (Proposition M) reduces revenue initially and grows subsequently
- **Inflationary pressure** on contracts, leases, CBO grants, and materials & supplies costs
- **Voter-approved November 2024 ballot initiatives**, impacting education equity, children's services, housing, retirement, and staffing cost mandates
- **Use of fund balance** spread over a three-year period to ensure long-term financial stability



Fiscal Outlook: One-Time Sources Depleted by FY28

Use of One Time Sources



- Since the COVID public health emergency, the City has relied heavily on one-time sources to close recent budgets
- These sources include federal disaster relief, General Fund reserves and fund balance
- Great uncertainty in unrealized FEMA reimbursements



Fiscal Outlook: Risks

- **State Budget Shortfall:** Potential revenue loss if past proposals (eg cuts to education-related property taxes) return
- **Federal Policy:**
 - Unknown impacts of economic and trade policies on national and local levels
 - Changes to Medicaid may strain local health services, increase cost to provide uncompensated care.
 - Uncertain Federal Grant Disbursement: grants may not be awarded or released in the upcoming administration
 - Approved budget assumes FEMA reimbursement of \$234M (\$87M in FY25 and \$147M in FY26)
- **Assessment Appeals:** Reduced property values risk lowering tax revenue with at-risk revenue tied to appeal outcomes
- **Business Tax Risks:** Pending tax appeals threaten over \$400M in business tax revenue

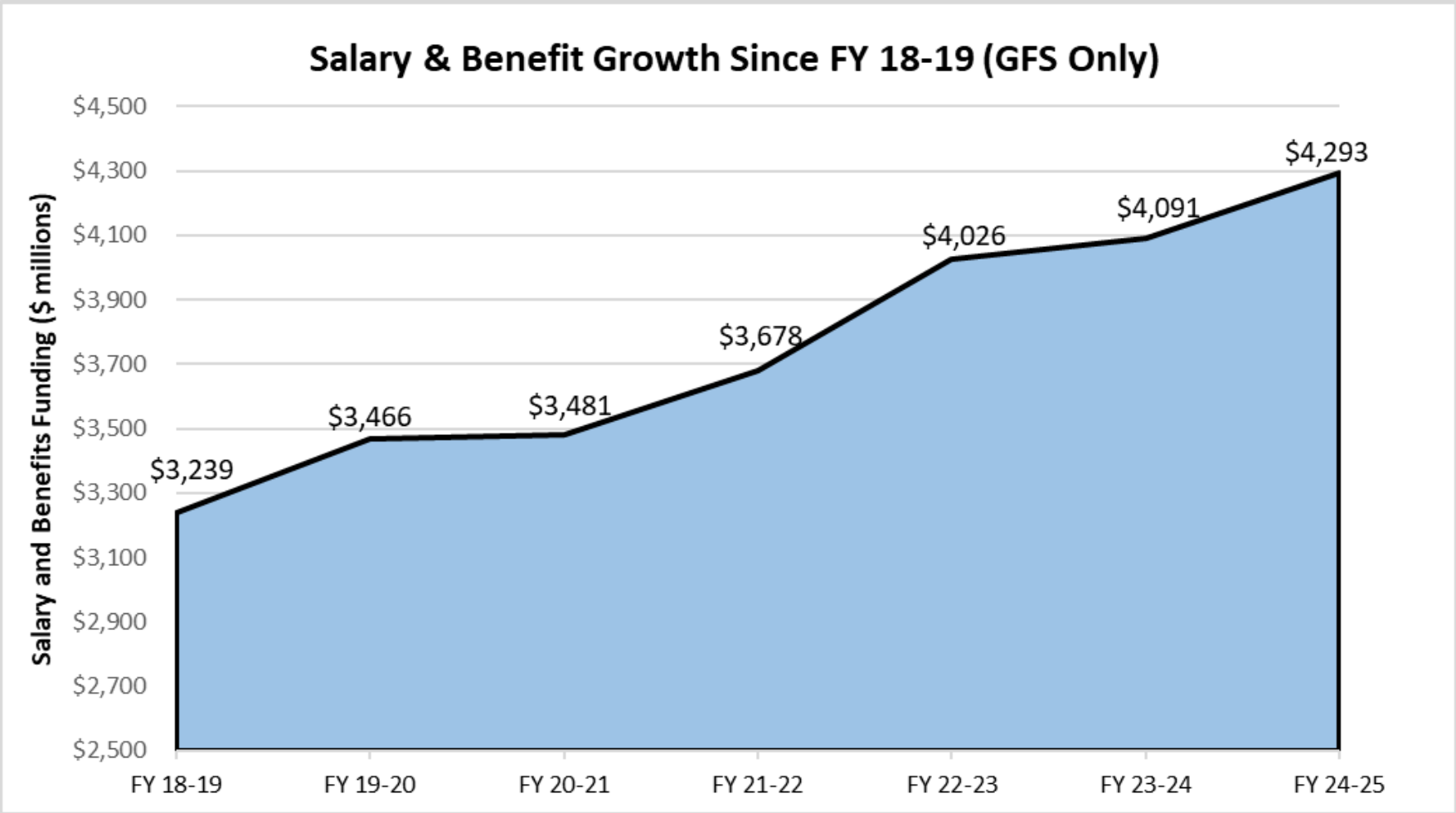


Fiscal Outlook: Key Expenditures in the Five-Year Projection

- **Salaries and benefits:** Increase by over \$900 million over next five fiscal years
- **Required baseline contributions:** Grow by over \$200 million, including SFMTA and Student Success Fund
- **Citywide operating costs:** Real estate, capital, debt payments, PUC rates, and inflation on non-personnel services and multiyear nonprofit grants
- **Other major costs:** inflation on public health operating costs, IHSS program growth, shelter costs due to expiring state grants, commitments to subsidizing housing for formerly homeless (LOSP)



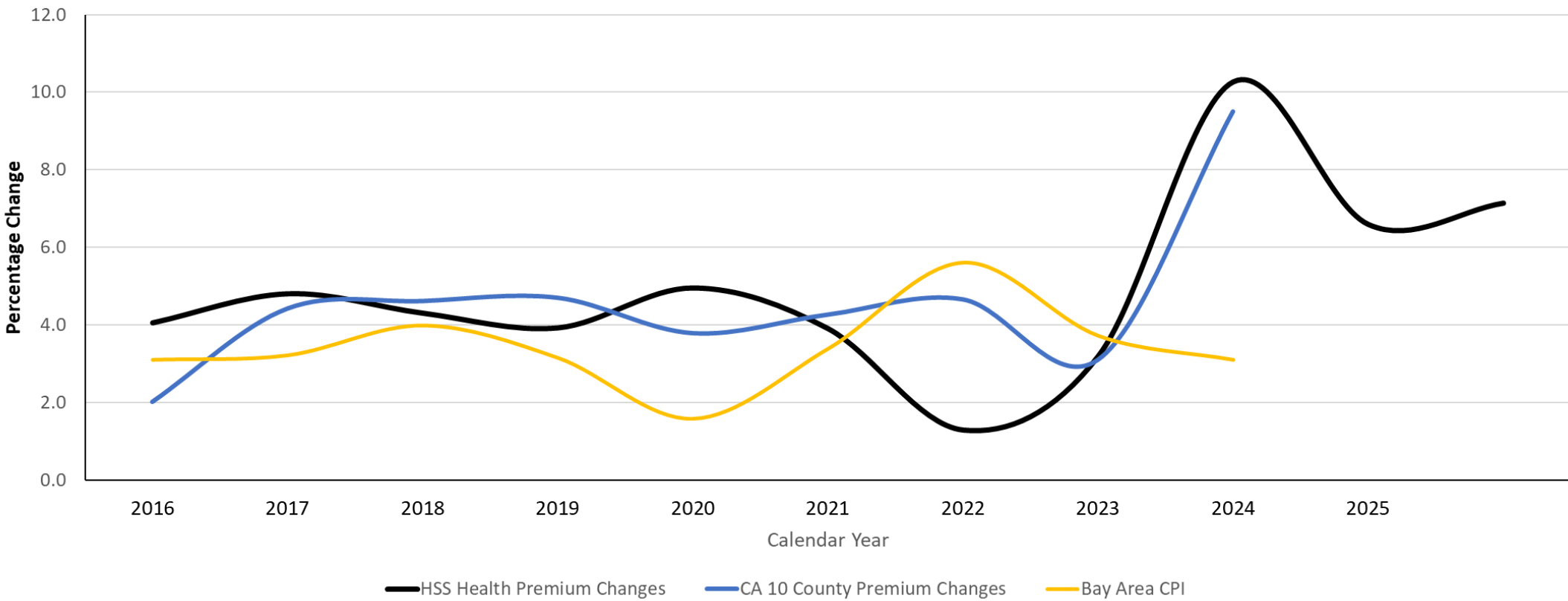
Fiscal Outlook: Key Expenditures – Salaries & Benefit Costs





Fiscal Outlook: Health Care Cost Escalation Settling at New 6-7% Levels

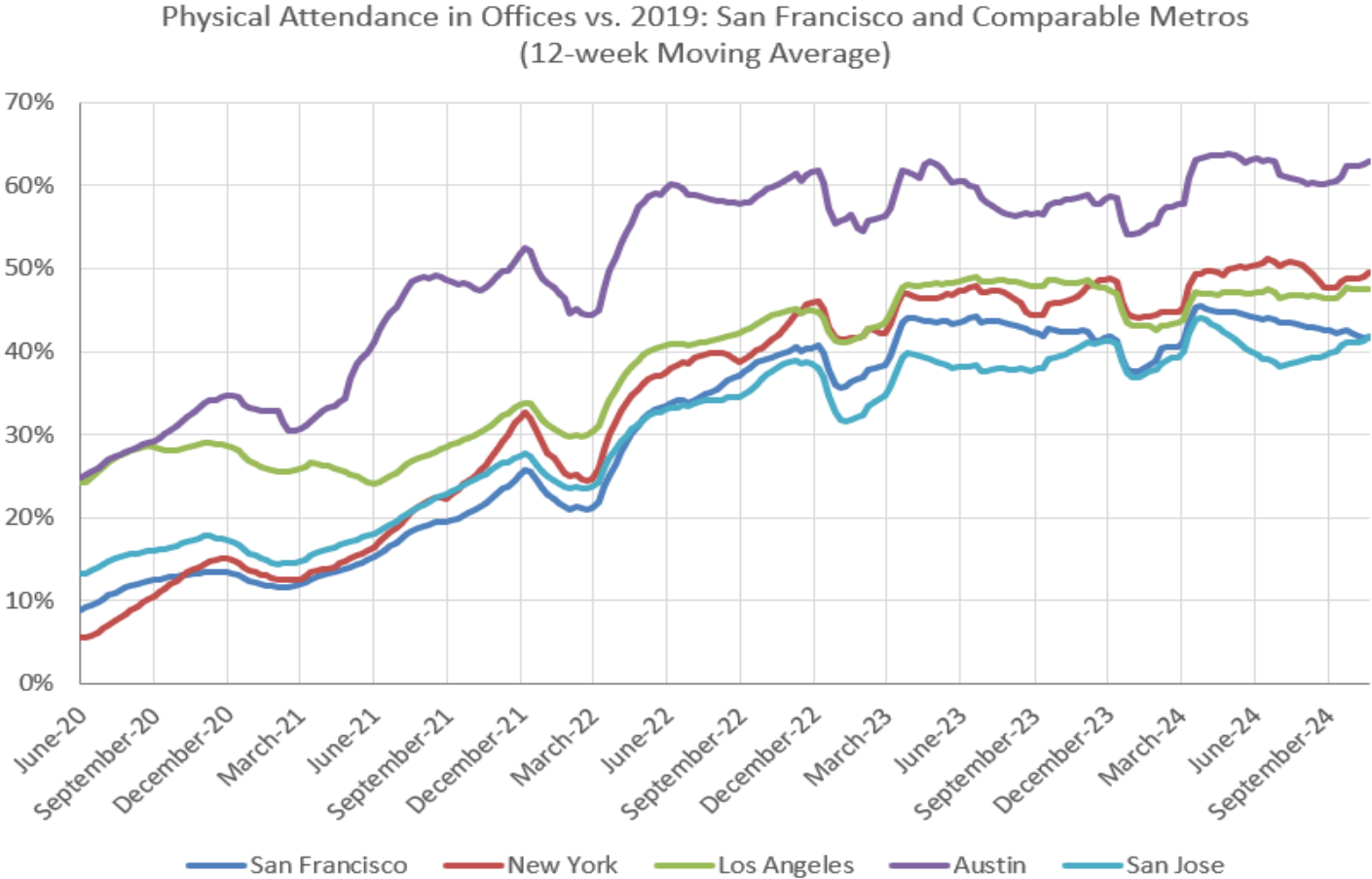
Change in SFHSS Health Rates vs Benchmarks
2016 - 2024 (Calendar Year)





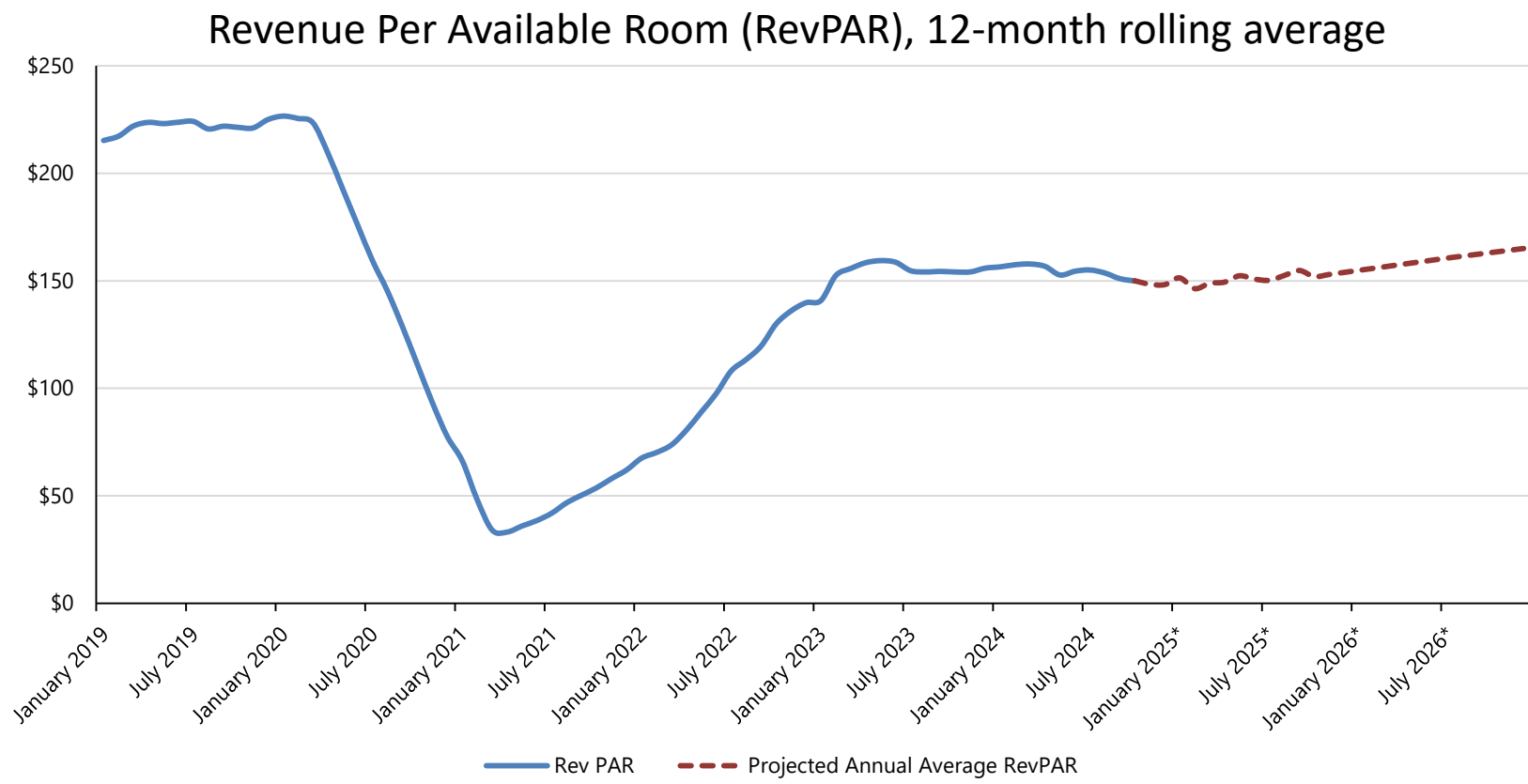
Fiscal Outlook: Office Vacancies Remain Elevated

Remote work trends continue to affect the city's economy, as office vacancy rates impact sales tax revenue, hotel activity and convention activity





Fiscal Outlook: Hospitality Industry Recovery is Slowing



Source: FY 2017-18 to FY 2023-24: STR and SF Travel. FY 2025-2026 to FY 2029-2030: Controller's Office



Mayor's Priorities & Department Budget Instructions



Previous Administration Priorities

- Maintaining core city services, including public safety and clean streets
- Continue significant progress decreasing unsheltered homelessness; ensuring effective mental health treatment
- Propose opportunities to improve operational efficiency in service delivery and reporting across all areas of City services



Pre-Existing Budget Instructions For Departments

Overall:

- **Permanently reduce General Fund spending by 15% beginning in FY 25-26**
- **Assess CBO grant allocations for efficiency.** Only fund community-based organizations that demonstrate strong outcomes and cost-effectiveness, focused on direct service to clients
- **Re-examine all contractual services and non-personnel** expenditures
- **Eliminate vacancies, do not add new FTEs.** Hire only for core department functions
- **Consider hiring freezes.** Layoffs are not preferred, but if necessary to meet target, please identify specifics in budget submission



Pre-Existing Budget Instructions For Departments (continued)

Year Two only:

- **Reorganize to eliminate redundancy.** MBO will work with departments to identify programs for Year Two consolidation
- **Update nonprofit COLA (CODB) from Base to reflect CPI** (revise from 3% down to 2.4%) in Year Two



Pre-Existing Budget Instructions For Departments (continued)

Other:

- **Do not book travel.** Effective 12/15/24, City-funded overnight and/or air travel is prohibited unless required by an outside funder or third-party agreement. MBO will be monitoring all travel expenditures monthly
- **Prepare grant performance data.** During Mayor phase, MBO may request detailed program- and grant-level performance data for all existing grants to CBOs



Budget Instructions: January Addendums from Mayor Lurie

All departments are expected to fully meet their budget reduction targets with reasonable proposals.

All departments should work toward eliminating their least effective programs or contracts and manage toward operation efficiency.



Budget Instructions: January Addendums from Mayor Lurie

Citywide hiring freeze from January 9 through June 30

- Written offers prior to January 9 honored
 - Hiring for roles which are historically challenging to staff and directly support public health & safety may continue in collaboration with MBO
 - Process for departments to work with MBO to identify urgent hiring needs for consideration
-
- Pause new contracts or programs which have not yet been signed or implemented
 - Extensions to existing programs and contracts may proceed if the implementing department is able to also comply with their budget reduction target
 - Process for departments to work with MBO to discuss contracts as-needed



Budget Instructions: Calendar

December 2024	Five Year Financial Plan Update (Joint Report)
January 17, 2025	Capital and COIT budget requests due
February 2025	Controller's 6-Month Report
February 21, 2025	Department budget submissions due
March 2025	March Update to the Joint Report
May 2025	Controller's 9-Month Report; Governor's May Revise
June 1, 2025	Mayor proposes a balanced budget to the Board of Supervisors
June 2025	Budget and Appropriations Committee hearings



Thank you

BOARD of SUPERVISORS



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MEMORANDUM

TO: Greg Wagner, City Controller, Office of the Controller
Benjamin McCloskey, Interim 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. 250111

Hearing on the City and County of San Francisco's Five-Year Financial Plan Update Fiscal Year (FY) 2025-2026 through FY2029-2030, and the Mayor's Budget Instructions for FY2025-2026 and FY2026-2027; 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

Introduction Form

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

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2025 JAN 28 AM10:08

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 - Five Year Financial Plan Update and Mayor's Budget Instructions

Long Title or text listed:

Hearing on the City and County of San Francisco's Five Year Financial Plan Update Fiscal Year (FY) 2025-2026 through FY2029-2030, and the Mayor's Budget Instructions for FY2025-2026 and FY2026-2027; and requesting the Controller and the Mayor's Budget Director to report.

Signature of Sponsoring Supervisor:

