File No. 210354 **Committee Item No.** 3
Board Item No. ____________

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Appropriations Committee **Date** April 21, 2021

Board of Supervisors Meeting **Date** ____________

Cmte Board

Cmte	Board	
☐	☐	**Motion**
X	☐	**Resolution**
☐	☐	**Ordinance**
☐	☐	**Legislative Digest**
☐	☐	**Budget and Legislative Analyst Report**
☐	☐	**Youth Commission Report**
☐	☐	**Introduction Form**
☐	☐	**Department/Agency Cover Letter and/or Report**
☐	☐	**MOU**
☐	☐	**Grant Information Form**
☐	☐	**Grant Budget**
☐	☐	**Subcontract Budget**
☐	☐	**Contract/Agreement**
☐	☐	**Form 126 – Ethics Commission**
☐	☐	**Award Letter**
☐	☐	**Application**
☐	☐	**Public Correspondence**

OTHER **(Use back side if additional space is needed)**

Cmte	Board	
X	☐	Proposed Five-Year Financial Plan
X	☐	Updated Five-Year Financial Plan
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	

Completed by: Linda Wong **Date** April 16, 2021
Completed by: Linda Wong **Date** ____________

[Five-Year Financial Plan - FYs 2022-2026]

Resolution adopting the City's Five-Year Financial Plan for Fiscal Years (FY) 2021-2022 through 2025-2026, pursuant to Charter, Section 9.119.

WHEREAS, Charter, Section 9.119 requires the Mayor to propose and the Board of Supervisors to review, amend, and adopt in odd-numbered years a Five-Year Financial Plan to be used as a tool to plan for future City budgets; and

WHEREAS, Section 9.119 provides that the City shall adopt the fifth City-wide five-year plan by May 1, 2021; and

WHEREAS, The Mayor has submitted her proposed five-year plan to the Board of Supervisors for its consideration, which is on file with the Clerk of the Board of Supervisors in File No. 210354; and

WHEREAS, The Board of Supervisors has reviewed the plan including the following set of financial strategies designed to ensure fiscal stability: (1) managing the City's debt and capital programs, (2) managing employee wage and benefits costs, (3) seeking additional tax, fee, and other revenues, (4) utilizing City reserves; (5) limiting non-personnel inflation, and (6) identifying ongoing departmental revenues and savings; now, therefore, be it

RESOLVED, That the Board of Supervisors adopts the Mayor's proposed plan and the financial strategies outlined therein, with such amendments and revisions as the Board has deemed appropriate and reflected in File No. 210354, as the City's Five-Year Financial Plan for Fiscal Years 2021-2022 through 2025-2026, as provided in Charter, Section 9.119.

CITY AND COUNTY OF **SAN FRANCISCO, CALIFORNIA**

Proposed Five-Year Financial Plan

Fiscal Years 2021-22 through 2025-26

JANUARY 15, 2021

Page intentionally left blank.

Acknowledgements

Department	Staff
Mayor’s Budget Office	Ashley Groffenberger, Anna Duning, Lillian Patil, Matt Courtois, Adrian Liu, Andrea Lynn, Morgan Owens, Camilla Taufic, Sally Ma
Controller’s Office	Ben Rosenfield, Ted Egan, Todd Rydstrom
Controller’s Office: Budget and Analysis	Michelle Allersma, Ysabel Catapang, Mark Chen, Edward de Asis, Nicholas Leo, Carol Lu, David Ly, Mendy Ma, Michael Mitton, Joshua Oehler, Risa Sandler, Jamie Whitaker
Board of Supervisors’ Budget and Legislative Analyst	Severin Campbell, Dan Goncher, Christina Malamut
Office of Resilience and Capital Planning	Brian Strong, Kate Faust, Nishad Joshi, Hemiar Alburati
Committee on Information Technology	Matthias Jaime, Emma Fernandez

Page intentionally left blank.

TABLE OF CONTENTS

Page intentionally left blank.

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. The City Charter requires the plan to forecast expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments.

ECONOMIC OVERVIEW

Presented in this report is an overview of the economic context which informs the revenue projections in the Five-Year Plan.

FIVE-YEAR OUTLOOK

Over the next five years, the plan projects that the City will experience growth in tax revenues as the City gradually recovers from the sharp revenue losses caused by the COVID-19 pandemic, but that this growth is partially offset in the first three years of the plan by the loss of one-time sources. The Five-Year Financial Plan shows that the cost of City services is projected to outpace revenue growth during the five-year period. If the City does not take corrective action, the gap between revenues and expenditures will reach approximately $503.3 million by Fiscal Year (FY) 2025-26.

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

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	% of Uses
SOURCES Increase / (Decrease)	(117.6)	268.5	487.2	732.1	963.4	
	-	-	-	-	-	
Uses	-	-	-	-	-	
Baselines & Reserves	(54.4)	(157.7)	(242.1)	(293.2)	(354.6)	24%
Salaries & Benefits	(150.8)	(233.4)	(318.0)	(433.8)	(565.1)	39%
Citywide Operating Budget Costs	(21.4)	(8.2)	(94.2)	(219.4)	(304.8)	21%
Departmental Costs	(67.0)	(111.2)	(156.5)	(198.9)	(242.2)	17%
USES (Increase) / Decrease	(293.6)	(510.6)	(810.9)	(1,145.4)	(1,466.8)	100%
Projected Cumulative Surplus / (Shortfall)	(411.1)	(242.1)	(323.7)	(413.3)	(503.3)	

Total expenditures are projected to grow by approximately $1.47 billion over the next five years, which represents an increase of 23.7% from FY 2020-21. During the five years of the plan, baselines and reserves grow by $354.6 million (24% of total expenditure growth), employee salary, pension, and fringe benefit costs grow by $565.1 million (39% of total expenditure growth), citywide operating costs grow by $304.8 million (21% of total expenditure growth), and departmental costs grow by $242.2 million (17% of total expenditure growth).

In contrast to expenditure growth, available General Fund sources are projected to increase by $963.4 million over the same period, an overall growth of 15.5% from FY 2020-21. As required by the Charter, the City will need to implement strategies to close the gap between sources and uses over the five-year time period.

FISCAL STRATEGIES

The City projects budget deficits over the next five years if proactive steps are not taken to address the imbalance between revenues and expenditures. Over the past decade, significant efforts and policy changes have been made to improve the City's financial standing and better guard against a future financial downturn. The City's financial outlook changed dramatically in March 2020 due to the stark and immediate impact of the COVID-19 health emergency. Severe revenue losses and the cost to respond to the emergency resulted in a $246.2 million mid-year General Fund shortfall in FY 2019-20, and a $1.5 billion General Fund deficit for the FY 2020-21 and FY 2021-22 budget outlook. Even in the face of a massive two-year shortfall, the City was able to balance the FY 2020-21 and FY 2021-22 budget responsibly through a combination of revenue and expenditure solutions, all while preserving jobs and services and investing further in key priorities such as racial equity initiatives, behavioral health, and homelessness. Balancing solutions in both years of the budget relied heavily on one-time sources, which are projected to be exhausted by FY 2023-24. The five-year projection shows that the use of these sources in FY 2020-21 through FY 2022-23 contributes to a subsequent increase in the total deficit as on-going costs grow without commensurate growth in revenue to support them.

The projection assumes that revenue recovery assumed in the final adopted FY 2020-21 and FY 2021-22 budget will be further delayed, and that emergency response expenditures will continue to create new costs at the local level due to the extended duration of the public health emergency. Even with assumed recovery of the City's revenues over the five-year period, the City is facing a persistent structural deficit over the next five years, due in part to rising employee costs, increasing voter mandated commitments through baselines and set-asides, growing required contributions to support existing entitlement programs, and growing citywide operating costs.

To ensure the City is able to maintain services and respond to future economic weakness, the City must slow its projected expenditure growth by making trade-offs and responsible budget decisions. The fiscal strategies discussed later in this report will allow the City to provide sustainable services to the public by containing budget growth to 19.6% over the coming five years, as opposed to 23.7% growth projected to occur absent further action.

Detailed projections regarding the Base Case and fiscal strategies are included starting on page 18 of this report.

CITYWIDE STRATEGIC INITIATIVES SECTION

The plan also includes an update to the Citywide Strategic Initiatives section. This section describes the long-term strategy for City investments, under Mayor London N. Breed's leadership, to achieve an equitable economic recovery through focusing on four key areas: revitalizing the City's small business and nonprofit sector and rebuilding its workforce; investing in San Francisco's children and youth; transforming the City's response to housing and homelessness; and cultivating healthier and safer communities.

Page intentionally left blank.

Economic Overview

ECONOMIC OVERVIEW: THE COVID-19 RECESSION AND PROSPECTS FOR RECOVERY

The COVID-19 pandemic, which began in March 2020, ended the longest period of economic expansion in U.S. history. Within the first month, over 20 million jobs were lost across the country – equal to nearly all the jobs gained during the preceding ten years. In the San Francisco metro division, the job losses were not as severe, but the area still lost nearly 175,000 jobs from March to April, representing about 15% of total employment. Both local and national employment have grown every month since March, but by October, the region still had 79,400 fewer jobs than in March.

The pandemic, and the public health responses to it, have had a powerful effect on the local economy, and its recovery and trajectory over the next five years will be shaped by the conclusion and aftermath of COVID-19. At the onset of the pandemic, both the course of the virus and the shape of the recession were subject to extreme uncertainty, with wide-ranging forecasts. However, by the time of this writing in mid-December 2020, the uncertainty is somewhat reduced.

First, despite the current re-imposition of tighter restrictions on businesses, the macroeconomic outlook over the next two years is much clearer. Given the recent approval of a COVID-19 vaccine and its mass distribution over the next several months, the uncontrolled spread of the virus will be halted, and its effects on the economy significantly tempered at some point in 2021.

As discussed in the next section, national economic forecasters have increasingly brought forward their estimates of national economic recovery, with a consensus now emerging around a recovery to pre-recession GDP levels before the end of 2021.

This is not to say that the COVID-19 recession will not have lingering impacts. The severe spike in joblessness in 2020 will have lasting impacts on the finances of households, businesses, and governments. San Francisco's economy has fared worse than other large cities, and other California counties, during the pandemic recession. This will complicate and likely slow the City's recovery, compared to other places.

NATIONAL ECONOMIC FORECAST

The COVID-19 recession has been unusually difficult to forecast because it involved both a public health emergency and an economic contraction. The course of the pandemic – whether it would involve one peak or many, and the possibility and timing of a vaccine – was the primary determinant of the shape of the recession, but not the only one. Economic shocks like a forced shutdown create changes in behavior, sentiments, and balance sheets. The economy could have been looking at an extended period of reduced consumer confidence, a wave of corporate bankruptcies, and a downward spiral of unemployment and reduced consumer spending.

Fortunately, while the virus abatement has taken longer than many had anticipated in the Spring of 2020, most of the fears of serious collateral damage to the economy have failed to materialize. The Federal Reserve took quick and decisive action to stabilize the financial system by cutting interest rates and providing direct financing to corporations, local governments, and some small businesses. Almost immediately, worrying signs of instability in financial markets dissipated and have not returned. Through the CARES Act, the Federal

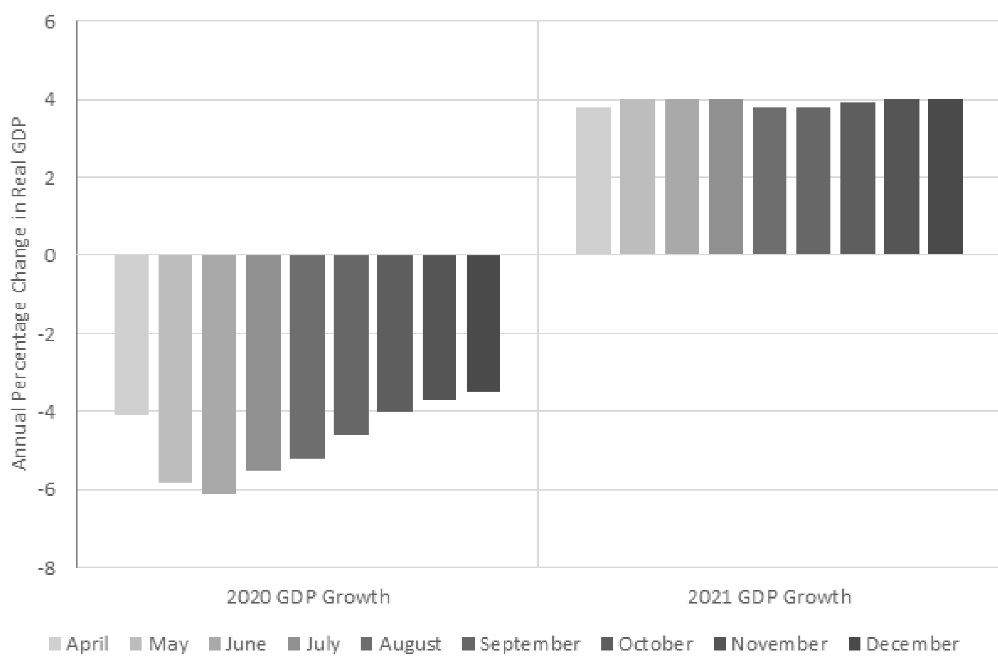
Government injected over $2 trillion into the economy. The CARES Act provided badly-needed assistance to, in particular, the low-wage workers in the leisure, hospitality, retail, and health care sectors which were most directly impacted by the shutdown and public health crisis. It was so effective at replacing lost income that by the end of the second quarter, U.S. personal income was considerably higher than it was in the first quarter.

Lastly, many local, state, and ultimately the federal government acted to protect low-income tenants through eviction moratoria. In most cases, the rent will be due at the end of the pandemic, although both San Francisco and the State of California have limited this liability. While most tenants have been making timely rent payments in most of the country, the eviction moratoria have provided further economic stability to households that have been most impacted by the pandemic.

Given this fast policy action, the seeds for a rapid recovery were laid even during a period of unprecedented economic contraction. U.S. GDP declined at an annual rate of 31% in the second quarter but bounced back to grow at an annual rate of 33% in the third quarter. Despite the drop of jobs in April, U.S. employment began to grow again in May – earlier than most economists expected – and has grown each month through November.

After quickly downgrading their projections at the start of the pandemic, the national economic forecasters that contribute to the Blue Chip Economic Indicators have produced a "consensus" forecast that has gradually improved since the summer. As shown in the chart below, forecasts were anticipating U.S. real GDP to drop by 6% in June; by December, this had improved to only a 3.5% drop. Median expectations for 2021 have remained relatively steady at 4% growth, implying that the U.S. will experience faster-than-average growth through 2021 and recovery to pre-recession levels by the end of 2021. While the Blue Chip Economic Indicators only poll forecasters through 2021, as of this writing, many forecasters expect faster-than-average growth in 2022 as well.

Figure 1: Evolution of Blue Chip Forecasts for 2020 and 2021 Real GDP Growth, Monthly During 2020



Source: Blue Chip Economic Indicators

Similarly, expectations about unemployment have gradually improved. Average unemployment for 2020, which in the summer had been expected to finish above 10%, will likely end at around 8.1%. In June, the median forecast for 2021 unemployment was 8.1%; it has now fallen to 6.1%.

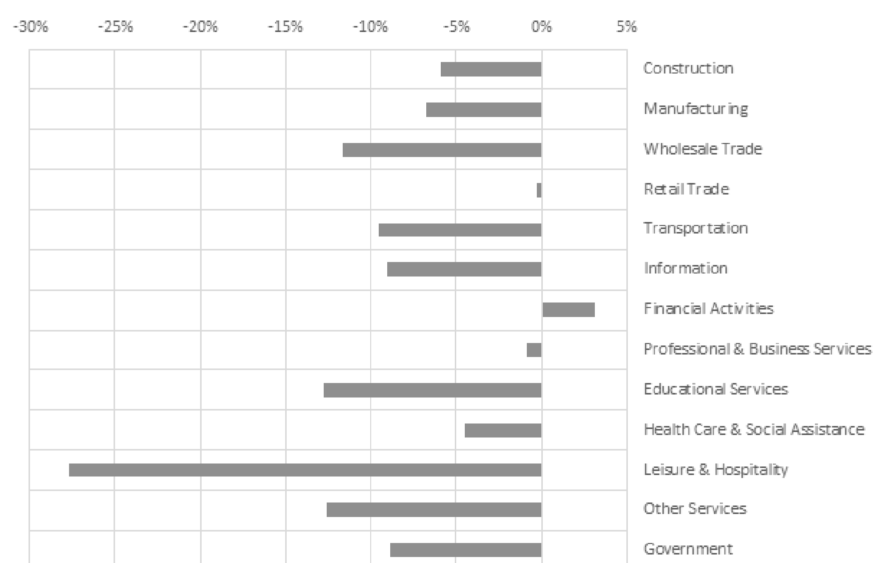
At this time of writing, national forecasts have not fully incorporated the third virus wave, which has led to another round of business shutdowns, nor the upcoming stimulus package, nor the initial vaccination process. It is likely that economic news will get worse in the short term, but the forecasts for 2021 will continue to improve, as the new stimulus takes effect and vaccination begins to limit the pandemic in a meaningful way.

LOCAL FACTORS IMPACTING THE CITY'S RECOVERY

While an improved national economic outlook is good news for San Francisco, the City has developed economic problems during the recession, which other parts of California, and other large cities in the U.S., have not experienced to nearly the same degree. When and to what extent these issues are resolved will shape the City's recovery and growth over the next five years.

Overall employment in the San Francisco/San Mateo County area has largely tracked broader trends. Like the state, the San Francisco metro division lost 15% of its employment in April; like California, November unemployment was 91% of the pre-pandemic total. However, this top-line measure may be a bit misleading, as San Francisco is much more heavily concentrated in knowledge-based services and office workers, who generally have not become unemployed because of the pandemic. Given that, only matching the state's economic performance is a sign of the troubles in other City's economy sectors, particularly its large tourism industry. As seen below, there are wide disparities in how different sectors of the local economy fared between March and November. Industries like financial activities and business and professional services have essentially reached pre-pandemic employment levels in the region, while the leisure and hospitality sector—hotels, restaurants, and the arts—is still down 28% from March employment levels. As an indication of the immediate impacts on travel of the third wave of the virus in November, the leisure and hospitality sector lost 2,000 jobs that month, marking the largest job losses for the sector since April.

Figure 2: Percentage Change in Employment by Industry, San Francisco Metro Division March-November 2020



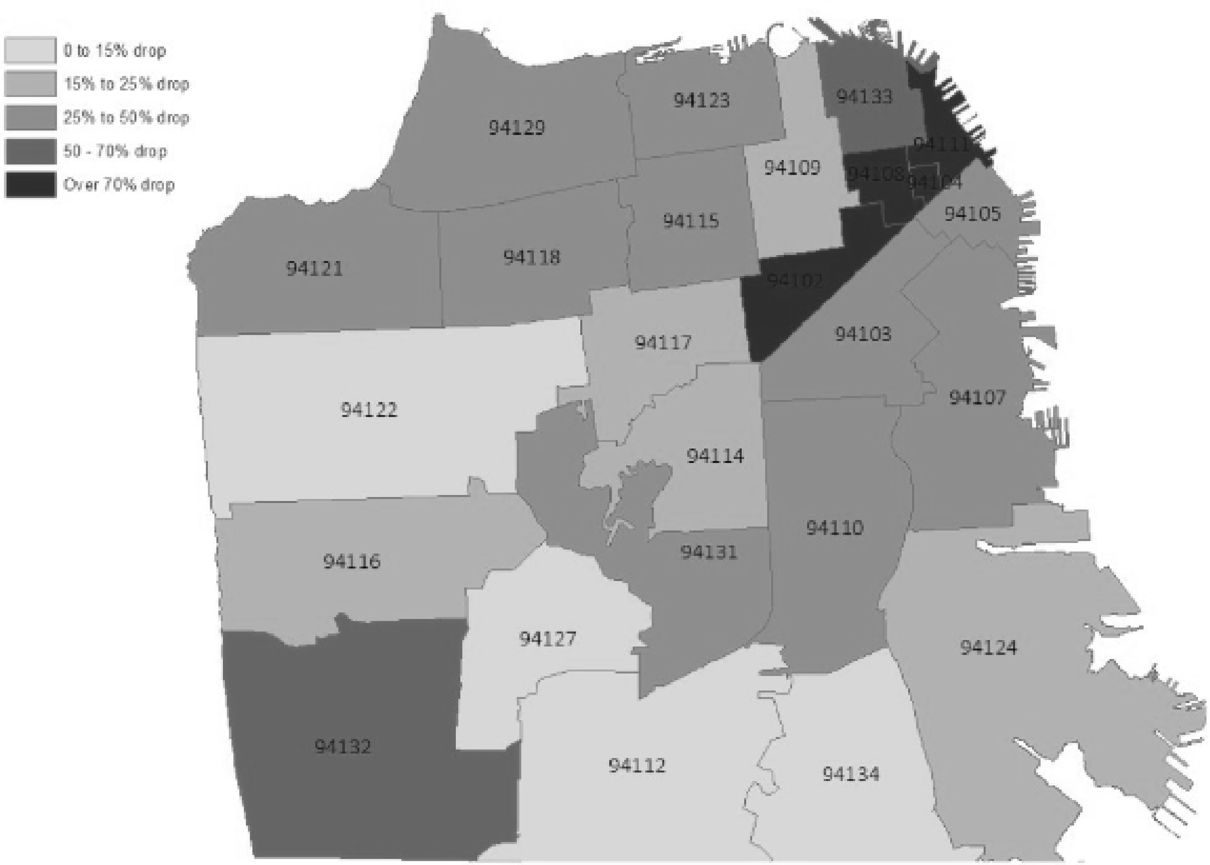
Source: Employment Development Department

This pattern, in which high-wage workers in office occupations remain employed, while low-wage workers in leisure and essential occupations suffer job losses, is what some observers term a “K-shaped recession”. San Francisco’s K-shape is quite clear, but not shown in the chart above is the fact that the disparity is made more pronounced because of the increased spatial separation of office and service workers during the pandemic.

As an office employment center, perhaps the most important single change to the City’s economy has been the immediate switch of office workers to remotely working from home. Office activities, including government, generated about 75% of the City’s GDP before the pandemic, and about half of the City’s employment base commuted from outside the City. The absence of in-commuters has seriously impacted businesses, particularly downtown, that formerly served those workers.

A clear indication of the weakness of downtown can be seen by the City’s sales tax receipts. San Francisco sales tax dropped by 43% between the second quarter of 2019 and the second quarter of 2020, reflecting the impact of the shutdown in March. As shown in the map below, sales tax declined across the City, but losses were concentrated around the retail, hotel, and office core in downtown, where annual losses exceeded 70%. Low-wage industries like restaurants, hotels, and restaurants absorbed most of these losses.

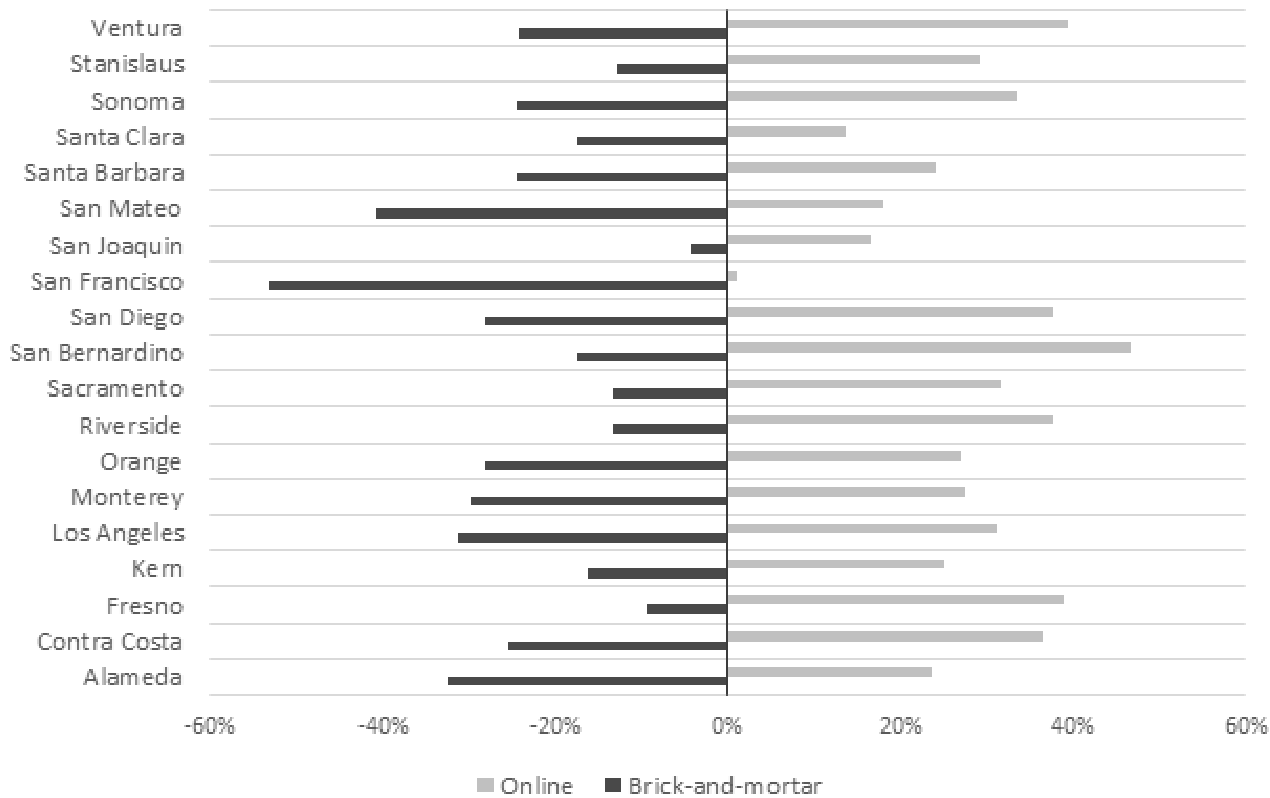
Figure 3: Annual Change in Sales Tax by ZIP Code between Q2 2019 and Q2 2020



Source: Board of Equalization / HDL

In addition to the loss of commuters, there are several signs that San Francisco has seen at least a temporary out-migration of residents that is more pronounced than in other cities. One indication also comes from sales tax data: unlike virtually anywhere else, San Francisco not only saw a reduction in sales tax coming from brick-and-mortar retailers, which were generally closed during the shutdown, but the City also saw virtually no growth in online sales tax.

Figure 4: Percentage Change in Brick-and-Mortar and Online Sales Tax for Selected CA Counties Between Q2 2019 and Q2 2020



Source: Board of Equalization / HDL. "Online Sales" refers to total sales allocated to the County pools

The lack of online sales tax growth in San Francisco is difficult to explain without some loss of population. To be sure, consumer spending declined during the shutdown, and savings rates increased, but this is true everywhere, not only in San Francisco. And while it could be argued that, as an affluent and tech-savvy county, San Franciscans already heavily relied on internet retailers, the same could be said for counties like San Mateo and Santa Clara that saw double-digit growth in online sales.

Even more dramatic evidence of out-migration can be found in indicators of the city's real estate market, especially apartment rentals. According to the listing service ApartmentList, San Francisco's average asking rents had declined by over 25% from November 2019 to November 2020 – the largest drop of any large city in the country. While not direct evidence of out-migration, this trend is difficult to explain without at least a temporary reduction in population. Across the Bay Area, the ApartmentList data also indicates the highest declines in rent in cities where large concentrations of tech workers live, on the peninsula and in western Santa Clara County, as well as San Francisco.

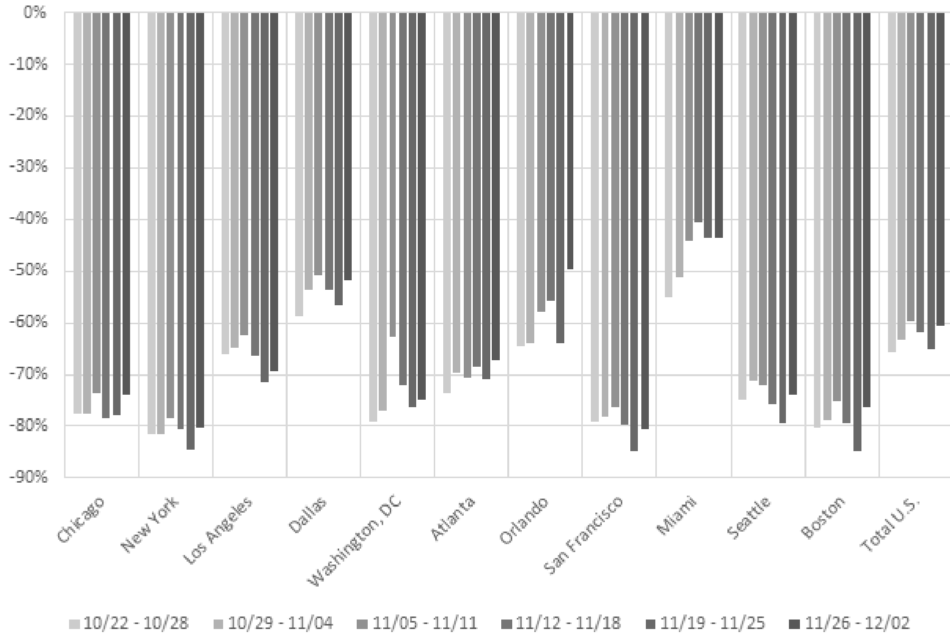
This suggests that office workers, working remotely, are the group leading the exodus, and the not low-wage workers who are much more likely to have become unemployed. Out-migration, and not merely working at home, is another consequence of the shift towards remote office work during the pandemic. As an extreme form of the spatial separation of the city's economy during the pandemic, it also increases the stresses on the low-wage sectors and workers that provide in-person services, retailing, and hospitality.

Because of the direct and indirect contribution of office industries to the city's GDP, the prevalence of remote office work after the pandemic will have a powerful influence on the city's economy over the next five years. If widespread vaccination and virus abatement lead to a rapid return to downtown offices, then the city's recovery to pre-pandemic levels of employment and GDP will be accelerated, and conditions could return to normal soon. On the other hand, if office tenants and their employees decide that the cost benefits of extended working from home – or outright relocation – outweigh any loss of productivity, then expensive office and real estate markets like San Francisco face an uncertain future. The private sector office activities that drive the entire city economy, and the city's tax revenue, locate in downtown to access and build a workforce from the highly skilled and specialized labor that resides in the Bay Area. If it is no longer necessary to physically bring workers into downtown offices – or for those workers to live in the Bay Area – then the consequences for the regional economy could be severe.

At present, there remains a great deal of uncertainty regarding what the post-pandemic future holds for remote work. Some surveys indicate a preference for a "hybrid" office – in which working from home is more common than in the past, but regular office time is still an on-going part of work-life. If such a practice were to become common, it would reduce office occupancy in the City over the short run, relative to pre-pandemic levels. This would tend to slow the city's recovery, in comparison to a "rapid return" scenario, but should not lead to the painful economic restructuring of a "fully virtual office" scenario.

While it's important to stress the city's loss of commuters and residents, the hard-hit leisure and hospitality sector also relies on visitors. Limitations on international travel, consumer aversion to air travel, and a shift to budget destinations have played against San Francisco's strengths as a high-cost, international destination. According to data produced by the travel consultancy Kalibri Labs, airplane ticket purchases to San Francisco were down 80% from last year over the late October and November period. Along with New York and Boston, San Francisco's air travel performance was among the worst of the cities examined and significantly worse than the U.S. average.

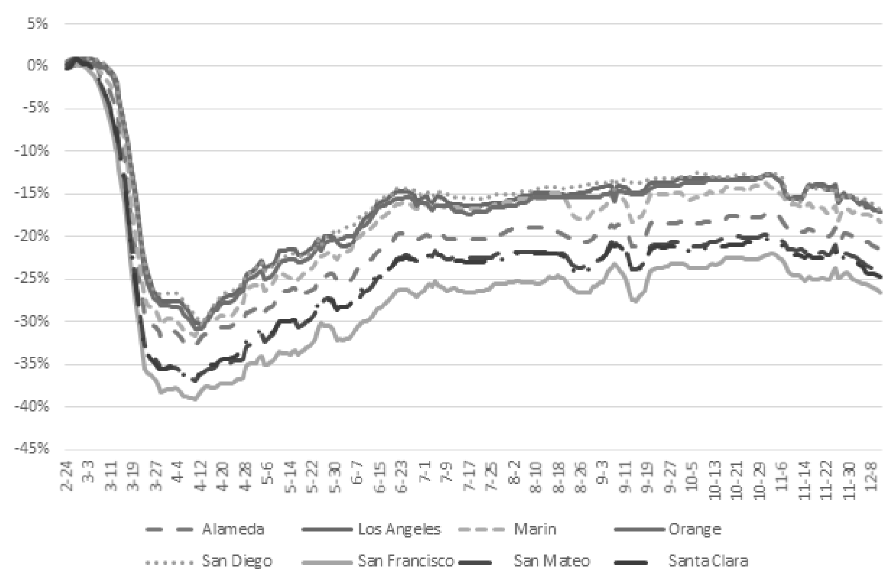
Figure 5: Airline Ticket Purchases by City, Percentage Change from One Year Ago



Source: Kalibri Labs

Finally, the City's relatively conservative public health response, and city residents' own conservative and safety-conscious behavior, may have further contributed to economic weakness. For example, data on the amount of time people spent outside of the home during the pandemic, compared to last year, indicates that San Francisco residents have reduced their time outside the home more than residents of other areas in California. While the Bay Area has generally had tighter restrictions on businesses and outside-the-home activity, San Francisco residents stay at home more than other Bay Area counties.

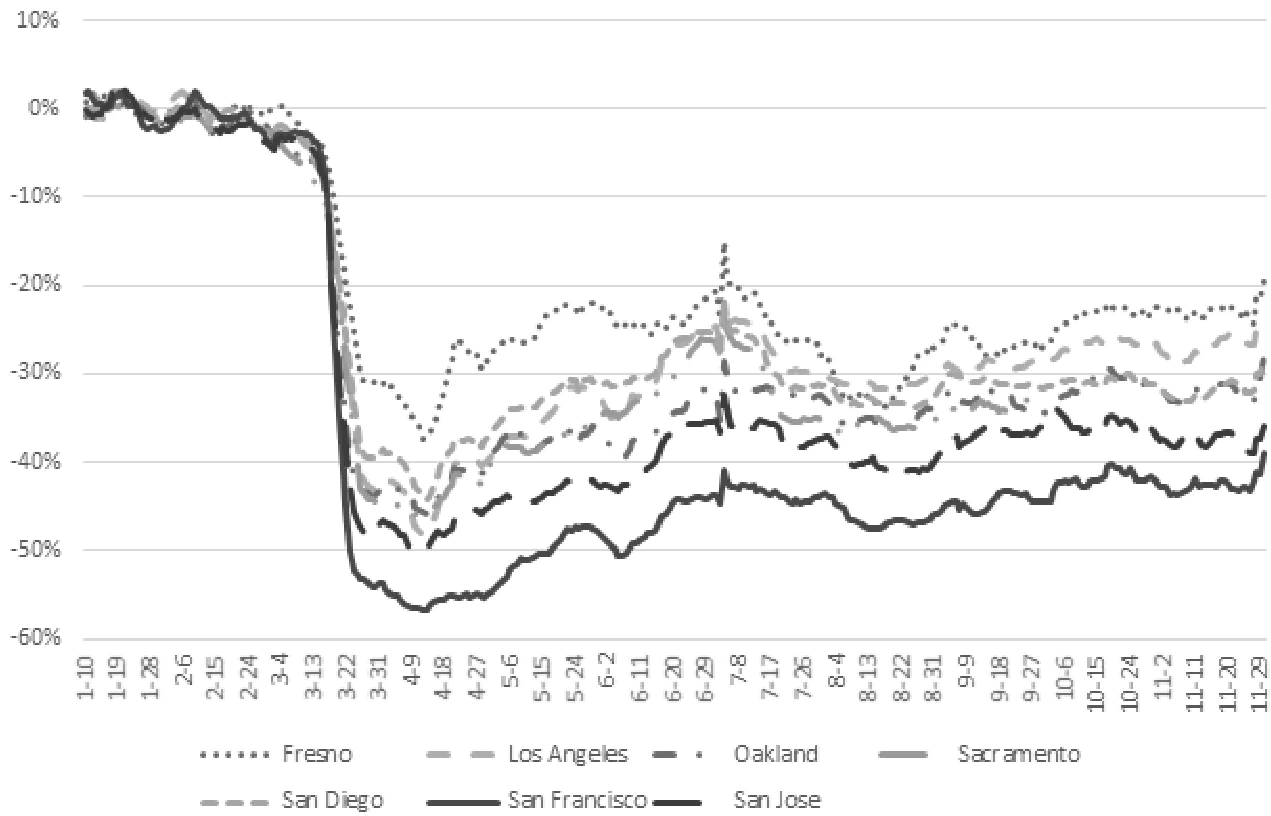
Figure 6: Change in Amount of Time Spent Outside the Home vs. One Year Previously: San Francisco and Select California Counties, February-December 2020



Source: Opportunity Insights / Google Mobility

Given the loss of commuters, residents, and tourists, and the safety-conscious behavior of San Franciscans who have remained, there are further signs that San Francisco's small business sector has been hit much harder than elsewhere in California. Some of this has already been discussed in relation to the sales tax data. But data from the payment processor Womply, collected by the Opportunity Insights research group at Harvard, powerfully illustrates the extent of the shutdown of small businesses. Once again, San Francisco's performance is weaker than other major California cities, including Bay Area cities like Oakland and San Jose. By the end of November, slightly under 40% of Womply's small business clients in San Francisco were not processing sales, but this was just before the shelter-in-place order that went into effect on December 7.

Figure 7: Year-over-Year Percentage Change in Number of Small Businesses Open, Select California Cities, January-November 2020



Source: Opportunity Insights / Womply

CONCLUSIONS

Notwithstanding the good news of vaccines and improving national economic forecasts, San Francisco has several hurdles to cross before its economy recovers to pre-pandemic levels. Based on the analysis in this section, three structural challenges facing the city can be identified, related to the city's tourism industry, small businesses, and office sector.

COVID-19 is the worst crisis to hit the city's tourism industry since 1906, so its severity is not in any doubt. But the problems facing tourism are also the least "structural" of the city's economic challenges because the recovery is so clearly tied to the fate of the virus and consumer psychology surrounding travel in the post-pandemic period. Without a permanent conversion of hotels to some other use during the recession, or a permanent decline in the attractiveness of the city and broader region, which both seem very improbable, the demand for travel to San Francisco should recover after the virus has abated.

There are, however, some important caveats. First, the city's tourism industry is heavily reliant on the health of the broader business community, through conventions and transient business travel. Conventions require planning and are likely to be slower to recover, while transient business travel hinges on office workers being back in their office. Second, the pandemic has exacerbated issues around homelessness and perceptions of safety that were already recognized competitive weaknesses for the city. Additional resources to support homelessness services, and a return to normal commercial life in tourism areas, should help alleviate those problems, but tourism recovery still retains an element of uncertainty.

For the city's small business sector, the challenges may be even greater. With 40% of small businesses facing a period of shutdown, perhaps a year or more, there is a real risk that many of these businesses will face bankruptcy before they can again operate at full capacity. Even before the pandemic, the city's neighborhood commercial corridors were facing increased vacancy, weak employment growth, and a 15% decline in the number of retailers in the city over the past 20 years. The structural challenge is that if the city cannot grow its neighborhood small business sector when times are good, what will the growth strategy be in the early stages of recovery from a severe recession?

Lastly, while San Francisco's office industries and their employees have been spared most of the pain of the recession, in many ways, the city's near-term economic outlook rests mostly on decisions they make about the value of their downtown office space. Several tech companies have announced that they will not go back to pre-pandemic work patterns after it is safe to return to the office. Some, like Google, intends to switch to a hybrid office model. Facebook intends to support workers who wish to relocate out of the region permanently, albeit with a pay reduction. Dropbox plans to use office space for collaborative work only. Twitter also plans to promote a globally distributed workforce, while Stripe has offered cash incentives to employees who agree to leave the Bay Area. Evidently, a range of new models are being considered, and it is striking how few large tech employers have stated that they expect to return to pre-COVID work habits after the pandemic.

The tech sector, and the broader downtown office sector, have transformed the city's economy over the past 30 years. San Francisco attracted a disproportionate amount of new investment from the technology sector, despite starting with very expensive housing and a high overall cost of doing business. It is tempting to ask, if the city was attractive to tech investment in 2019, why should it be so different in 2021 or 2022, after the pandemic? On the other hand, those companies and their workers have never had to suddenly cope without their office space. The lessons and habits they learned about remote work during the pandemic will have a powerful influence on the future of the San Francisco economy.

Page intentionally left blank.

Five-Year Base Case Projection

PURPOSE OF THE PLAN

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

The City is currently implementing the following strategies as part of its long-range financial management and planning:

- **The Five-Year Financial Plan:** The City is forecasting and analyzing 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 2020-21 and FY 2021-22 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:** To date, the City has adopted a number of financial policies, including creation of an Economic Stabilization Reserve, modification of the General Reserve to increase deposits and make more withdrawals more flexible in a downturn, and restricting the use of one-time revenues. To offset the stark revenue losses caused by the COVID-19 emergency in FY 2019-20 through FY 2022-23, this report assumes maximum allowable uses of the Economic Stabilization Reserve and the General Reserve, as codified in Administrative Code Section 10.60(b). Once the City's economic picture has recovered, it will be important for the City to follow these policies to rebuild these reserves and ensure that San Francisco can be resilient during any future downturns.

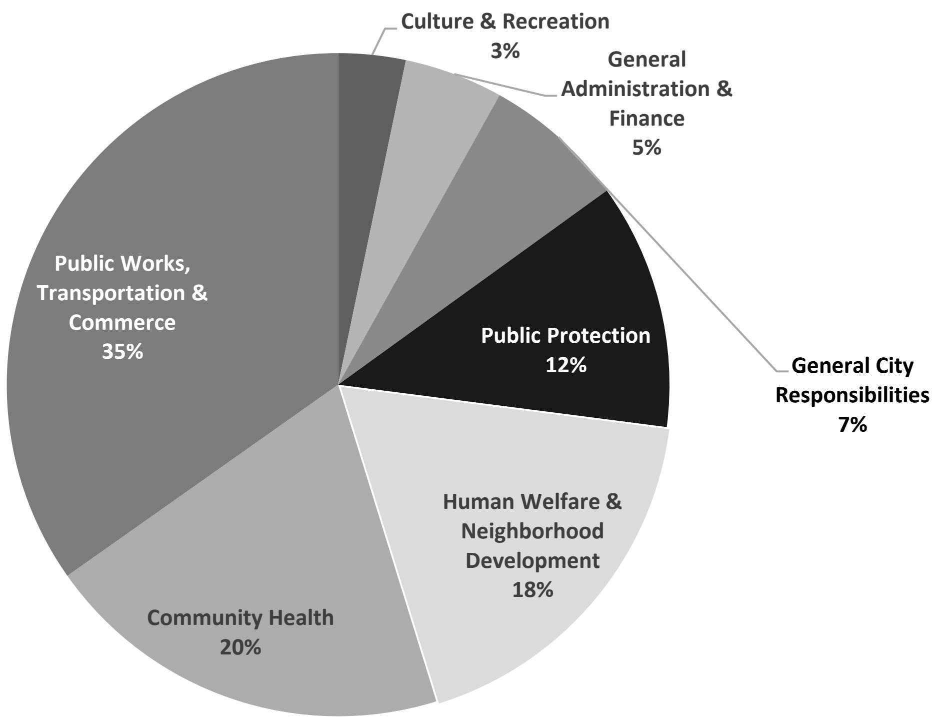
Multi-year budgeting and forecasting are best practices for all governments. The Five-Year Financial Plan is designed to enhance the City's ability to identify the key drivers of its revenues, expenditures, and needed public services. The current level of uncertainty of both City revenues and expenditures is historically high due to the operational and economic effects brought on by the COVID-19 pandemic. This five-year planning process will enable San Francisco to thoughtfully plan for the evolving fiscal picture in San Francisco and adapt programs accordingly. Overall, the City will minimize volatility and risk by looking beyond the immediate two-year budget horizon, resulting in more stable public service delivery that citizens can expect and rely on.

BUDGET OVERVIEW

The City and County of San Francisco's budget for FY 2020-21 is $13.6 billion. Over half of the budget, $7.4 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 46%, or $6.2 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.

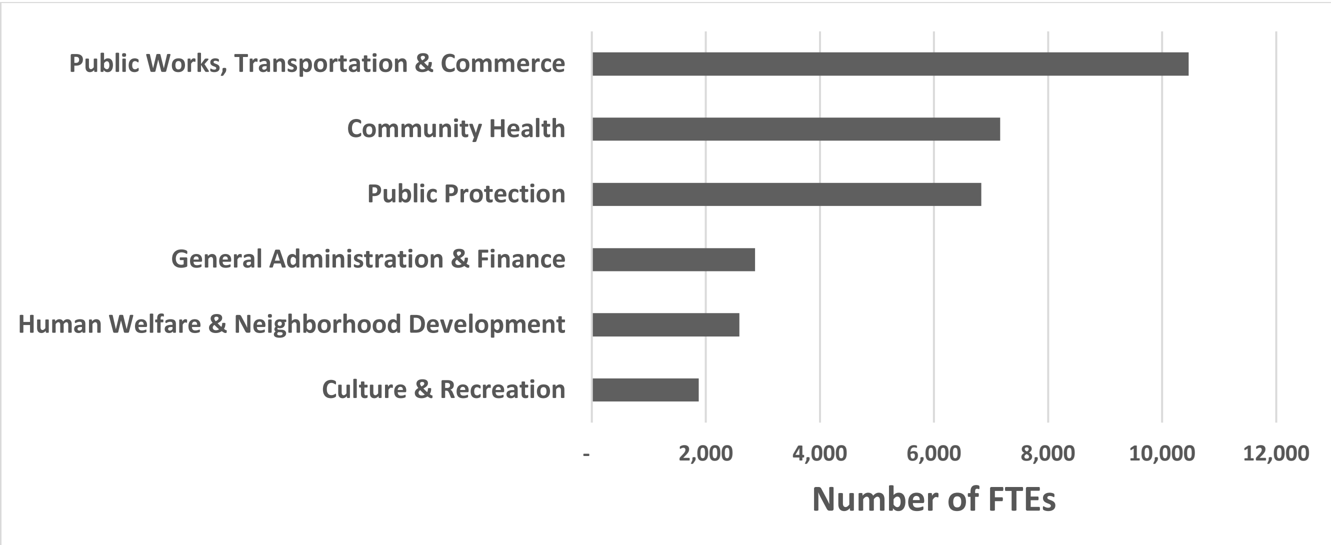
Figure 8 shows the total $13.6 billion citywide budget by major service area. The Public Works, Transportation & Commerce major service area has the largest overall budget, due primarily to the budgets of large enterprise departments.

Figure 8: Total Budget by Major Service Area FY 2020-21



There are 31,778 full-time equivalent positions (FTEs) budgeted and funded between all six major service areas in FY 2020-21. As shown in Figure 9, the Public Works, Transportation, and Commerce service area also has the largest share of FTEs, which is largely driven by the MTA.

Figure 9: Full Time Equivalent Positions (FTEs) by Major Service Area FY 2020-21



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 2021-22, FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26.

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 basis for a projection. Key assumptions are also detailed below.

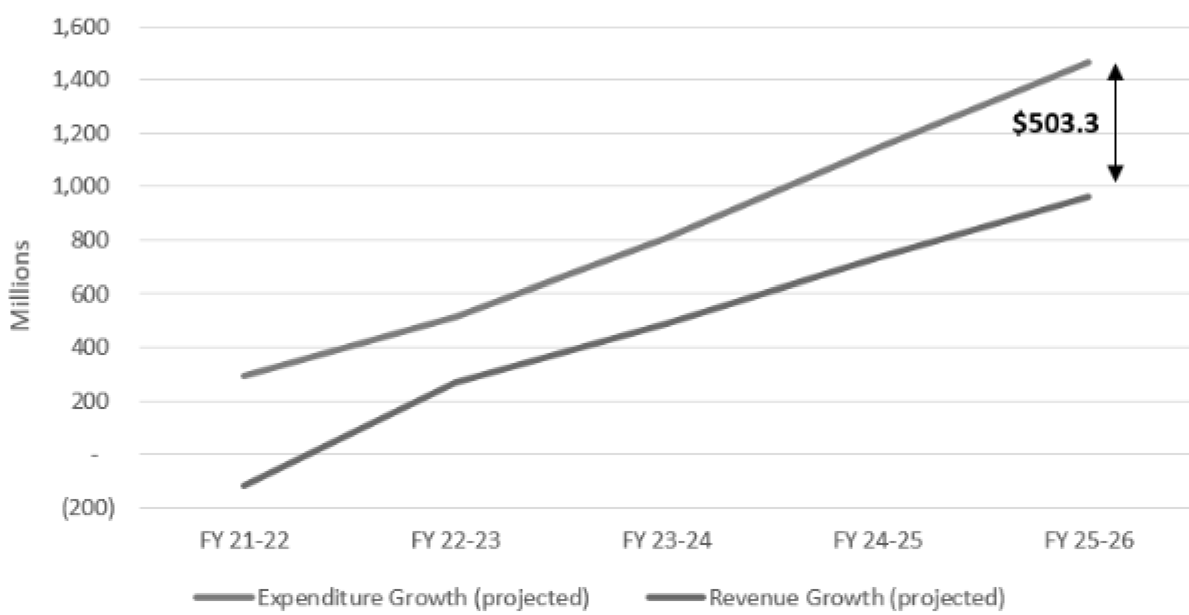
Table 2 summarizes the projected changes in General Fund-supported revenues and expenditures over the next five years. As previously shown in Table 1, this report projects shortfalls of $411.1 million in FY 2021-22, $242.1 million in FY 2022-23, $323.7 million in FY 2023-24, $413.3 in FY 2024-25, and $503.3 million in FY 2025-26.

Table 2: Base Case – Summary of FY 2022-26 General Fund-Supported Projected Budgetary Cumulative Surplus/ (Shortfall) ($ millions)

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	% of Uses
SOURCES Increase / (Decrease)	(117.6)	268.5	487.2	732.1	963.4	
	-	-	-	-	-	
Uses	-	-	-	-	-	
Baselines & Reserves	(54.4)	(157.7)	(242.1)	(293.2)	(354.6)	24%
Salaries & Benefits	(150.8)	(233.4)	(318.0)	(433.8)	(565.1)	39%
Citywide Operating Budget Costs	(21.4)	(8.2)	(94.2)	(219.4)	(304.8)	21%
Departmental Costs	(67.0)	(111.2)	(156.5)	(198.9)	(242.2)	16%
USES (Increase) / Decrease	(293.6)	(510.6)	(810.9)	(1,145.4)	(1,466.8)	100%
Projected Cumulative Surplus / (Shortfall)	(411.1)	(242.1)	(323.7)	(413.3)	(503.3)	
Two Year Deficit	(653.2)					

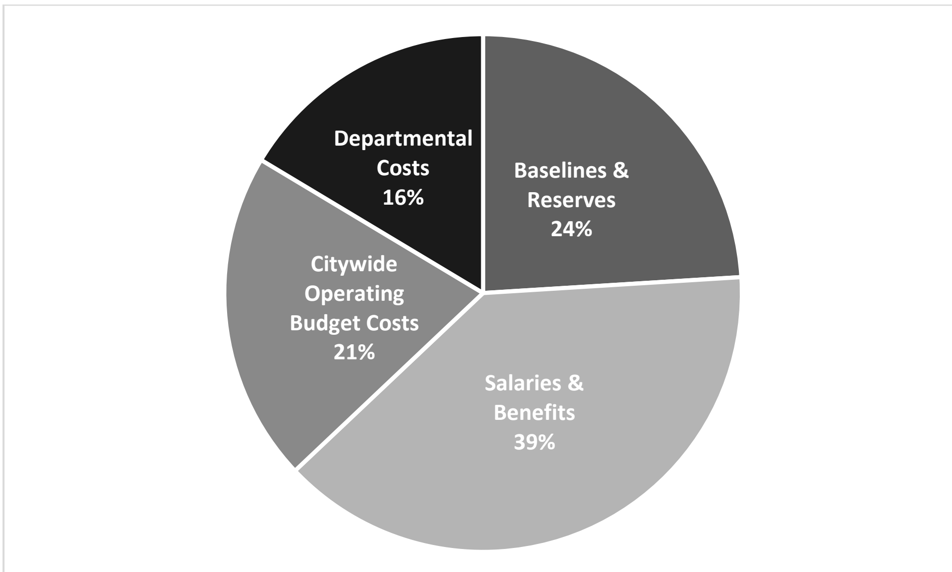
This projection demonstrates that revenue growth from FY 2020-21 to FY 2021-22 is offset by loss of available fund balance, leading to an overall decrease in FY 2021-22 sources compared to the prior year. In all other fiscal years, revenues are projected to grow, but not fast enough to keep pace with the projected increase in expenditures. As a result, a gap remains despite assumed economic recovery over the five-year period. The City currently projects revenue growth of $963.4 million, or 15.5% over the five-year period of this report, and expenditure growth of $1.47 billion, or 23.7%, as shown in Figure 10 below.

Figure 10: Projected Growth in General Fund Expenditures and Revenues FY 2022-26



Total expenditure growth is shown below in Figure 11, which illustrates that salary and benefit costs represent the largest driver of the City's deficit projection with 39% of the growth over the next five years, or an increase of $565.1 million over the five-year period. Charter-mandated baseline and reserve changes represent the second largest area of expenditure growth at 24%, or $354.6 million. The next largest drivers of expenditure growth are: citywide operating cost growth of $304.8 million (21%) and other department-specific cost increases of $242.2 million (16%).

Figure 11: General Fund-Supported Expenditure Increases by Expenditure Type FY 2022-26



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 budgets are balanced with new on-going solutions, future shortfalls will decrease.

A key driver of projected shortfalls are increases in mandated costs. Many of the projected expenditure increases are unavoidable, 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 2021-22 THROUGH FY 2025-26 PROJECTIONS

- **No major changes to service levels and number of employees:** The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2020-21 and FY 2021-22 budgeted levels unless specified below.

- **Revenue losses and subsequent recovery from COVID-19 pandemic:** San Francisco's economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism, all of which were impacted significantly by the COVID-19 pandemic. This report assumes that San Francisco will largely recover to prior peak revenue levels over the five-year period, though that recovery is delayed from the timeline assumed in the adopted FY 2020-21 and FY 2021-22 budget. Revenue projections are based on the assumption that there is widespread vaccination by fall 2021, with mass gatherings returning to pre-COVID levels by summer 2022. While most revenues are expected to rebound to pre-pandemic levels by FY 2025-26, further challenges around recovery for tourism, small businesses, and office work could cause revenue to grow more slowly than projected in this report. The Citywide Revenue Projections section of this report more fully details revenue assumptions.

- **Full use of new revenue sources adopted by voters in November 2020 election:** The projections assume that Proposition I (increased transfer tax rates) continues to phase in in FY 2021-22 and Proposition L (new tax on executive pay) goes into effect in FY 2021-22 and FY 2022-23, respectively. This report does not assume any new expenditures associated with these general tax increases although the Board of Supervisors has discussed, but not appropriated, funds for various purposes using these general tax proceeds. Such actions, if taken, would increase projected shortfalls accordingly. This projection also assumes implementation of Proposition F (overhaul of the business tax), which is expected to increase General Fund business tax in all years of the report, unlock $149.0 million of General Fund one-time funds that were assumed in the FY 2021-22 adopted budget, and unlock $28.0 million in on-going funding in each remaining year of the report. Additionally, the projection assumes the implementation of two voter-approved November 2020 Propositions, which create new General Fund costs over the five-year period: Proposition B (Department of Sanitation and Streets) and Proposition D (Sherriff Oversight).

- **Previously negotiated wage increases and inflationary increases for open contracts in line with CPI:** This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed memorandums of understanding (MOU) through FY 2022-23 as a result of a recent amendment. Miscellaneous unions have closed MOUs through FY 2021-22. This report does not assume the recession trigger in these MOUs is met, which will be revaluated for future projection updates. In open contract years, 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 3.01% for FY 2021-22, 2.88% for FY 2022-23, 3.10% for FY 2023-24, 3.11% for FY 2024-25, and 2.98% for FY 2025-26. 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, but do not trigger a supplemental COLA**: This report assumes a return on San Francisco Employees' Retirement System (SFERS) assets of 7.4%, the actuarially assumed rate of return. This projection does not assume that any on-going supplemental COLA payment to certain retirees is triggered, which would require increased employer contributions.

- **Health insurance cost increases**: This projection assumes that the employer share of health insurance costs for active employees will increase by 5.5% in FY 2021-22, and then 6.0% in each following year, for an average of 5.9% annually over the projection period. Retiree health costs are assumed to grow by 6% in FY 2021-22, 5.3% in FY 2022-23, and then 6.1% in each subsequent fiscal year, an average of 5.9% annually over the projection period.

- **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 CPI. The projection reflects the adopted FY 2021-22 budget, which did not include a cost-of-doing business increase for General Fund nonprofit contracts.

- **Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment**: For capital, this report assumes the adopted FY 2021-22 budget funding levels, and assumes funding will increase by 10% annually thereafter with a significant increase in FY 2024-25, in line with forthcoming recommendations in the City's upcoming FY 2022-31 Ten-Year Capital Plan. The IT investment projection similarly assumes partial funding of projects in the City's Information and Communications Technology (ICT) Plan in FY 2021-22, in accordance with the most recent budget, and 10% annual growth in the following four years, with a significant funding increase in FY 2024-25. For equipment, this report assumes the budgeted level of funding in FY 2021-22, and annual growth of 10% in the following four years.

- **Deposits and withdrawals from reserves:** The projection makes several key assumptions regarding deposits to and withdrawals from major General Fund reserves. In FY 2021-22 and FY 2022-23, $188 million from the Economic Stabilization Reserve is assumed to be withdrawn in each year, exhausting the reserve balance by the end of FY 2022-23. The report assumes that deposits to this reserve are only made in the final two years of the five-year period. In order to remain consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), no funds are projected to be withdrawn from the General Reserve in the five-year period, and deposits to the General Reserve are projected to begin in FY 2022-23. No withdrawal from the COVID Response and Economic Loss Reserve is assumed in this projection.

- **Property tax shifts:** In the past two fiscal years, the City's General Fund received "Excess ERAF" property tax allocations, after distributions from the Educational Revenue Augmentation Fund (ERAF) fulfilled all other statutory distributions to other local taxing entities. Legislation adopted by the Mayor and the Board of Supervisors stipulates that at least 50% of these revenues should be dedicated to on one-time affordable housing production and preservation, and 50% to be made available for other purposes. The adopted FY 2020-21 and FY 2021-22 budget does not allocate spending in accordance with this legislation, in order to most effectively allocate this resource to support priority homelessness and mental health programming in the face of the City's sharp revenue loss. This report assumes the City will continue to receive Excess ERAF revenues in all years of the report according to current state law. However, the report does not assume expenditure allocations in accordance with the previous legislation referenced above, and primarily reserves the use of these revenues to solve for projected revenue losses. Should the original legislation be enforced in the coming five years, the General Fund deficit would increase commensurately.

- **COVID-19 Response:** The Base Case assumes the City will sustain its current level of General Fund support for public health and human services programs in response to the COVID-19 pandemic in FY 2021-22. These projections do not incorporate any estimates of additional state or federal revenue to support the response. Starting in FY 2022-23, no further costs are assumed given the uncertainty of the duration of the pandemic.

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:

- **COVID-19 Pandemic and Recession:** This report assumes significant revenue growth in the first two years of the period, with revenue largely returning to pre-COVID levels by the end of the five-year period. However, should mass distribution of the vaccine be significantly delayed from current assumptions, San Francisco revenues would likely take longer to recover. Moreover, should San Francisco's office-using industries maintain higher levels of telecommuting going forward than assumed here, this could have a negative impact on the City's economy and revenues. Given the still-evolving impacts of the pandemic and vaccine adoption timelines, the City will continue to closely monitor economic and fiscal conditions.

- **Federal Stimulus Funding:** These projections do not incorporate local impacts from the December 2020 federal stimulus bill. At the time of these projections, no agreement had been reached on a new federal stimulus package since the passage of the March 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act. Federal funding from the December 2020 bill or other future stimulus could impact this projection. Additionally, any other changes to federal policy, such as economic stimulus spending, substantial changes to interest rates, or regulatory changes or enhancements to entitlement programs (e.g. food stamp eligibility requirements), could impact this projection.

- **Pending or proposed new programs or legislation:** No pending or proposed legislative changes with a fiscal impact is 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 finally adopted legislation.

Tables 3 and 4 below, in addition to the subsequent narrative section, 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 2022-26 ($ Millions)

SOURCES Increase / (Decrease)	2021-22	2022-23	2023-24	2024-25	2025-26
General Fund Taxes, Revenues and Transfers net of items below	222.0	393.5	309.7	199.0	204.6
Proposition F - November 2020 (Business Tax, General Fund Repayments)	23.2	(149.0)	-	-	-
Proposition L - November 2020 (Executive Pay)	-	60.0	20.0	20.0	-
Proposition I - November 2020 (Transfer Tax)	48.1	48.1	48.1	-	-
Proposition E - November 2018 (General Fund Backfill)	(11.2)	11.2	-	-	-
Use of Fund Balance	(370.3)	(0.1)	-	-	-
Use of Reserves	31.4	0.0	(187.9)	-	-
Public Health - One-time revenues	(51.5)	(14.0)	-	-	-
Public Health- Operating Revenues	18.5	17.8	18.3	18.1	18.7
Other General Fund Support	(27.8)	18.6	10.5	7.8	8.1
TOTAL CHANGES TO SOURCES	**(117.6)**	**386.1**	**218.7**	**244.9**	**231.4**
USES Decrease / (Increase)					
Baselines & Reserves					
Contributions to Baselines	(51.5)	(95.1)	(70.5)	(44.7)	(43.7)
Contributions to Reserves	(2.9)	(8.2)	(13.9)	(6.3)	(17.8)
Subtotal Baselines & Reserves	**(54.4)**	**(103.4)**	**(84.4)**	**(51.1)**	**(61.4)**
Salaries & Benefits					
Previously Negotiated Closed Labor Agreements	(140.4)	(35.9)	(8.8)	-	-
Projected Costs of Open Labor Agreements	-	(56.6)	(98.3)	(100.8)	(102.7)
Health & Dental Benefits - Current & Retired Employees	(23.8)	(24.8)	(27.6)	(29.2)	(31.0)
Retirement Benefits - Employer Contribution Rates	9.7	42.8	35.2	21.7	(1.3)
Other Salaries and Benefits Savings / (Costs)	3.7	(8.1)	14.9	(7.6)	3.6
Subtotal Salaries & Benefits	**(150.8)**	**(82.6)**	**(84.6)**	**(115.8)**	**(131.3)**
Citywide Operating Budget Costs					
Capital, Equipment, & Technology	11.2	(11.5)	(11.3)	(61.1)	(15.6)
Inflation on non-personnel costs and non-profit grants	12.0	(34.8)	(38.7)	(40.0)	(39.6)
Debt Service & Real Estate	(39.2)	(30.9)	(17.8)	(7.9)	(14.2)
Sewer, Water, and Power Rates	(3.3)	(3.2)	(2.5)	(2.6)	(2.7)
COVID-19 Citywide Expenditures	-	96.3	-	-	-
Other Citywide Costs	(2.1)	(2.6)	(15.7)	(13.6)	(13.3)
Subtotal Citywide Operating Budget Costs	**(21.4)**	**13.2**	**(86.0)**	**(125.2)**	**(85.4)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(13.3)	5.8	1.3	0.8	2.3
Elections - Number of Scheduled Elections	(1.6)	(0.6)	(0.4)	(0.7)	(1.3)
Ethics Commission - Public Financing of Elections	-	(0.5)	(6.8)	7.3	(1.6)
Mission Bay Transportation Improvement Fund	(0.3)	(1.2)	(0.3)	(3.6)	(0.3)
Affordable & Permanent Supportive Housing Project Costs	(12.6)	(11.0)	(6.0)	(8.6)	(8.5)
Human Services Agency - IHSS and Other Benefit Costs	(16.0)	(13.9)	(9.9)	(9.8)	(9.7)
Public Health - Operating Costs	(29.0)	(17.8)	(22.3)	(23.8)	(25.4)
Proposition B - November 2020 (Department of Sanitation and Streets)	-	(6.0)	(0.2)	(0.2)	(0.2)
Proposition D - November 2020 (Sheriff Oversight)	(2.9)	(0.1)	(0.1)	(0.1)	(0.1)
All Other Departmental Savings / (Costs)	8.8	1.0	(0.6)	(3.8)	1.4
Subtotal Departmental Costs	**(67.0)**	**(44.2)**	**(45.3)**	**(42.4)**	**(43.3)**
TOTAL CHANGES TO USES	**(293.6)**	**(217.0)**	**(300.3)**	**(334.5)**	**(321.4)**
Projected Surplus (Shortfall) vs. Prior Year	**(411.1)**	**169.1**	**(81.6)**	**(89.6)**	**(90.0)**
Cumulative Projected Surplus (Shortfall)	**(411.1)**	**(242.1)**	**(323.7)**	**(413.3)**	**(503.3)**
Two-Year Surplus (Shortfall)	**(653.2)**				

Table 4: Base Case – Key Changes to General Fund-Supported Sources & Uses – CUMULATIVE CHANGE Sources & Uses FY 2022-26 ($ Millions)

SOURCES Increase / (Decrease)	2021-22	2022-23	2023-24	2024-25	2025-26
General Fund Taxes, Revenues and Transfers net of items below	222.0	615.5	925.2	1,124.2	1,328.8
Proposition F - November 2020 (Business Tax, General Fund Repayments)	23.2	(125.8)	(125.8)	(125.8)	(125.8)
Proposition L - November 2020 (Executive Pay)	-	60.0	80.0	100.0	100.0
Proposition I - November 2020 (Transfer Tax)	48.1	96.2	144.3	144.3	144.3
Proposition E - November 2018 (General Fund Backfill)	(11.2)	-	-	-	-
Use of Fund Balance	(370.3)	(370.4)	(370.4)	(370.4)	(370.4)
Use of Reserves	31.4	31.4	(156.5)	(156.5)	(156.5)
Public Health - One-time revenues	(51.5)	(65.5)	(65.5)	(65.5)	(65.5)
Public Health- Operating Revenues	18.5	36.4	54.6	72.7	91.4
Other General Fund Support	(27.8)	(9.2)	1.3	9.1	17.2
TOTAL CHANGES TO SOURCES	**(117.6)**	**268.5**	**487.2**	**732.1**	**963.4**
USES Decrease / (Increase)					
Baselines & Reserves					
Contributions to Baselines	(51.5)	(146.6)	(217.1)	(261.9)	(305.5)
Contributions to Reserves	(2.9)	(11.1)	(25.0)	(31.4)	(49.1)
Subtotal Baselines & Reserves	**(54.4)**	**(157.7)**	**(242.1)**	**(293.2)**	**(354.6)**
Salaries & Benefits					
Previously Negotiated Closed Labor Agreements	(140.4)	(176.3)	(185.1)	(185.1)	(185.1)
Projected Costs of Open Labor Agreements	-	(56.6)	(154.9)	(255.7)	(358.4)
Health & Dental Benefits - Current & Retired Employees	(23.8)	(48.6)	(76.1)	(105.4)	(136.3)
Retirement Benefits - Employer Contribution Rates	9.7	52.5	87.6	109.4	108.1
Other Salaries and Benefits Savings / (Costs)	3.7	(4.4)	10.5	2.9	6.6
Subtotal Salaries & Benefits	**(150.8)**	**(233.4)**	**(318.0)**	**(433.8)**	**(565.1)**
Citywide Operating Budget Costs					
Capital, Equipment, & Technology	11.2	(0.3)	(11.7)	(72.7)	(88.4)
Inflation on non-personnel costs and non-profit grants	12.0	(22.8)	(61.5)	(101.5)	(141.1)
Debt Service & Real Estate	(39.2)	(70.1)	(87.9)	(95.7)	(110.0)
Sewer, Water, and Power Rates	(3.3)	(6.5)	(9.0)	(11.6)	(14.3)
COVID-19 Citywide Expenditures	-	96.3	96.3	96.3	96.3
Other Citywide Costs	(2.1)	(4.7)	(20.4)	(34.1)	(47.3)
Subtotal Citywide Operating Budget Costs	**(21.4)**	**(8.2)**	**(94.2)**	**(219.4)**	**(304.8)**
Departmental Costs					
City Administrator's Office - Convention Facilities Subsidy	(13.3)	(7.5)	(6.2)	(5.4)	(3.1)
Elections - Number of Scheduled Elections	(1.6)	(2.1)	(2.5)	(3.2)	(4.5)
Ethics Commission - Public Financing of Elections	-	(0.5)	(7.3)	-	(1.6)
Mission Bay Transportation Improvement Fund	(0.3)	(1.5)	(1.8)	(5.3)	(5.6)
Affordable & Permanent Supportive Housing Project Costs	(12.6)	(23.7)	(29.7)	(38.3)	(46.8)
Human Services Agency - IHSS and Other Benefit Costs	(16.0)	(29.9)	(39.9)	(49.7)	(59.4)
Public Health - Operating Costs	(29.0)	(46.9)	(69.1)	(92.9)	(118.3)
Proposition B - November 2020 (Department of Sanitation and Streets)	-	(6.0)	(6.2)	(6.4)	(6.6)
Proposition D - November 2020 (Sheriff Oversight)	(2.9)	(3.0)	(3.1)	(3.2)	(3.3)
All Other Departmental Savings / (Costs)	8.8	9.8	9.2	5.4	6.9
Subtotal Departmental Costs	**(67.0)**	**(111.2)**	**(156.5)**	**(198.9)**	**(242.2)**
TOTAL CHANGES TO USES	**(293.6)**	**(510.6)**	**(810.9)**	**(1,145.4)**	**(1,466.8)**
Projected Surplus (Shortfall)	**(411.1)**	**(242.1)**	**(323.7)**	**(413.3)**	**(503.3)**
Two-Year Surplus (Shortfall)	**(653.2)**				

DETAIL BASE CASE PROJECTION

CITYWIDE REVENUE PROJECTIONS

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

General Fund Taxes, Revenues & Transfers

General Context Underlying Revenue Estimates
The revenue forecast assumes that COVID-19 vaccines will be widely available to San Franciscans in spring 2021, with widespread adoption by fall 2021. Following this timeline, mass gatherings are expected to slowly phase in starting in summer 2021 and reach pre-COVID levels by summer 2022. However, as discussed above, the City faces three major structural challenges to its economy related to tourism, small businesses, and office work. The revenue projections broadly assume the City is able to address these challenges and recover to pre-pandemic levels during the plan period. To the extent this does not happen, or that recovery in one area of revenue does not compensate for losses in another area, the projection will be too optimistic.

Overall growth rates of General Fund taxes, revenues, and transfers in are projected to be -4.6% in FY 2021-22 (compared to the Controller's FY 2020-21 3-month projections), rebounding to 9.7% in FY 2022-23, 6.6% in FY 2023-24, and slightly above 3% in subsequent years. The city's tourism and hospitality sector is expected to suffer substantially in FY 2020-21 but strongly recover to pre-pandemic levels by FY 2025-26, as pent up demand drives increased leisure travel in FY 2021-22 and FY 2022-23, and convention and business travelers follow in subsequent years. The forecast accounts for the business and sales tax impacts of small business closures and policy initiatives to waive or defer local licenses and taxes in the near-term, but assumes local economic activity recovers to pre-pandemic levels during the plan period. Finally, the impact of telecommuting on offices and businesses in San Francisco's downtown areas are contemplated in the property tax and business tax projections. For property tax, the forecast assumes Proposition 8 reductions made in spring 2021 result in on-going reductions to assessed values of hotel, retail, office, and multi-family apartment spaces beginning in FY 2021-22. Business tax revenue projections account for some level of permanent telecommuting, with in-person office work gradually returning to 90% of prior levels by FY 2023-24.

Voters approved three revenue measures in November 2020, including an overhaul of the business tax (Proposition F), increased real estate transfer tax rates (Proposition I), and a new tax on executive pay (Proposition L). In addition, during FY 2020-21, policymakers have adjusted exemption thresholds and delayed the implementation of the local cannabis excise tax. These policy initiatives are accounted for in the revenue projections and discussed below.

Below are details on specific revenue streams included in the General Fund Taxes, Revenues, and Transfers line of Table 4. While the FY 2021-22 variance is calculated compared to FY 2020-21 original budget, given unusually high levels of revenue volatility, the text below includes reference to the Controller's most recent FY 2020-21 revenue projections, as published in the Three-Month Budget Status Report.

Property Tax

General Fund property tax revenues are expected to grow from the 3-Month Report projection of $2,067.6 million in FY 2020-21 to an estimated $2,456.1 million in FY 2025-26. 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%) and new property value assessments triggered by changes in ownership or newly constructed buildings. The unsecured property roll typically grows or shrinks based upon the economic cycles and impacts on local businesses.

  The property tax revenue projection for FY 2021-22 assumes a 0.7% net decline in the secured property roll and a 20% drop in unsecured property roll values due primarily to the COVID-19 public health emergency and its impacts on resident, worker, and visitor behaviors. The net loss reflects assumptions of a 20% decline in hotel and retail property assessments, a 7% decline in office property assessments, and a 2% decline in multi-unit residential property assessments, totaling $9.7 billion in lost secured property valuation, tempered by assumed California CPI growth of 0.75% and 2% assessed value growth from new construction and property ownership changes. The 20% decline in unsecured property roll values reflects an assumption that many businesses closed permanently in calendar year 2020.

  FY 2022-23 through FY 2025-26 projections assume California CPI will provide the maximum annual Prop 13 allowable increase of 2%. Changes in ownership and new construction are assumed to increase the local secured assessment roll by an additional 2% in FY 2022-23 and FY 2023-24 and 2.2% in FY 2024-25 and FY 2025-26. The unsecured roll is assumed to grow 1% per year for FY 2022-23 through FY 2025-26.

- **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 $26.5 million in FY 2021-22, $36.8 million in FY 2022-23, and $62.8 million per year in FY 2023-24 through FY 2025-26. Escape assessment revenue of $7.0 million is assumed in FY 2021-22 and $4.6 million per year in FY 2022-23 through FY 2025-26. During the most recent economic expansion, high transaction volumes and the Assessor's work to eliminate assessment backlogs resulted in significant one-time supplemental and escape assessment revenue, which is now projected to be both smaller and more stable going forward.

- **Assessment Appeals Board reserve requirements:** General Fund property tax revenue required to fund Assessment Appeals Board (AAB) decisions is assumed at $44 million for FY 2021-22, $45 million for FY 2022-23, and $40 million each year for FY 2023-24 through FY 2025-26. Properties that recently changed ownership or were recently built are the most likely to receive temporary reductions in assessed valuations, potentially 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 likely already taxed at below current market value, making it less likely such properties will get temporary decreases granted by the AAB.

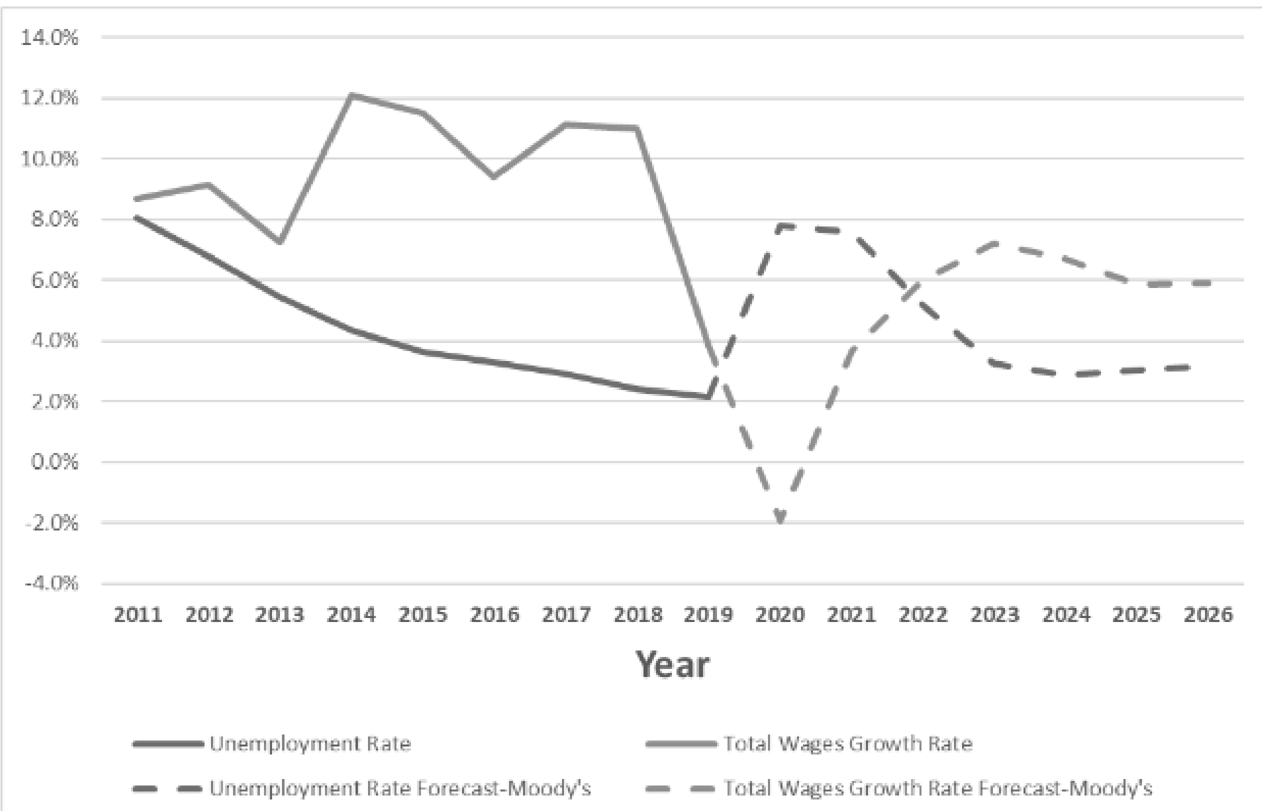
- **Excess Educational Revenue Augmentation Fund (ERAF):** Excess ERAF represents the portion of county, City, and special district property tax revenues that revert to taxing entities once educational entities reach the level of funding stipulated in state Proposition 98. In the City and County of San Francisco, the only taxing entity contributing to ERAF, and therefore receiving excess ERAF, is the City and County itself. Under the State's FY 2020-21 budget provisions, the State Controller's Office is required to release clarifying guidance in December 2020 that could result in additional revenue if the terms of the guidance are favorable to local governments generally and San Francisco specifically. As of the writing of this report, that guidance has not yet been issued. This report currently assumes excess ERAF revenue of

$147.1 million in FY 2021-22, $161.8 million in FY 2022-23, $190.9 million in FY 2023-24, $215.2 million in FY 2024-25, and $234.1 million in FY 2025-26.

Business Taxes

General Fund business tax revenue is expected to grow from a FY 2020-21 3-Month projection of $727.5 million to $1.14 billion in FY 2025-26. Business taxes include gross receipts taxes, the administrative office tax, business registration fees, and a payroll tax, although the payroll tax has been eliminated beginning with tax year 2021. Revenues from business taxes follow economic conditions in the City, especially total wages.

**Figure 12: San Francisco Unemployment and Wage Growth
2011 to 2026 Actuals and Projected**



Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Moody's Analytics Forecast

As seen in Figure 12, the COVID-19 emergency will significantly affect the business tax revenue base. After the decline in economic activity in tax year 2020, this projection anticipates economic growth of 6% in 2021, followed by annual growth rates of 4% in 2022 and 2% in 2023 through 2025. These growth rates are consistent with the assumption of a vaccine that is widely available and adopted by the summer of 2021.

Telecommuting

In addition to the direct economic effects the COVID-19 pandemic has had on tax revenue through economic growth rates, it also indirectly lowers tax revenue because many workers who previously commuted into San Francisco are now telecommuting from locations outside the City. For certain categories of businesses, gross receipts are determined in part by the share of the workforce that physically works within the City. As more people work from home, even part-time, that share falls, leading to a decline in business tax revenue. Although telecommuting is not possible in many industries, approximately 70% of the payroll base comes from office-using sectors, like Information and Professional Services, where telecommuting is possible. Approximately half of workers in the office-using sectors live outside of San Francisco.

As companies have extended their telecommute policies further into the future, the projection includes increased assumptions about the magnitude of telework, which has a significant effect on revenues. At this time, offices are not allowed to be open for non-essential work, and there is continued uncertainty about when offices will be allowed to open to full capacity and whether businesses will continue to have workers telecommute. As outlined in the economic overview, the future of in-person office work is uncertain. This projection assumes businesses adopt a "hybrid" approach, where working from home is more common than in the past, but regular office time is still important. For non-essential workers in office-using sectors, the projection assumes 100% will telework in the first quarter of 2021, 75% in the second and third quarters of 2021, 50% from the fourth quarter of 2021 through the second quarter of 2022, and 25% for the remainder of 2022. In 2023 and beyond, the projection assumes 10% of workers will telecommute on-going. In FY 2021-22, the projection estimates a loss in revenue of almost $60 million due to increased telecommuting during the pandemic.

Proposition F

In November 2020, voters adopted the Business Tax Overhaul measure (Proposition F) that significantly alters the structure of the City's business tax in several ways. First, it eliminates the payroll tax beginning with tax year 2021. Second, the measure increases gross receipts tax rates for certain business activities and increases the administrative office tax rate beginning in tax year 2021, phased in through tax year 2024. Third, the small business exemption from the gross receipts tax increases to $2.0 million of gross receipts and will be adjusted annually by inflation in future years. Fourth, business registration fees are lowered for businesses with less than $1.0 million in gross receipts attributable to the City and raised for most businesses with more than $1.0 million in gross receipts. In this report, Proposition F is projected to increase General Fund business tax by $23.0 million in FY 2021-22, growing to $98.0 million by FY 2025-26.

Business Tax Litigation

Proposition F imposed a new general purpose tax to enable the City to spend the proceeds collected from two special purpose taxes – the commercial rent tax to support early care and education spending (June 2018 Prop C, or "Baby C") and the homelessness gross receipts and homelessness administrative office taxes to support homelessness spending (November 2018 Prop C, or "Big C"). Both initiatives were litigated at the Superior Court to resolve whether the measures required approval by a simple majority or two-thirds vote. The City prevailed in the case for homelessness gross receipts and continues to be involved in legal action over the early care and education initiative. Consistent with the FY 2020-21 and FY 2021-22 final adopted budget, this report assumes that in FY 2021-22 the loss of one-time Proposition C-related payments to the General Fund is offset by the use of the Business Tax Stabilization Reserve and a return of 15% of commercial rent tax to the General Fund (as prescribed by June 2016 Proposition C). The plan assumes the return of the 15% commercial rent tax to the

General Fund is on-going during the plan period. The indirect (non-General Fund business-tax) impacts of Proposition F are summarized in Table 5.

Table 5: Indirect Impacts of Proposition F ($Millions)

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
From Our City, Our Homes Fund (Nov 18 Prop C)	196.0	-	-	-	-	-
From Early Care and Education Fund (Jun 18 Prop C)	36.8	-	-	-	-	-
Total Repayment of General Fund Advances	232.8	-	-	-	-	-
Commercial Rent Tax, Return of 15% to General Fund	70.0	28.0	28.0	28.0	28.0	28.0
(Deposit) / Uses of Business Tax Stabilization Reserve	(149.0)	149.0	-	-	-	-
Total Impact	153.8	177.0	28.0	28.0	28.0	28.0

Sales Tax

FY 2020-21 sales tax revenue is projected to be $171.3 million as of the 3-Month Report, growing to $223.7 million by FY 2025-26. As shown in Figure 13, revenue declined by over 30% in the last two quarters of FY 2019-20 compared to the same quarters in the prior year, given the start of the pandemic and public health orders. FY 2020-21 revenues are projected to decline an additional 5.0% from the prior year due to recently imposed closures for many businesses in San Francisco. In FY 2021-22, underlying growth is expected to exceed 10%, as the City begins to recover, and continue at 10% in FY 2022-23, reflecting the gradual recovery of San Francisco's daytime population, including residents who temporarily relocated during the pandemic, office workers commuting from outside the City, and the return of business and leisure travelers. In FY 2023-24 and beyond, the projection assumes growth outpaces inflation at 4.5%, with revenues recovering to pre-pandemic levels by FY 2024-25.

Figure 13: Actual and Projected Quarterly Changes in Local Sales Tax Revenues vs Same Quarter Prior Year, FY 2015-16 through FY 2025-26

Note: Data is adjusted for corrections and misallocations by the California Department of Tax

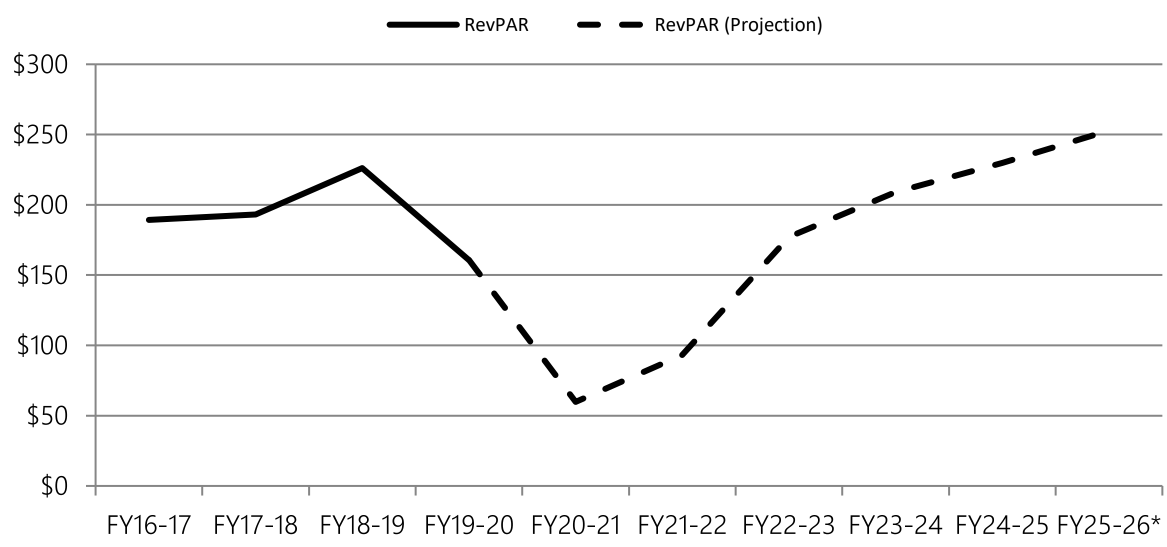
Hotel Tax

Hotel taxes deposited in the General Fund are projected to continue declining significantly from the original budget of $126.2 million in FY 2020-21 to $82.8 million as reported in the 3-Month Report due to the resurgence of COVID-19 cases and new restrictions on non-essential travel. With the widespread adoption of COVID-19 vaccines in FY 2021-22, General Fund hotel taxes are anticipated to rise substantially in FY 2022-23 and FY 2023-24, with a full recovery to $397.4 million in FY 2025-26.

Hotel tax revenue is strongly correlated with revenue per available room, or RevPAR, which is influenced by average daily room rates (ADR) and occupancy rates. RevPAR is expected to decline to $60 in FY 2020-21, and bounce back quickly, to $93 in FY 2021-22 and $177 in FY 2022-23. RevPAR growth is projected to slow in FY 2023-24 and beyond, ending at 10% by FY 2025-26, at which point it will have fully recovered to pre-pandemic levels. Figure 14 provides actual and projected RevPAR levels.

November 2018 Proposition E allocates 1.5% of the 14% hotel tax rate (or approximately 11% of revenue) to arts programming outside of the General Fund. Due to the unprecedented drop off in revenue, this allocation is anticipated to decline to $17.3 million in FY 2021-22. This is $11.2 million less than the 10% floor ($28.5 million) set in ordinance. This report assumes policymakers will backfill the shortfall of $11.2 million in FY 2021-22 with General Fund sources. Arts allocations are projected to recover to $31.4 million in FY 2022-23 and increase to $41.7 million by FY 2025-26.

Figure 14: San Francisco Revenue per Available Room (RevPAR) Change
FY 2016-17 to FY 2025-26 Actual and Projected



Sources: FY 2016-17 and FY 2017-18: CBRE Hotel's Americas Research. FY 2018-19 and FY 2019-20: SF Travel. FY 2020-21 to FY 2025-26: Controller's Office.

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to increase from $154.4 million in FY 2021-22 as projected in the 3-month Report to $397.7 million by FY 2025-26, the estimated long-run average. 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 real estate investment decisions. Due to the tiered structure of the tax, a small number of transactions generates a disproportionate amount of revenue. For example, in FY 2019-20 transactions over $10.0 million accounted for 1.7% of the number of total transactions but generated 69.2% of the revenue. These high-value transactions are the primary reason for revenue volatility.

In November 2020, voters approved Proposition I, which doubled the transfer tax rate on real estate transactions over $10.0 million. As shown separately on Table A-1, Prop I is projected to generate $48.1 million in FY 2021-22, $96.2 million in FY2022-23, and an on-going $144.3 million starting in FY2023-24. This forecast does not assume behavioral changes due to this rate increase given the difficulty of predicting what form they might take, although they are likely given the tax avoidance measures observed after previous rate increases approved in November 2018. The highly progressive rates for the largest transactions will increase existing revenue volatility.

As noted above, revenue generated by Prop I has been discussed as a source for new program expenditures and an appropriation for such programs is pending at the Board of Supervisors but has not been adopted. To the extent that these revenues are programmed for new uses, projected shortfalls will increase commensurately.

Executive Pay Tax

In November 2020, voters approved Proposition L, which imposes a new general tax on businesses in the City, where compensation of the businesses' highest-paid managerial employee compared to the median compensation paid to the businesses' employees based in the City exceeds a ratio of 100:1. Because the measure takes effect on January 1, 2022, revenues will not be received until FY 2022-23. In this report, the measure is projected to result in revenues of $60 million in FY 2022-23, $80 million in FY 2023-24, and $100 million in FY 2024-25 and in subsequent years. This source is expected to be highly volatile given the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, and potential relocation risk associated with tax increases.

As noted above, revenue generated by Prop L has been discussed as a source for new program expenditures but no appropriation for these purposes has been adopted. To the extent that these revenues are programmed for new uses, projected shortfalls will increase commensurately.

Table 6: Summary of General Fund Operating Revenues and Transfers in FY 2020-26 ($ millions)

	FY 2019-20	FY 2020-21		FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Year-End	Original Budget	3 Mo	Projection	Projection	Projection	Projection	Projection
Property Taxes	$ 2,071.9	$ 2,019.6	$ 2,067.6	$ 1,981.1	$ 2,087.8	$ 2,225.9	$ 2,347.2	$ 2,456.1
Business Taxes	822.2	826.4	727.5	964.7	1,041.8	1,107.4	1,117.3	1,136.8
Sales Tax	180.2	183.7	171.3	178.2	196.1	204.9	214.1	223.7
Hotel Room Tax	252.2	126.2	82.8	140.0	271.7	323.7	356.6	397.4
Utility Users Tax	94.2	81.1	76.5	82.6	87.0	88.1	89.1	90.2
Parking Tax	69.5	59.4	41.5	57.4	71.0	74.4	77.0	80.8
Real Property Transfer Tax	334.5	138.0	152.4	265.9	331.8	397.7	397.7	397.7
Sugar Sweetened Beverage Tax	13.2	14.0	10.5	12.2	14.0	13.7	13.4	13.2
Stadium Admission Tax	2.8	2.5	-	2.8	5.5	10.8	10.8	10.8
Access Line Tax	49.7	48.9	50.3	51.8	53.4	54.9	56.6	58.4
Cannabis Tax	-	4.3	4.9	4.4	8.8	8.8	8.8	8.8
Executive Pay	-	-	-	-	60.0	80.0	100.0	100.0
Local Tax Revenues	**3,890.3**	**3,504.0**	**3,385.3**	**3,741.3**	**4,228.8**	**4,590.3**	**4,788.7**	**4,973.9**
Licenses, Permits & Franchises	25.1	23.2	21.6	22.0	21.8	21.4	21.5	21.6
Fines, Forfeitures & Penalties	3.6	2.3	2.3	3.1	3.1	3.1	3.1	3.1
Interest & Investment Income	78.8	23.5	21.9	43.4	46.1	49.0	52.0	55.3
Rents & Concessions	9.7	10.9	10.9	15.4	15.4	15.4	15.4	15.4
Licenses, Fines, Interest, Rent	**117.3**	**59.9**	**56.8**	**83.9**	**86.4**	**88.9**	**92.1**	**95.4**
Social Service Subventions	285.3	602.3	602.3	279.2	279.2	279.2	279.2	279.2
Other Grants & Subventions	138.9	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Federal Subventions	**424.1**	**616.7**	**616.7**	**293.6**	**293.6**	**293.6**	**293.6**	**293.6**
Social Service Subventions	225.2	241.2	241.2	243.5	243.5	243.5	243.5	243.5
Health & Welfare Realignment - Sales T	177.9	154.4	153.5	167.7	176.6	185.1	193.9	203.1
Health & Welfare Realignment - VLF	41.6	35.7	35.5	33.1	33.1	33.1	35.4	35.4
Health & Welfare Realignment - CalWOI	26.8	29.5	29.5	33.5	33.5	33.5	33.5	33.5
Health/Mental Health Subventions	169.5	130.7	130.7	110.1	110.1	110.1	110.1	110.1
Public Safety Sales Tax	103.9	97.1	103.6	98.1	100.8	104.2	108.6	113.4
Motor Vehicle In-Lieu (County & City)	1.3	-	-	-	-	-	-	-
Public Safety Realignment (AB109)	41.1	36.0	33.2	36.0	37.7	39.4	41.1	42.9
Other Grants & Subventions	22.6	36.5	36.5	12.0	12.0	12.0	12.0	12.0
Preliminary State Budget Assumption	-	-	-	-	-	-	-	-
State Subventions	**809.9**	**761.1**	**763.8**	**734.2**	**747.4**	**761.0**	**778.2**	**793.9**
General Government Service Charges	53.1	57.5	57.5	59.1	59.1	59.1	59.1	59.1
Public Safety Service Charges	44.3	42.5	42.5	43.6	43.6	43.6	43.6	43.6
Recreation Charges - Rec/Park	17.7	12.9	12.9	20.0	20.0	20.0	20.0	20.0
MediCal, MediCare & Health Svc. Chgs	71.2	76.5	76.5	76.5	76.5	76.5	76.5	76.5
Other Service Charges	34.5	46.2	46.2	24.7	24.7	24.7	24.7	24.7
Charges for Services	**220.8**	**235.5**	**235.5**	**223.8**	**223.8**	**223.8**	**223.8**	**223.8**
Recovery of General Gov't Costs	12.9	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Other Revenues	51.5	28.1	29.2	28.3	28.3	28.3	28.3	28.3
TOTAL REVENUES	**5,526.8**	**5,227.2**	**5,109.1**	**5,126.9**	**5,630.2**	**6,007.7**	**6,226.5**	**6,430.8**
Transfers in to General Fund								
Airport	33.5	25.1	15.2	28.5	37.1	44.5	49.0	53.9
Other Transfers	157.1	422.0	422.0	136.5	136.5	136.5	136.5	136.5
Total Transfers-In	**190.6**	**447.1**	**437.2**	**165.0**	**173.5**	**181.0**	**185.4**	**190.3**
TOTAL GF Revenues and Transfers-	**5,717.5**	**5,674.3**	**5,546.3**	**5,291.9**	**5,803.8**	**6,188.7**	**6,411.9**	**6,621.1**

Table 7 shows the percent change in General Fund revenues projected over the next five years.

Table 7: Growth Factors for General Fund Revenue Projections FY 2022-26

	FY 2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
	% Chg from FY 2020-21 3 Month	% Chg from FY 2021-22 Projection	% Chg from FY 2022-23 Projection	% Chg from FY 2023-24 Projection	% Chg from FY 2024-25 Projection
Property Taxes	-4.2%	5.4%	6.6%	5.4%	4.6%
Business Taxes	32.6%	8.0%	6.3%	0.9%	1.7%
Sales Tax	4.1%	10.0%	4.5%	4.5%	4.5%
Hotel Room Tax	69.1%	94.0%	19.2%	10.1%	11.4%
Utility Users Tax	8.0%	5.3%	1.2%	1.2%	1.2%
Parking Tax	38.4%	23.6%	4.7%	3.6%	5.0%
Real Property Transfer Tax	74.5%	24.8%	19.9%	0.0%	0.0%
Sugar Sweetened Beverage Tax	16.9%	14.5%	-2.0%	-2.0%	-2.0%
Stadium Admission Tax	N/A	100.0%	95.3%	0.0%	0.0%
Access Line Tax	3.0%	3.0%	2.9%	3.1%	3.1%
Cannabis Tax	-10.2%	100.0%	0.0%	0.0%	0.0%
Executive Pay			33.3%	25.0%	0.0%
Subtotal - Tax Revenues	**10.5%**	**13.0%**	**8.5%**	**4.3%**	**3.9%**
Licenses, Permits & Franchises	1.9%	-0.9%	-1.8%	0.5%	0.5%
Fines, Forfeitures & Penalties	32.1%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	97.8%	6.2%	6.2%	6.2%	6.2%
Rents & Concessions	41.1%	0.0%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**47.7%**	**3.0%**	**2.9%**	**3.5%**	**3.6%**
Social Service Subventions	-53.6%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**-52.4%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	1.0%	0.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	9.2%	5.3%	4.8%	4.8%	4.7%
Health & Welfare Realignment - VLF	-6.8%	0.0%	0.0%	6.8%	0.0%
Health & Welfare Realignment - CalWORKs MOE	13.6%	0.0%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	-15.8%	0.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	-5.2%	2.7%	3.4%	4.3%	4.4%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Realignment (AB109)	8.4%	4.8%	4.4%	4.3%	4.4%
Other Grants & Subventions	-67.1%	0.0%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**-3.9%**	**1.8%**	**1.8%**	**2.3%**	**2.0%**
General Government Service Charges	2.7%	0.0%	0.0%	0.0%	0.0%
Public Safety Service Charges	2.6%	0.0%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	55.4%	0.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	0.0%	0.0%	0.0%	0.0%	0.0%
Other Service Charges	-46.4%	0.0%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**-4.9%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**-3.1%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**0.3%**	**9.8%**	**6.7%**	**3.6%**	**3.3%**
Transfers in to General Fund					
Airport	87.7%	30.0%	20.0%	10.0%	10.0%
Other Transfers	-67.7%	0.0%	0.0%	0.0%	0.0%
Total Transfers In	**-62.3%**	**5.2%**	**4.3%**	**2.5%**	**2.6%**
TOTAL GF Revenues and Transfers-In	**-4.6%**	**9.7%**	**6.6%**	**3.6%**	**3.3%**

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 Starting Fund Balances

This report assumes the use of $0.1 million of fund balance, which is the fund balance previously appropriated in the FY 2021-22 adopted budget. Due to the need to close anticipated shortfalls in the current year (FY 2020-21), additional fund balance from FY 2019-20 is not available as a source for the budget years, resulting in a year-over-year reduction in starting fund balance of $370.3 million in FY 2021-22 and $0.1 million in FY 2022-23. All anticipated General Fund fund balances available for appropriation are expected to be exhausted in FY 2021-22.

Changes in Use of Reserves

The base case assumes the maximum allowable withdrawal from the City's economic stabilization reserves (Rainy Day and Budget Stabilization Reserves) in FY 2021-22 and fully exhausting these reserves in FY 2022-23. See Table 9 below for detail on reserve balances. Please note that reserve balances in this section assume unaudited estimates of FY 2019-20 year-end reserve deposits. The City's two economic stabilization reserves are discussed below.

- **City 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% of revenue growth over 5% 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% of the existing balance. Beginning in FY 2015-16, 25% of Rainy Day deposits went to the School Reserve, and 75% went go to the City Reserve.

  In FY 2020-21, the City is eligible to withdraw from the City Rainy Day reserve due to the sharp decline in revenues related to the COVID-19 pandemic. This report assumes withdrawals of $57.3 million in FY 2021-22 and $57.3 million in FY 2022-23, fully depleting the reserve. In accordance with the current budget, the balance of the Rainy Day One Time Reserve has been consolidated into a single COVID-19 response reserve, and there are no further deposits or withdrawals anticipated during the plan period.

  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% 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. This report assumes withdrawals of $130.6 million in FY 2021-22 and $130.6 million in FY 2022-23, fully depleting the reserve. The City is anticipated to deposit to the Budget Stabilization Reserve in FY 2024-25 and FY 2025-26, given transfer tax projections. The City also maintains a separate Budget Stabilization One Time reserve. There are no anticipated deposits to or withdrawals from the one-time reserve assumed in the plan.

Department of Public Health Revenues
The Department of Public Health (DPH) budget included one-time revenues in the FY 2020-21 budget, including $61.9 million from multiple years of Medi-Cal settlements and $44.9 million from the CARES Act Provider Relief Fund, that expire in FY 2021-22, resulting in year-over-year revenue declines. These one-time revenues are offset by the rebound of patient revenues in FY 2021-22 that had temporarily declined due to the COVID-19 pandemic. Overall, DPH one-time revenues are projected to result in a cumulative decline of $51.5 million in FY 2021-22 and $61.5 million in FY 2022-23.

On-going operating revenues at DPH are projected to remain at base budget levels for FY 2021-22, which include an increase by $18.5 million in FY 2021-22 as compared to the prior fiscal year. The on-going operating revenues are expected to grow by a total of $36.4 million in FY 2022-23, $54.6 million in FY 2023-24, $72.7 million in FY 2024-25, and a total of $91.4 million in FY 2025-26. The annual increases in revenues are driven by fee-for-service and capitation payments at the Zuckerberg San Francisco General Hospital which are assumed to increase by an average of 2.5% each year as well as an average annual 2% increase in the per diem rates at Laguna Honda Hospital.

It is important to note that California's Section 1115 Medicaid Waiver will expire in at the end of 2021, and a successor financing plan is in the early stages of development between the federal, state, and local governments. The waiver's expiration causes significant uncertainty around health care revenues over the upcoming four years and is not currently reflected in this projection.

Other General Fund Revenues
Several other General Fund sources vary in their year-over-year change, and in total are projected to decrease from the prior year's budget by $27.8 million in FY 2021-22, increase by $18.6 million in FY 2022-23, increase by $10.5 million in FY 2023-24, increase by $7.8 million by FY 2024-25, and increase by $8.1 million in FY 2025-26. These sources include Human Services Agency revenues and Airport revenues, as well as other small changes.

- **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 $4.0 million in FY 2021-22, an additional $2.7 million in FY 2022-23, an additional $2.7 million in FY 2023-24, an additional $2.8 million in FY 2024-25, and an additional $2.9 million in FY 2025-26.
- **Airport Transfer In:** The General Fund receives a portion of Airport concessions revenue annually. Because of the on-going impact of COVID-19 on travel, the projected revenues from Airport concessions were considerably lower in the Controller's 3-month report than the adopted FY 2021-22 budget. For FY 2021-22 through FY 2025-26, the Airport now projects these revenues to increase from the prior year by $3.4 million, $8.6 million, $7.4 million, $4.5 million, and $4.9 million respectively. The projected increases over the five-year period reflect the anticipated economic recovery from the COVID-19 pandemic. Both passengers' confidence to resume travel and San Francisco's re-opening timeline will impact the amount of revenues the City receives over this period.

CITYWIDE EXPENSE 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, though some are a function of citywide expenditures or base-year program expenditure levels. While FY 2021-22 variances are calculated compared to FY 2020-21 original budget, given unusually high levels of revenue volatility, the text below includes reference to the Controller's most recent FY 2020-21 revenue projections, as published in the Three-Month Budget Status Report.

As a result of growing discretionary revenue, the City's mandated contributions to baselines is increasing by $51.5 million, $95.1 million, $70.5 million, $44.7 million, and $43.7 million in FY 2021-22, FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26 respectively. Projected baseline contributions, property tax set-asides and spending requirements are summarized below and in Table 8. Please note that Table 8 includes both General Fund contributions to baselines, property tax set-asides, non-General Fund contributions to baselines and other mandated spending requirements. Thus, the amounts do not match the changes in the General Fund projection presented in Table A-1 and described above.

Table 8: Projected Baselines, Set-asides and Other Mandated Costs, FY 2020-26 ($ in millions)

	FY 2019-20	FY 2020-21		FY2021-22	FY2022-23	FY 2023-24	FY2024-25	FY 2025-26
	Actuals	Budget	3-Mo	Projection	Projection	Projection	Projection	Projection
General Fund Aggregate Discretionary Revenue (ADR)	$ 3,942.7	$ 3,486.8	$ 3,351.5	$ 3,747.5	$ 4,234.5	$ 4,603.2	$ 4,807.1	$ 4,997.5
Municipal Transportation Agency (MTA)								
MTA - Municipal Railway Baseline: 6.686% ADR	263.6	233.1	224.1	250.6	283.1	307.8	321.4	334.1
MTA - Central Subway	-	7.6	-	15.6	16.5	17.5	18.3	19.0
MTA - Parking & Traffic Baseline: 2.507% ADR	98.8	87.4	84.0	94.0	106.2	115.4	120.5	125.3
MTA - Population Adjustment	49.7	55.4	55.6	55.6	55.6	56.7	57.8	59.0
MTA - 80% Parking Tax In-Lieu	55.6	47.5	33.2	46.0	56.8	59.5	61.6	64.7
Subtotal Municipal Transportation Agency	$ 467.7	$ 431.0	$ 396.9	$ 461.6	$ 518.2	$ 556.9	$ 579.6	$ 602.1
Library Preservation Fund								
Library - Baseline: 2.286% ADR	90.1	79.7	76.6	85.7	96.8	105.2	109.9	114.2
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	65.3	67.4	68.7	67.5	71.0	75.2	78.9	82.3
Subtotal Library	155.4	147.1	145.3	153.2	167.8	180.4	188.8	196.5
Children's Services								
Children's Services Baseline - Requirement: 4.830% ADR	203.1	168.4	161.9	181.0	204.5	222.3	232.2	241.4
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	24.4	20.2	19.4	21.7	24.6	26.7	27.9	29.0
Early Care and Education Baseline (Jun 2018 Prop C) - Requirement: 2.2122% ADR	93.1	79.7	74.1	82.9	93.7	101.8	106.3	110.6
Public Education Services Baseline: 0.290% ADR (50% GF)	11.4	10.1	9.7	10.9	12.3	13.3	13.9	14.5
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	104.5	107.8	109.9	108.0	113.6	120.3	126.3	131.7
Public Education Enrichment Fund: 3.057% ADR	120.5	106.6	102.5	114.6	129.4	140.7	146.9	152.8
1/3 Annual Contribution to Preschool for All	40.2	35.5	34.2	38.2	43.1	46.9	49.0	50.9
2/3 Annual Contribution to SF Unified School District	80.3	71.1	68.3	76.4	86.3	93.8	98.0	101.8
Subtotal Childrens Services (Required)	557.0	492.8	477.5	519.1	578.1	625.2	653.6	679.8
Recreation and Parks								
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	65.3	67.4	68.7	67.5	71.0	75.2	78.9	82.3
Recreation & Parks Baseline - Requirement	76.2	76.2	76.2	79.2	82.2	85.2	88.2	91.2
Subtotal Recreation and Parks (Required)	141.5	143.5	144.9	146.7	153.2	160.4	167.1	173.4
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	215.0
Housing Trust Fund Requirement	36.8	39.6	39.6	42.4	45.2	48.0	50.8	53.6
Dignity Fund	50.1	50.1	50.1	53.1	56.1	59.1	62.1	65.1
Street Tree Maintenance Fund	20.3	18.0	17.3	19.3	21.8	23.7	24.8	25.8
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.5	3.8	3.8	3.7	3.8	4.0	4.1	4.3
City Services Auditor: 0.2% of Citywide Budget	20.1	22.9	22.9	23.5	23.9	24.5	25.2	25.8
Mission Bay Transportation Improvement Fund	7.6	7.4	3.2	7.6	8.8	9.1	12.7	12.9
Subtotal Other Financial Baselines (Required)	353.4	356.7	351.8	364.6	374.6	383.4	394.7	402.5

Municipal Transportation Agency Baselines: Charter section 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 Aggregate Discretionary Revenues (ADR). In addition, this baseline is required to be adjusted for significant service increases. Beginning in FY 2021-22, the MTA baseline will be increased due to the anticipated opening of the Central Subway for revenue service. Also included in the MTA baseline total is an amount equal to 80% 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 $396.9 million in FY 2020-21 as projected in the 3-Month report, increasing to $602.1 million by FY 2025-26.

Library Preservation Fund: Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. In addition, the Charter established a property tax allocation of $0.025 for each $100 valuation of taxable property. The baseline and property tax set-aside will expire in FY 2022-23. This report assumes that either voters will approve a proposed future extension of the baseline and set aside or that policymakers will continue them after their expiration. The combined baseline and property tax set-aside for the Library is projected to be $145.3 million in FY 2020-21 as projected in the 3-month report, increasing to $196.5 million by FY 2025-26.

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, and the Public Education Enrichment Fund. Together, these requirements total $477.5 million in FY 2020-21 as projected in the 3-Month report, increasing to $679.8 million by FY 2025-26.

- **Children and TAY Baseline:** Charter Section 16.108 established a Children and Youth Fund for Children and TAY, where a base amount of required spending was established, adjusted annually by changes in ADR.
- **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. The measure is currently in litigation. Table 8 shows expenditure amounts required by the measure.
- **Children and Youth Fund Property Tax Set-aside:** November 2014 Proposition C extended a property tax set-aside for Children and Youth for 25 years, until June 30, 2041, and increased the property tax set-aside from $0.03 for each $100 of assessed property value in FY 2014-15 growing to $0.04 by FY 2018-19. In addition, Proposition C added a new priority population to benefit Transitional Aged Youth (TAY).
- **Public Education Enrichment Fund, Contribution and Baseline:** November 2014 Proposition C also extended the Public Education Enrichment Fund Annual Contribution (PEEF) 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 allowed as an offset against the contribution.

Recreation and Parks: Similar to the Library, Charter Section 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 2026-27, after which the baseline is adjusted by changes ADR. The City may temporarily suspend the required increases in any year in which a General Fund deficit of $200 million or more is forecasted. This report does not assume suspension of required increases in any years. The combined baseline and property tax set-aside for the Recreation and Parks Department is projected to be $144.9 million in FY 2020-21 as reported in the 3 Month Report, increasing to $173.4 million by FY 2025-26.

Other Financial Baselines: The City is required to contribute General Fund revenues or maintain expenditure levels in various other areas, including the Our City, Our Homes Baseline; Housing Trust Fund; Dignity Fund, Street Tree Maintenance Fund; Symphony Baseline; City Services Auditor Baseline; and Mission Bay Transportation Improvement Fund. Combined, these are projected to total $351.8.8 million in FY 2020-21 as projected in the 3 Month Report, increasing to $402.5 million by FY 2025-26.

Uses – 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. Table 9 outlines the projected balances of select reserves. Please note, projected ending balances for the City Rainy Day Economic-Stabilization and Budget Stabilization Reserves reflect uses described above in the General Fund Sources section.

Table 9: Projected Reserve Balances FY 2020-26 ($ in millions)

	FY 2019-20	FY 2020-21			FY 2021-22			FY 2022-23			FY 2023-24			FY 2024-25			FY 2025-26		
	Pre-Audit Ending Balance	Deposit	Use	Proj. Bal	Deposit	Use	Proj. Bal	Deposit	Use	Proj. Bal	Deposit	Use	Proj. Bal	Deposit	Use	Proj. Bal	Deposit	Use	Proj. Bal
General Reserve	78.5	-	-	78.5	-	-	78.5	7.5	-	86.0	20.7	-	106.7	19.4	-	126.1	20.2	-	146.3
Rainy Day Economic Stabilization City Reserve	229.1	-	(114.5)	114.5	-	(57.3)	57.3	-	(57.3)	-	-	-	-	-	-	-	-	-	-
Budget Stabilization Reserve	307.8	-	(46.5)	261.2	-	(130.6)	130.6	-	(130.6)	-	-	-	-	6.9	-	6.9	23.1	-	29.9
Subtotal, Economic Stabilization Reserves	536.8	-	(161.1)	375.8	-	(187.9)	187.9	-	(187.9)	-	-	-	-	6.9	-	6.9	23.1	-	29.9
Percent of General Fund Revenues	*10.0%*			*7.3%*			*3.7%*			*0.0%*			*0.0%*			*0.1%*			*0.5%*
COVID Response and Economic Loss Reserve	507.4	-	-	507.4	-	-	507.4	-	-	507.4	-	-	507.4	-	-	507.4	-	-	507.4
Budget Stabilization Reserve - One Time Reserve	54.8	-	(54.8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business Tax Stabilization Reserve	-	149.0	-	149.0	-	(149.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Management Reserve	111.1	-	-	111.1	-	-	111.1	-	-	111.1	-	-	111.1	-	-	111.1	-	-	111.1
Rainy Day Economic Stabilization SFUSD Reserve	34.5	-	(33.5)	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Recreation & Parks Savings Incentive Reserve	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8
Subtotal, Other Reserves	708.7	149.0	(88.3)	769.4	-	(149.0)	620.4	-	-	620.4	-	-	620.4	-	-	620.4	-	-	620.4
Annual Operating Reserves																			
Litigation Reserve	49.2	11.0	(60.2)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	25.4	23.6	(48.9)	-	23.6	(23.6)	-	24.3	(24.3)	-	25.0	(25.0)	-	25.8	(25.8)	-	26.6	(26.6)	-
Subtotal	74.6	34.6	(109.1)	-	34.6	(34.6)	-	35.3	(35.3)	-	36.0	(36.0)	-	36.8	(36.8)	-	37.6	(37.6)	-
Total, All Reserves	1,320.1	183.6	(358.5)	1,145.1	34.6	(371.5)	808.2	35.3	(223.2)	620.4	36.0	(36.0)	620.4	43.6	(36.8)	627.2	60.6	(37.6)	650.3

- **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 be 1.5% of General Fund revenue in FY 2020-21, FY 2021-22, and FY 2022-23, the years in which the City is eligible to withdraw from its economic stabilization reserves. In subsequent years, the required ending balance is assumed to rise incrementally to 1.75% of General Fund revenue in FY 2023-24, 2.0% in FY 2024-25 and 2.25% in FY 2025-26. As a result, deposits are suspended in FY 2020-21 and FY 2021-22 and resume in FY 2022-23. This report assumes no reserve use in any year.

- **Economic Stabilization Reserves (Rainy Day and Budget Stabilization Reserves):** As detailed above in the "Changes in Use of Reserve" section, the plan assumes the maximum allowable withdrawal of these reserves from FY 2020-21 through FY 2022-23. In the final two years, deposits to the Budget Stabilization Reserve are anticipated given transfer tax projections.

- **COVID-19 Response and Economic Loss Reserve:** In accordance with the administrative provisions of the FY 2020-21 and FY 2021-22 budget, the balances of seven existing reserves were consolidated into a single COVID Response and Economic Loss Reserve of $507.4 million at the close of FY 2019-20. No deposits or withdrawals are currently budgeted or reported.

Uses – Salaries & Benefits

This report projects General Fund-supported salaries and fringe benefits to increase by $150.8 million in FY 2021-22, $82.6 million in FY 2022-23, $84.6 million in FY 2023-24, $115.8 million in FY 2024-25, and $131.3 million in FY 2025-26. These increases, discussed in greater detail below, reflect provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs.

Previously Negotiated Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be $140.4 million for FY 2021-22, $35.9 million for FY 2022-23, and $8.8 million for FY 2023-24. For Police and Firefighters' unions, this report assumes the full cost of negotiated terms that were amended and approved in December 2020. For Police Officers' unions, negotiated wage increases are 3% in FY 2021-22 (starting in July) and effectively 5% in FY 2022-23, including a 2% increase the union agreed to defer from FY 2020-21. Another 1% deferred wage increase is projected in FY 2023-24. For Firefighters' unions, negotiated wage increases are 3% in FY 2021-22 (starting in July), and effectively 4% in FY 2022-23, including a 1% deferred wage increase. Another 2% deferred wage increase is projected in FY 2023-24. Negotiated wage increases for all other employees' unions are 3.25% FY 2021-22, which includes a 3% increase starting in July 2021 and 0.5% in January 2022.

Projected Costs of Open Labor Agreements: With the exception of Police and Firefighters, most labor unions have open contracts starting in FY 2022-23, and will enter negotiations for MOUs with the City in spring 2022. Therefore, beginning in FY 2022-23, this projection assumes that these unions will have salary increases equal to the change in the Consumer Price Index (CPI), which is using the average projection of the California Department of Finance SF Metropolitan Statistical Area CPI and Moody's SF Metropolitan Area CPI. This is 2.9% for FY 2022-23, 3.1% for FY 2023-24, 3.1% for FY 2024-25, and 3.0% for FY 2025-26. For Firefighters' and Police Officers' unions, CPI increases are applied starting in FY 2023-24, when those contracts are open.

The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be $56.6 million in FY 2022-23, $98.3 million in FY 2023-24, $100.8 million in FY 2024-25, and $102.7 million in FY 2025-26. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in FY 2022-23 for most employees and FY 2023-24 for police officers and firefighters.

Health and Dental Benefits for Current Employees: Each year, the Health Service System (HSS) negotiates subsequent year rates in the spring, the HSS Board adopts these rates in July, and then HSS holds open enrollment for employees every October.

Projections in this report assume average increases of approximately 5.9% in health rates and 3.8% in dental rates in 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 $16.0 million in FY 2021-22, $17.7 million in FY 2022-23, $19.0 million in FY 2023-24, $20.1 million in FY 2024-25, and $21.3 million in FY 2025-26.

These rates are driven by utilization and the cost of health care. While the City's employee population is assumed to remain relatively stable, price increases on the provider side could result in an increase in rates above what is assumed in this report. Uncertainties include the rising cost of pharmaceuticals, and latent demand in services due to the current COVID-19 health crisis, both of which can result in increased costs of health care, and ultimately higher premiums.

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 mandates health coverage for retired City employees. Health costs are expected to increase significantly faster than CPI over the five-year projection period. This five-year projection assumes that the cost of medical benefits for retirees will increase by approximately 6% in FY 2021-22, 5.3% in FY 2022-23, and by approximately 6.1% for the three following years. Therefore, General Fund support for retiree health costs increases by $7.8 million in FY 2021-22, $7.1 million in FY 2022-23, $8.6 million in FY 2023-24, $9.1 million in FY 2024-25, and $9.7 million in FY 2025-26. Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring employees hired after January 10, 2009 and the City to contribute 2% and 1% 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 contribution. Starting July 1, 2016, employees hired before January 10, 2009 began contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% in each subsequent year, up to a maximum of 1%, with the City matching the contribution commensurately. As with costs for active employee health benefits, the key uncertainties for retiree health are the impact of the increasing cost of pharmaceuticals and latent demand in services due to the current health crisis.

Retirement Plan Employer Contribution Rates Rise. The majority of City employees are part of the San Francisco Employees' Retirement System (SFERS), and some public safety personnel are part of the California Public Employees' Retirement System (CalPERS). Employer contributions to SFERS have increased significantly over the last several years, peaking in FY 2020-21. Drivers of these increases include: a change in the assumed rate of return from 7.5% to 7.4% adopted by the Retirement Board in 2018; the phasing in of increased costs due to new mortality tables and mortality projection tables adopted in 2015; and supplemental COLAs that were applied retroactively due to an appellate Court ruling. In these updated projections for FY 2021-22 through FY 2025-26, employer contributions to SFERS decline over the five-year period, resulting in year-over-year savings to the City's General Fund. These savings are the result of amortization payments being extinguished as payment periods are completed for supplemental COLAs with five-year amortization periods and older Proposition benefit increases with 20-year periods. Further, the projections assume the rate of return on investments remains at the SFERS Board's currently adopted rate of 7.4%. Variances in investment returns and changes in actuarial assumptions (on wage and price inflation and investment returns, for example) will affect employer contribution rates. Employer contribution rates are based on projections prepared by the Retirement System's actuary in November 2020. The maximum employer contribution rate for non-safety employees in salary band 2 is 22.6% in the current fiscal year. This rate is projected to decrease to 21.9% in FY 2021-22, 19.8% in FY 2022-23, 18.0% in FY 2023-24, 17.0% in FY 2024-25, and increase slightly to 17.1% in FY 2025-26. Rates for police and fire safety employees vary based on date of hire. This report assumes the weighted average employer contribution rate for FY 2020-21 for police officers and firefighters was 22.0%; decreasing to 21.3% in FY 2021-22, 19.2% in FY 2022-23, 17.5% in FY 2023-24, 16.4% in FY 2024-25, and increases slightly to 16.5% in FY 2025-26.

For CalPERS members, the employer portion of the rate in the current year is 50.1% and is projected to increase to 54.97% in FY 2021-22. The rate then decreases to 54.1%, 53.1%, 52.2%, and 51.4% in FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26 respectively.

The net result of these changes to the employer share for SFERS and CalPERS contribution rates is a decrease in total General Fund support of $9.7 million in FY 2021-22, $42.8 million in FY 2022-23, $35.2 million in FY 2023-24, $21.7 million in FY 2024-25, and an increase of $1.3 million in FY 2025-26. Failure to meet the assumed rate of return or future, unbudgeted supplemental COLAs could dramatically impact this forecast.

Table 10: Estimated Contribution Rates for the Retirement System

San Francisco Employees Retirement System (SFERS)

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Estimated Total Contribution Rates	33.7%	31.5%	28.7%	27.6%	27.2%
Non-Safety Employees					
Employee Contribution (1)					
Band 1, < $31.17/hour	7.5%	7.5%	7.5%	7.5%	7.5%
Band 2, < $62.35/hour	11.0%	11.0%	10.0%	10.0%	9.5%
Band 3, > $62.35/hour	11.5%	11.5%	10.5%	10.5%	10.0%
Additional Rate Factors					
Band 1, < $31.17/hour	0.92%	0.84%	0.74%	0.70%	0.69%
Band 2, < $62.35/hour	0.80%	0.72%	0.66%	0.62%	0.62%
Band 3, > $62.35/hour	0.78%	0.70%	0.64%	0.60%	0.60%
Estimated Net Employer Contribution (1)					
Band 1, < $31.17/hour	25.3%	23.2%	20.5%	19.4%	19.0%
Band 2, < $62.35/hour	21.9%	19.8%	18.0%	17.0%	17.1%
Band 3, > $62.35/hour	21.4%	19.3%	17.6%	16.5%	16.6%
Police and Fire Safety Employees (2)					
Estimated Total Contribution Rates	34.4%	32.2%	29.4%	28.3%	27.9%
Employee Contribution & additional rate factors	13.0%	13.0%	11.9%	11.9%	11.4%
Estimated Net Employer Contribution	21.3%	19.2%	17.5%	16.4%	16.5%

California Public Employees Retirement System (CalPERS)

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Total Estimated Contribution Rate	70.2%	69.3%	68.4%	67.5%	66.6%
Employee Contribution & additional rate factors	15.3%	15.3%	15.3%	15.3%	15.3%
Estimated Net Employer Contribution	55.0%	54.1%	53.1%	52.2%	51.4%

(1) Employees' contribution is based on wages. The wages shown are based on the estimated FY 2021-22 wage floors.

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

Other Salaries and Fringe Benefits Costs: Other salary and benefit cost changes are expected to vary over the five-year financial projection, with the biggest cost occurring in FY 2022-23 due to CPI-driven projections of inflation on holiday, premium, and temporary employee salary earnings. The subsequent savings in the following year are the result of a leap year occurring in FY 2023-24. One less work day generates $10.9 million in savings from the prior year while the return of that extra day results in an increased cost of $11.6 million the following FY 2024-25 fiscal year.

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 $21.4 million in FY 2021-22, decrease by $13.2 million in FY 2022-23, and increase by $86.0 million, $125.2 million, and $85.4 million in FY 2023-24, FY 2024-25, and FY 2025-26, respectively. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Citywide – 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 CPI at a rate of 3.0% in FY 2021-22, 2.9% in FY 2022-23, 3.1% in FY 2023-24, 3.1% in FY 2024-25, and 3.0% in FY 2025-26. The projection reflects the adopted FY 2021-22 budget, which does not include a CPI increase for community-based organization contracts in FY 2021-22. These assumptions are provided for planning purposes only; actual costs are to be determined during the budget process and are subject to appropriation in the FY 2021-22 and FY 2022-23 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.

Overall, these changes to the City's projected costs result in an increase in General Fund savings of $12.0 million in FY 2021-22, then General Fund costs of $34.8 million in FY 2022-23, $38.7 million in FY 2023-24, $40.0 million in FY 2024-25, and $39.6 million in FY 2025-26.

Citywide – Capital, Equipment & Technology
Changes in funding for capital, equipment, and technology will result in General Fund savings of $11.2 million in FY 2021-22, and cost increases of $11.5 million in FY 2022-23, $11.3 million in FY 2023-24, $61.1 million in FY 2024-25, and $15.6 million in FY 2025-26. This projection assumes the adopted FY 2021-22 budgeted funding levels for capital, equipment, and IT.

Table 11: Capital, Equipment, & Technology ($ Millions)

	2021-22	2022-23	2023-24	2024-25	2025-26
		Projected Levels - One-time Costs			
Capital Plan Budget	70.0	75.3	81.0	135.3	147.0
Capital FF&E, Move Costs	5.9	-	2.0	4.0	2.2
Equipment	5.3	5.8	6.4	7.0	7.7
Information & Communications Technology Budget	2.3	2.5	2.8	4.2	4.7
Major IT Investments	11.5	20.6	20.9	20.9	22.9
Total One-time Costs	**95.0**	**104.2**	**113.1**	**171.4**	**184.5**

	2021-22	2022-23	2023-24	2024-25	2025-26
		Incremental Change - One-time & On-going Costs			
Capital Plan Budget	0.2	(5.2)	(5.8)	(54.3)	(11.7)
Capital FF&E, Move Costs	6.4	5.9	(2.0)	(2.0)	1.9
Equipment	0.3	(0.5)	(0.6)	(0.6)	(0.7)
Information & Communications Technology Budget	1.3	(0.2)	(0.3)	(1.5)	(0.4)
Major IT Investments	2.7	(9.1)	(0.2)	(0.0)	(2.0)
Department of Technology Rates	0.3	(2.3)	(2.5)	(2.6)	(2.7)
Incremental Change	**11.2**	**(11.5)**	**(11.3)**	**(61.1)**	**(15.6)**

This projection assumes partial funding of the City's General Fund capital program in FY 2021-22, consistent with the adopted budget, 10% growth in FY 2022-23 and FY 2023-24, and an increase in FY 2024-25 and FY 2025-26 in order to bring funding levels back above 50% of the levels outlined in the FY 2020-29 Ten-Year Capital Plan. This projection is expected to align with the updated FY 2022-31 Ten Year-Capital Plan, to be released in spring 2021. This projection results in a decreased cost of $0.2 million in FY 2021-22, an increased cost of $5.2 million in FY 2022-23, $5.8 million in FY 2023-24, $54.3 million in FY 2024-25, and $11.7 million in FY 2025-26.

Additionally, the City will incur costs to furnish and equip new and upgraded City facilities. These costs will decrease by $6.4 million in FY 2021-22, in accordance with the adopted budget, decrease by $5.9 million in FY 2022-23, increase by $2.0 million in FY 2023-24 and $2.0 million in FY 2024-25, and decrease by $1.9 million in FY 2025-26. These savings are related to projects such as rebuilding Fire Station 35, the new Ambulance Deployment Facility, and other large Certificates of Participation (COP) and General Obligation bond funded capital projects being completed. The costs are related to the new Fire Stations and Police Station projects that are funded through Earthquake Safety and Emergency Response 2020 Bond Program.

The report also assumes that citywide equipment costs will increase from the prior year by $0.3 million in FY 2021-22, in accordance with the adopted budget. Equipment is defined as an item costing $5,000 or more with an expected life span of three years or more. In the remaining years of the plan, General Fund Support for equipment purchases are anticipated to increase by 10% annually. This projection results in increased costs of $0.5 million FY 2022-23, $0.6 million in FY 2023-24, $0.6 million in FY 2024-25, and $0.7 million in FY 2025-26.

The projection also assumes partial funding of the Citywide Annual and Major Information Technology projects in FY 2021-22, consistent with the adopted budget, 10% growth in FY 2022-23 and FY 2023-24, and an increase in FY 2024-25 and FY 2025-26 in order to bring funding levels back to 50% of the levels outlined in the FY 2020-2024 Five-Year ICT Plan. Citywide funding for technology projects is projected to decrease by $4.0 million in FY 2021-22, as reflected in the adopted FY 2020-21 and FY 2021-22 budget, increase by $9.3 million in FY 2022-23, $0.5 million in FY 2023-24, $1.5 million in FY 2024-25, and $2.4 million in FY 2025-26. The primary driver in the FY 2022-23 increase is due to the investment in replacing the City's Computer Aided Dispatch (CAD) systems.

Finally, the Department of Technology's rates are projected to decrease by $0.3 million in FY 2021-22, as reflected in the adopted budget, then are projected to increase by $2.3 million in FY 2022-23, $2.5 million in FY

2023-24, $2.6 million in FY 2024-25, and $2.7 million in FY 2025-26 due to inflationary increases on technology services and contracts.

Citywide – Debt Service & Real Estate
Over the next five years, total debt service and real estate costs are projected to increase by $39.2 million in FY 2021-22, $30.9 million in FY 2022-23, $17.8 million in FY 2023-24, $7.9 million in FY 2024-25, and $14.2 million in FY 2025-26. 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 over the next several years are primarily due to the repayment of new Certificates of Participation (COPs) for critical repair and recovery stimulus projects, the exit and relocation from the Department of Public Health office building, the relocation of administrative staff from the Hall of Justice, and debt service payments on other large capital facilities.

Citywide – Sewer, Water, and Power Rates
The Base Case assumes increased General Fund transfers to the Public Utilities Commission (PUC) for the cost of sewer, water, and power expenses. Power rates are projected to increase by one cent per kilowatt hour per year. Additionally, the Power Enterprise bills and pays for the cost of natural gas provided by Pacific Gas & Electric and the City Administrator's Department of General Services to City departments. These costs are based on projected commodity costs and transportation rates. Sewer and water rates are assumed to increase respectively by approximately 8% and 6% annually. Usage for all utilities is currently lower than historic volumes due to the COVID-19 crisis. Usage is expected to gradually return to pre-COVID levels as City buildings return to normal operations, with historic usage assumed to return in FY 2022-23. As a result, the projection assumes increases of $3.3 million, $3.2 million, $2.5 million, $2.6 million, and $2.7 million, respectively, in each year of the five-year projection period.

Citywide – COVID-19 Response
The Base Case assumes the City will sustain its current level of General Fund investment for public health and human services programs in response to the COVID-19 pandemic in FY 2021-22. Starting in FY 2022-23, no further costs are assumed given the uncertainty of the duration of the pandemic. In FY 2020-21, the City allocated $96.3 million in funding as the local cost share of initiatives aimed at preventing and managing the spread of COVID-19, including testing, hospital capacity, personal protective equipment, emergency shelter and housing, and food security programs. While the nature of these programs and services may change in FY 2021-22, the projection assumes the City will need to continue to adapt to public health and community needs related to COVID-19. The total budget for the City's COVID-19 response in FY 2020-21 exceeded $450 million, with significant federal and state revenues offsetting the total General Fund commitment. No assumptions regarding the level of state and federal revenues are included in the projection.

Other Citywide Costs
This category includes assumed costs of real estate transactions for the City's General Fund departments; increases in the City's workers' compensation costs; projected costs to comply with voter-mandated Children's Baseline and Transitional-Aged Youth baseline; and other minor changes. These items together result in projected increases of $2.1 million in FY 2021-22, $2.6 million in FY 2022-23, $15.7 million in FY 2023-24, $13.6 million in FY 2024-25, and $13.3 million in FY 2025-26.

Uses – Departmental Costs

This section provides a high-level overview of significant departmental costs over the next five years. Table 4 displays departmental cost increases of $67.0 million in FY 2021-22, an additional $44.2 million in FY 2022-23, $45.3 million in FY 2023-24, $42.4 million in FY 2024-25, and $43.3 million in FY 2025-26.

City Administrator's Office – Convention Facilities Subsidy

This report assumes the Convention Facilities Fund General Fund subsidy will increase by $13.3 million in FY 2021-22, and then decrease in all other years by $5.8 million in FY 2022-23, $1.3 million in FY 2023-24, $0.8 million in FY 2024-25, and $2.3 million in FY 2025-26. The projected cost increase in FY 2021-22 is driven by the projected gradual resuming of Moscone's convention operations and events in FY 2021-22 in accordance with Citywide assumptions around COVID-19 impact. The projection assumes that Moscone West will be available for events starting July 2021, and only 25% of contracted events will occur in the first quarter of FY 2021-22, 50% of contracted shows will occur in the second quarter, and all contracted events will occur starting in the third quarter. Convention events are projected to return to full capacity in FY 2022-23, driving the incremental savings anticipated in this report.

Elections – Number of Scheduled Elections

The number of elections and the associated costs for holding elections vary annually. Current projections assume six elections, in accordance with Table 12. This schedule results in an increased cost of $1.6 million in FY 2021-22, $0.6 million in FY 2022-23, $0.4 million in FY 2023-24, $0.7 million in FY 2024-25, and $1.3 million in FY 2025-26. 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 12: Number of Scheduled Elections FY 2021-22 through FY 2025-26

Fiscal Year	Date	Type
2021-22	June 2022	Consolidated Direct Primary Election
2022-23	November 2022	Consolidated General Election
2023-24	November 2023	Municipal Election
2023-24	March 2024	Presidential Primary
2024-25	November 2024	Presidential General
2025-26	March 2026	Consolidated Direct Primary Election

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 in excess of $7.0 million shall be returned to the General Fund.

This projection assumes that the General Fund will appropriate an amount equal to $8.00 per resident in FY 2023-24, and that eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals. Under these assumptions, no appropriation is necessary in FY 2021-22, as the Elections Campaign Fund is projected to have a sufficient starting balance. Costs are projected to increase by $0.5 million in FY 2022-23, increase by $6.8 million in FY 2023-24, decline by $7.3 million in FY 2024-25, and finally increase by $1.6 million in FY 2025-26. These costs are dependent on the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Mission Bay Transportation Improvement Fund

The Golden State Warriors completed construction of a multipurpose event center, retail, and office project at 16th Street and 3rd Street in Mission Bay in September 2019. In November 2015, the Mayor and Board of Supervisors approved the creation of the Mission Bay Transportation Improvement Fund to pay for public infrastructure improvements, equipment, and public services to address the community's transportation needs and other impacts in connection with events at the center. The deposits to the fund are calculated based on general purpose revenues generated by the arena and event space through increased property, business, sales, hotel, utility user, and stadium admission taxes. This report projects estimated annual incremental deposits of $0.3 million in FY 2021-22, $1.2 million in FY 2022-23, $0.3 million in FY 2023-24, $3.6 million in FY 2024-25, and $0.3 million in FY 2025-26.

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. This City-funded subsidy enables formerly homeless individuals and families to stay securely housed and receive services from the Department of Homelessness and Supportive Housing by providing long term financial support for operating and maintaining permanently affordable housing properties. LOSP program costs are projected to increase due to several large supportive housing projects opening in the next few years. HOPE SF is a program to revitalize four of San Francisco's severely distressed public housing sites and to ensure that families living in Public Housing have the same opportunities as all San Franciscans. HOPE SF focuses on rebuilding and improving physical housing assets while providing robust social services to residents. This projection also includes projected lease inflationary costs for permanent supportive housing sites in the City's portfolio, as well as acquisition and operating costs associated with the 833 Bryant project, which will bring online 145 new permanent supportive housing units.

Costs related to these projects are projected to require an increase of $12.6 million in FY 2021-22, $11.0 million in FY 2022-23, $6.0 million in FY 2023-24, $8.6 million in FY 2024-25, and $8.5 million in FY 2025-26.

Human Services Agency – In-Home Supportive Services and Other Public Benefit Programs

In-Home Supportive Services (IHSS) is an entitlement program which provides homecare services to 22,000 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 20,000 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 Medi-Caid, State, and local funds, is paid using a "maintenance of effort" (MOE) framework. Per state statute, this cost increases 4% 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, raises the base wages for several types of workers, including IHSS workers, above the San Francisco minimum wage. By FY 2022-23, the MCO base wage for IHSS care providers is slated to reach $18.75 per hour, subject to annual appropriation, and increase by CPI on July 1 of every subsequent year, beginning in July 2023. The City's share of the increased wages for IHSS workers is reflected as an increase to the IHSS MOE. Overall, the MOE is projected to grow to a $196.5 million General Fund cost by FY 2025-26.

Based on current estimates, City costs for IHSS are expected to increase annually by $9.2 million in FY 2021-22, $12.9 million in FY 2022-23, $9.4 million in FY 2023-24, $9.7 million in FY 2024-25, and $10.0 million in FY 2025-26.

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 2021-22 budget, resulting in a cost of $3.0 million in FY 2021-22, an additional $9.7 million a year in FY 2022-23, and no additional incremental cost in the remaining years of the five-year period.

Finally, HSA projects that aid payments to clients (including programs such as CAAP, Foster Care, CalWORKs, Care Not Cash, and others) will increase costs by $3.8 million in FY 2021-22, then will decrease costs by $8.6 million in FY 2022-23. Costs are then expected to increase by $0.5 million in FY 2023-24 with modest changes in the remaining years of the projection. These changes are primarily due to a projected surge of CAAP aid enrollment over the next two fiscal years, which will then decrease in subsequent years as the economy gradually recovers from the COVID-19 pandemic and economic impacts.

Sheriff's Department Oversight Board and the Office of the Inspector General

In November 2020, San Francisco voters approved Proposition D, creating the Sheriff's Department Oversight Board (SDOB) and Office of the Inspector General (OIG). The SDOB will begin operations in March 2021 and the OIG is expected to begin work in FY 2021-22. Based on current estimates, costs for this new department and board are expected to be $2.9 million in FY 2021-22, and increase by CPI thereafter.

Sanitation and Streets Department and Commission and Public Works Commission

In November 2020, San Francisco voters approved Proposition B, creating the Sanitation and Streets Department (SSD), Sanitation and Streets Commission (SSC), and Public Works Commission (PWC). The SSD will begin operations three months after the Board of Supervisors establishes a transition date by motion, to be no sooner than July 1, 2022. The SSC and PWC are expected to begin operations in FY 2021-22. Based on current estimates, costs for the new department and commissions are expected to be $6.0 million in FY 2022-23, and increase by CPI thereafter.

Public Health – Operating Costs

Department of Public Health (DPH) operating costs are expected to increase by $29.0 million in FY 2021-22, $17.8 million in FY 2022-23, $22.3 million in FY 2023-24, $23.8 million in FY 2024-25, and $25.4 million in FY 2025-26. These increases reflect the inflationary pressures at the department's hospitals and clinics related to medical inflation for pharmaceuticals, which exceed regular CPI increases, food inflation costs, as well as cost increases related to the UCSF Affiliation Agreement, which provides the clinical staff at Zuckerberg San Francisco General Hospital.

All Other Departmental Savings/(Costs)

This section includes other smaller departmental changes including the expiration of limited-term project costs and several other small changes. These items together result in savings of $8.8 million in FY 2021-22 and $1.0 million in FY 2022-23, increased costs of $0.6 million in FY 2023-24, increased costs of $3.8 million in FY 2024-25, and savings of $1.4 million in FY 2025-26.

Page intentionally left blank.

Fiscal Strategies

Meeting the Challenges of the COVID-19 Recession and Planning for Recovery

The last decade represented one of the longest periods of financial expansion since 1945. During this time, strong economic growth helped the City to overcome the challenges of the prior recession. When Mayor London N. Breed took office in 2018, the City was benefitting from a continued strong economy and with it, the growth of local revenues to build reserves, make significant investments in critical infrastructure and affordable housing, and expand vital services for San Franciscans. Though the last Five-Year Financial Plan, published in December 2018, reported a long-term structural deficit due to expenditure growth outpacing expected revenue growth, continued strong revenues and modest citywide and departmental expenditure solutions were expected to solve for the structural imbalance over the next five years.

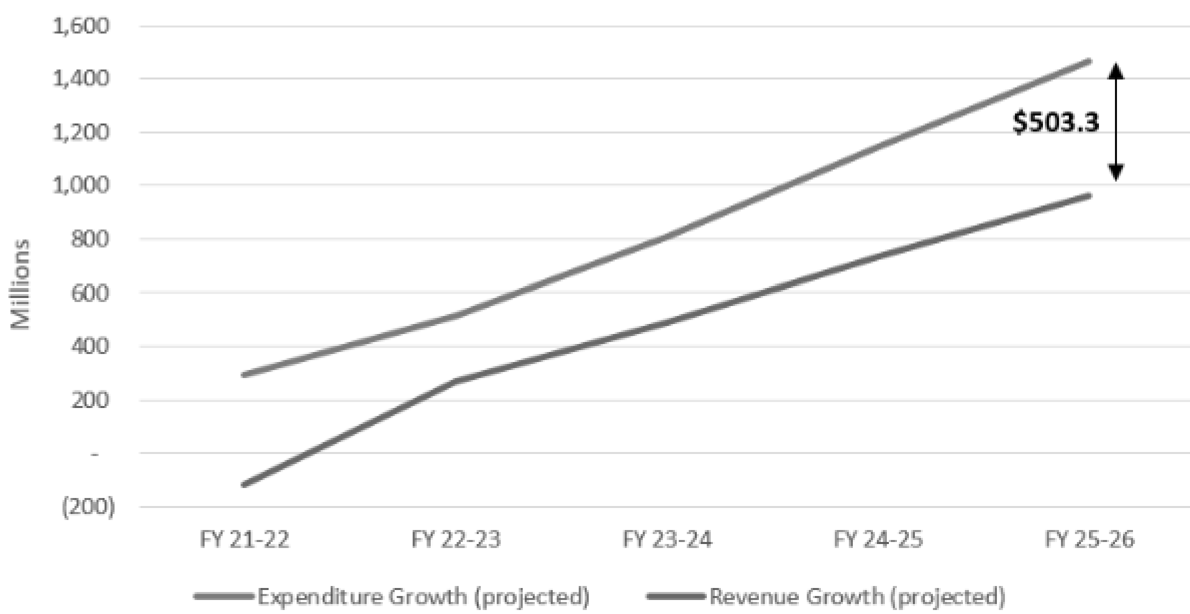
The stark and immediate economic impacts of the COVID-19 pandemic that began in March 2020 have dramatically changed the financial outlook for San Francisco. As noted previously in this report, San Francisco's economy has fared worse than other large U.S. cities during the latest pandemic-induced recession given its reliance on business and leisure travelers, conventions, and commuters in to the City. This has resulted in severe revenue losses that have continued into FY 2020-21, and which will likely slow the City's recovery. The FY 2020-21 and FY 2021-22 budget closed a historically high $1.5 billion deficit, driven by substantial revenue losses and increased costs for emergency response programs. Under Mayor Breed's leadership, the City implemented significant, yet responsible, expenditure reductions to close the projected shortfall, all while preserving jobs and critical services. These expenditure reductions included: assuming a two-year deferral of wage increases for all City employees; partially funding recommended funding levels for capital, technology, and equipment; identifying savings in the City's debt and real estate portfolio; and, absorbing other inflationary cost increases. These solutions, as well as the use of various one-time sources, made it possible to preserve City jobs and services, while also investing in key priorities such as racial equity initiatives, behavioral health and homelessness, and robust new COVID-19 response efforts.

The current five-year projection reflects the continued economic impact of COVID-19 in San Francisco, with an eventual recovery, resulting in a significant structural imbalance over the five-year period. As explained in the Base Case section of this report, notable drivers of expenditure increases include growing employee costs, cost growth in mandated entitlement programs, and the effect of many voter mandated baselines and set-asides, as well as citywide and departmental costs. In the first year of the projection, expenditure growth is exacerbated by projected revenue losses compared to the adopted FY 2021-22 budget due to the prolonged impact of COVID-19, as well as the need for continued emergency response programs. In the next two years, revenues are expected to rebound as the recovery gains momentum, though this growth is partially offset by the loss of one-time sources used to stem the economic impacts of COVID-19. By the end of the five-year period, revenues are largely expected to return to pre-COVID levels.

Great uncertainty remains about the timeline and magnitude of COVID-19's impact on San Francisco's revenues – notably those generated by the City's tourism industry, small businesses, and the office sector – as well as its expenditures. Additionally, changes in state and federal policy or financial stimulus could further impact the City's financial outlook, negatively or positively. Therefore, a disciplined approach to future growth and responsible choices will be critical to ensuring continued fiscal sustainability, allowing the City to maintain services for the public despite any further changes to its financial outlook that may be caused by the economic impacts of COVID-19 or ensuing recovery efforts. Making responsible choices today will ensure that the City is prepared to address the uncertainties ahead and provide San Franciscans with the support necessary to endure and recover from the impacts of COVID-19.

The projections in this report illustrate the importance of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. Figure 15 demonstrates that expenditure growth is projected to significantly outpace revenue growth - projected revenue growth is 15.5% and expenditure growth is 23.7% over the period. If the City does not take corrective action each year, the structural deficit will grow larger, making it more challenging to develop a balanced two-year budget that does not require significant operational changes.

Figure 15: Expenditures Growth Projected to Outpace Growth in General Fund Revenues

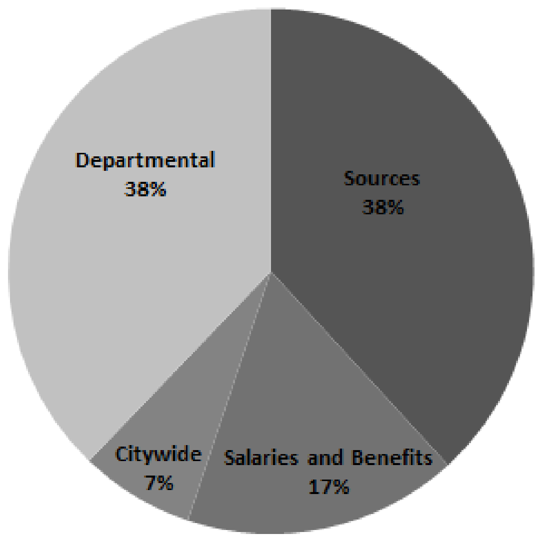


As outlined in the Base Case, the projected FY 2021-22 deficit is significantly larger than the projected FY 2022-23 deficit due to the lingering effects of COVID-19 on local revenues in the upcoming fiscal year. While some portion of the FY 2021-22 projected shortfall can be solved by one-time solutions, identifying on-going solutions will still be necessary to deal with the projected structural deficit. The financial strategies outlined below provide a framework intended to meet three key financial goals for the City during the coming five years: to recover from the revenue losses caused by COVID-19, to maintain service levels to the public, including addressing emergency needs caused by the pandemic, and to increase the City's financial resilience in anticipation of future economic changes or federal policy changes. A significant amount of work and planning by City departments and policymakers remains in order to develop more detailed plans to implement these strategies. The goal of the proposed strategies that follow is to set intentional and achievable targets so the City can begin developing more refined revenue, savings, and operational proposals that may require multi-year planning.

Fiscal Strategies: Overview

In the adopted FY 2020-21 and FY 2021-22 budget, the City implemented significant reductions to various operating costs and drew upon multiple one-time sources in order to responsibly close the $1.5 billion two-year deficit. The five-year projection now shows that the FY 2021-22 budget is facing an additional $411.1 million shortfall, which increases to $503.3 million by FY 2025-26. Solving for the short-term and long-term deficit will require a combination of identifying possible growth in sources as well as expenditure savings over the Base Case assumptions. However, expectations of further revenue growth are somewhat limited, due to the significant impact the COVID-19 pandemic has had on the City's revenues since March 2020. Additionally, the City has already maximized many one-time and on-going citywide expenditure solutions in order to balance the most recently adopted budget, leaving fewer options for additional citywide savings to solve the projected deficit shown here. Therefore, the proposed fiscal strategies, outlined below, largely rely on identifying new ongoing departmental expenditure savings, as well drawing upon remaining City reserves, to fully close the projected structural deficit. The proposed solutions are shown in Figure 16 below.

Figure 16: Fiscal Strategies – Each Strategy as a Percent of Total Solution



If the strategies outlined in Figure 16 are implemented, expenditure growth will increase by $1.21 billion as opposed to the $1.47 billion assumed in the Base Case. The proposed solutions to the City's structural imbalance include use of the COVID Response and Economic Loss Reserve over the five-year period, limiting growth in salary and benefit expenses, assuming minor changes to the City's capital program and non-salary expenses, and identifying significant departmental solutions. Taken together, these solutions would constrain expenditure growth to 19.6% over the next five years as opposed to the currently projected growth of 23.7%.

These financial strategies provide a framework for the City to continue to provide services to the public while remaining fiscally prudent over the coming five years. The remainder of this section discusses the options available to the Mayor and the Board of Supervisors to balance the budget over the five-year horizon.

Fiscal Strategies: Sources - Revenues and Reserves

The Base Case projection assumes revenue growth of $963.4 million over the coming five years, largely returning to pre-pandemic levels by the end of the projection period. However, even as revenue growth accelerates, the City is projected to exhaust the one-time sources that were used to balance the budget between FY 2020-21 and FY 2022-23, including the Economic Stabilization Reserve, prior year fund balance, and General Fund repayments from the November 2020 voter-approved Proposition F. The loss of these one-time sources partially offsets the revenue growth in the five-year projection, and depletes reserve funds that otherwise would be available to address future crises. This trend underscores the importance of pursuing disciplined fiscal strategies not only during, but following San Francisco's economic recovery.

State law places significant constraints on the City's ability to raise revenues. Property taxes are the City's single largest General Fund revenue source, but authority to adjust property tax rates is highly restricted in the State Constitution (via Proposition 13.) Proposition 26, approved by state voters in 2010, places limits on local governments' ability to establish new fees and increase existing fee rates. Where tax rate increases are allowed, voter approval is generally required. Two new general tax measures were approved by voters in November 2020, one increasing the transfer tax rate on properties over $10.0 million (Proposition I) and the other implementing a new tax on executive pay (Proposition L.) As general taxes, the revenue for both of these propositions is assumed in this report, but any legislated restrictions on eligible uses of this revenue would lower the revenue projections compared to current Base Case assumptions. More information on these measures can be found in the "General Fund Taxes, Revenues, & Transfers" section of this report on page 28.

The fiscal strategies in this plan anticipate that a combination of both one-time and ongoing revenue sources will account for approximately 38% of the fiscal strategies laid out in this section to solve the five-year shortfall:

- **Taxes & Other Revenues:** The fiscal strategies anticipate that the City will see modest revenue growth (compared to the Base Case revenue projections) in the last four years of the report, which will help to close the City's structural shortfall.
- **Federal Stimulus Funding:** A Democratic-controlled Senate and presidential administration increases the likelihood that San Francisco will receive some level of emergency stimulus funding from the federal government. These projections anticipate that San Francisco receives a second federal emergency aid package, of similar size to the funding San Francisco received from the federal CARES Act Coronavirus Relief Fund, in FY 2021-22.
- **Use of Reserves:** The Base Case projection in this plan does not assume any use of the City's COVID Response and Economic Loss Reserve, which has a balance of approximately $507 million. The fiscal strategies in Figure 16 assume that the City will draw down most of the balance available in this reserve over the five-year period in order to supplement revenue losses as the City recovers from COVID-19. No other one-time sources are anticipated to serve as additional solutions for the five-year deficit, as the Base Case already assumes maximizing available reserves and fund balance in the first two years of the plan to offset the City's revenue losses while minimizing service impacts. Therefore, in the coming years, as economic growth accelerates, it will be important for the City to replenish its reserves when possible in order to adequately prepare for any future economic downturns.

Fiscal Strategies: Manage Employee Salary and Benefit Costs

The five-year outlook anticipates that, absent change, the rate of growth in employee salary and fringe benefit costs will rise significantly during the coming five years, representing 39% of all projected expenditure growth, by far the largest driver of the growth in the City's deficit and expenditure increases. In order to minimize service reductions and impacts on the City's workforce, these strategies assume that the City will take action to constrain growth in employee costs throughout the five-year period, through approaches such as negotiation of future labor contracts and the management of pension and health benefit costs.

- **Labor Costs:** The Base Case assumes the implementation of previously negotiated labor agreements for miscellaneous employee unions through FY 2021-22 and for police and firefighters through FY 2022-23, with assumed cost-of-living adjustments in line with CPI in open contract years.

  However, given the gap between revenue and expenditure growth, it is unlikely the City can afford these increases without expenditure reductions beyond the departmental and citywide cuts assumed in these fiscal strategies. Over the next five years, the City will need to set goals for labor contract agreements that reduce costs relative to the projections assumed above.

Provisions in adopted MOUs allows for negotiated wage increases to be delayed should the projected shortfall for the upcoming fiscal year exceed $200 million at the time of the March update to this report. Assuming the projected deficit for FY 2021-22 remains above $200 million at the time of the March update, the 3% wage increase for all City unions can be delayed by six months from July 2021. For miscellaneous unions, the 0.5% wage increase currently due halfway through FY 2021-22 would also be delayed by six months. By delaying these COLAs, the City will see significant one-time salary and benefits savings in FY 2021-22. For the purposes of this fiscal strategies projection, further savings over the five-year period can be realized by assuming that negotiations in open contract years result in labor costs up to 1% lower than currently projected CPI.

- **Pension Costs:** The City has made progress in the past five years in managing employee benefit costs through responsible fiscal practices as well as reforms passed by the voters. The Five-Year Financial Plan last issued in December 2018 detailed new cost pressures on employer contributions to retirement plans, which are projected to be fully amortized in this report's updated projections, resulting in savings relative to prior projections. The City will need to continue to seek opportunities to implement responsible policies to reduce future liability and constrain cost growth.
- **Health Benefits:** Employer contributions for active and retiree health benefits are expected to grow much faster than inflation over the next five years. Reducing this rate of growth is a top priority for the Health Service Board and the City. The Health Service System (HSS) continues to explore innovative ways to make health care affordable and sustainable for current and future members through value-driven decisions, programs, designs, and services. In the coming years, HSS will focus on quality, value-based payments and going to market with health plans aligned with these strategies.

General Fund savings resulting from these strategies are estimated to comprise about 17% of all solutions for the five-year deficit. These proposals represent planning goals, and some of these solutions may require agreements with employee unions and health care providers.

Fiscal Strategies: Citywide Expenditure Savings

- **Capital, Equipment, and Information Technology Spending**: The City's 2020-2029 Capital Plan calls for an annual 7% increase in the level of General Fund cash investment in City-owned infrastructure. However, the General Fund capital budget and the City's Major IT and Annual Project budget allocations were partially funded relative to plan levels in both years of the adopted FY 2020-21 and FY 2021-22 budget in order to generate the savings needed to close the $1.5 billion shortfall. The new Capital Plan, to be released in spring 2021, recognizes the limited ability of the City to return capital spending to pre-COVID levels in the near-term, and will lay out a revised recommendation of an annual 10% increase in the level of General Fund cash investment, with significant enhancement starting in FY 2024-25. This growth rate is included in the plan's Base Case projection.

  The City's Information and Communication Technology (ICT) Plan that will be released in spring 2021, similarly recommends an annual increase of 10% for both the Major IT and Annual Project allocations, with significant increases starting in FY 2024-25. This growth rate is also included in the City's Base Case projection.

  Making significant investments in capital and IT spending is an important goal to ensure the resiliency of San Francisco's infrastructure. To supplement the General Fund resources discussed above, the City will continue to work to leverage alternative sources to support capital, IT, and equipment needs, a strategy that was also used to balance the significant shortfall in the last budget.

- **Managing the City's Debt and Real Estate Portfolios**: In recent years, the City has successfully pursued refinancing and restructuring of existing debt obligations, resulting in lower annual debt service costs on General Fund capital projects and real estate ventures. The projections in this report expect that the City will continue to proactively manage and restructure planned debt to achieve additional savings, and leverage debt as a tool where appropriate to fund capital work that would otherwise increase General Fund costs and contribute to the deficit. In addition, the City has adopted a policy to limit the General Fund Certificates of Participation (COP) debt program to 3.25% of aggregate discretionary revenue. However, this does not mean that the City must fund projects using debt. A changing real estate market and telecommute standards, while potentially detrimental to revenue, could nonetheless provide the City with opportunities to renegotiate leases on City buildings, revise on-going cost projections for new leases, or re-consider its space needs for City employees, generating further savings in on-going real estate costs.

- **Limit Non-Personnel Inflation**: The Base Case of this plan assumes that departments will absorb inflationary increases on many non-salary costs (such as spending on contracts or materials and supplies) in FY 2021-22, but that inflationary costs will contribute significantly to citywide costs for the last four years of the projection. Given the projected deficits facing the City, these fiscal strategies assume that some level of this cost escalation is absorbed by departments within existing budgets for most non-personnel costs in the final four years of the five-year period. This strategy will likely require continual reevaluation by City departments of priority purchasing needs, finding opportunities for efficiencies, and a focus on effective purchasing practices to ensure the lowest possible price.

Fiscal Strategies: On-Going Departmental Revenues and Savings Initiatives
Given the key goal of fiscal discipline in order to ensure sustainability of services to the public, departments must strive to ensure services are provided in the most efficient way possible and resources are used for their highest and best purpose. Because the use of other one-time revenue sources and citywide savings strategies have been heavily utilized in the adopted FY 2020-21 and FY 2021-22 budget, departmental savings now comprise a significant portion (about 38%) of the total fiscal strategies identified to solve the projected five-year shortfall, as seen in Figure 16.

In December 2020, the Mayor instructed departments to reduce on-going General Fund support by 7.5% for their proposed FY 2021-22 and FY 2022-23 budgets. Departments were also instructed to propose a 2.5% on-going contingency reduction that may be utilized in the event that fiscal conditions worsen. This fiscal strategy projection assumes that departmental reductions will result in significant General Fund savings in FY 2021-22 and FY 2022-23, with minor additional reductions assumed in the remaining years of the report.

This department target level is certainly not unprecedented; the requested departmental reductions in the five years following the 2008 downturn ranged from 5% to 25% each year. Departments have been asked to identify solutions that prioritize core functions, minimize significant service or personnel impacts, and maximize efficiencies for General Fund spending. Solutions could range from exploring revenue options, consolidating service contracts for potential savings, sharing resources with other City departments, piloting creative solutions to reduce costs, holding nonessential positions vacant, and eliminating filled positions.

Other Factors that Could Affect the Forecast

As noted earlier in the Base Case projection, uncertainties exist regarding key factors that could affect the City's financial condition, particularly the near and long-term trajectory for revenue recovery, but also changes to state and federal policy regarding FEMA reimbursement or stimulus funding.

Conclusion

The strategies outlined above represent a realistic and intentional approach to correcting the structural imbalance between the City's projected revenues and expenditures, while continuing to deal with the various cost pressures created by the COVID-19 pandemic. If these strategies are implemented over the five-year period, the City will be able to grow its budget at a rate of 19.6% over the next five years, and will be in a more sustainable financial position, better positioned to recover from the COVID-19 emergency and continue to provide excellent services for the public into the future.

Page intentionally left blank.

Citywide Strategic Initiatives

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 in order to identify and assess near- and long-term 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 sufficient flexibility to address critical needs as they arise. Together, these documents and planning processes represent the City's commitment toward long-term, strategic planning.

This FY 2021-22 through FY 2025-26 Five-Year Financial Plan comes at a true inflection point in the City's recent history. Since the Great Recession in 2008, the country, and the City of San Francisco with it, experienced a period of unprecedented economic growth – the longest economic expansion in American history since the Great Depression. With that growth came tremendous opportunity for new programming, plans, and capital investments for San Francisco – but also acute challenges arising from growing inequities across the city. In the last few years, San Francisco has made historic investments to address its affordable housing and homelessness crises, and greatly expanded its level of financial support to its most vulnerable residents through various community investments. Meanwhile, the City was also able to make prudent financial choices, growing its reserve funds to plan for unforeseen circumstances.

In March 2020, the COVID-19 pandemic swiftly ushered in stark economic changes and, in turn, new fiscal realities for the City of San Francisco. The pandemic also created new operational challenges for the City to respond to: an urgent and all-encompassing public health crisis, immense challenges for the city's small businesses, and new hardships for its most vulnerable residents. While the five-year financial projections assume the economy begins to recover in the next few years, uncertainties about the speed and nature of that recovery remain.

With a COVID-19 vaccine on the horizon, City leaders and departments will continue working together to safeguard public health and ensure the recovery is a lasting one. This means continuing to manage the pandemic while making strides toward both well-established and newly important initiatives. The COVID-19 pandemic has underscored the deep and long-standing inequities between different communities in San Francisco, with communities of color and low-income residents experiencing the highest COVID-19 infection rates and the greatest economic impacts. More than ever, the principle of equity must guide the City's choices ahead.

In alignment with long-standing financial planning practices and in light of a new economic reality, upcoming budget investments will focus on emerging from COVID-19 more resilient and realizing an equitable and vibrant economic recovery for San Francisco.

With those goals in mind, the initiatives described below highlight City programs within the priority areas of:

- Economic Revitalization through Small Businesses, Nonprofits, Workforce, and Transit
- Investing in the Future of San Francisco: Children and Youth

- Transforming San Francisco's Response to Housing and Homelessness
- Cultivating Healthier and Safer Communities

Economic Revitalization: Prioritizing Small Businesses, Nonprofits, Workforce, and Transit

Revitalizing the Small Business and Nonprofit Sector

San Francisco's diverse array of community organizations, small businesses, and small business corridors – from Chinatown, to the Bayview, to the Mission – have long defined the character of San Francisco and made this city a vibrant place to live, work, and visit. The unique shops, restaurants, entertainment venues, and services, enliven the City's soul and entrepreneurial spirit. Even before the COVID-19 pandemic, rising costs as well as the City's own bureaucracy often made it challenging to keep and sustain long-standing small businesses and welcome new ones. This reality prompted the City to establish new and expanded policies and programs such as the Nonprofit Sustainability Initiative, SF Shines, and Healthy Retail SF to streamline the experience for small businesses as well as strengthen the small business and nonprofit communities through technical assistance and grants. No single business, community organization, or program was built to withstand the economic fall-out of the COVID-19 pandemic.

In response, throughout 2020, the City allocated nearly $24 million in grants and loans benefiting more than 1,230 local small businesses and their employees with the goal of delivering a measure of relief to businesses, nonprofits, and commercial districts responding to the economic impacts of the pandemic including the following:

> **San Francisco Hardship Emergency Loan Program:** The San Francisco Hardship Emergency Loan Program was initially created with a $9.0 million commitment to provide small businesses zero interest loans up to $50,000. These loans have a flexible repayment schedule and terms are determined on a case-by-case basis, based upon each borrower's ability to repay.
>
> **The African American Small Business Revolving Loan Fund:** This $3.8 million fund will help at least 70 Black-owned businesses and entrepreneurs access much-needed financial capital, with zero-interest loans of up to $50,000 with a 20% debt forgiveness option. Long-standing San Francisco African American businesses are prioritized for these loans, especially those businesses most impacted by COVID-19.
>
> **Latino Small Business Fund:** This $3.2 million fund will provide zero interest loans of up to $50,000 to approximately 80 small businesses. The funds are intended to mitigate the impacts of COVID-19 on Latino-owned businesses and small businesses in neighborhoods that serve the Latino community.
>
> **Resiliency and Neighborhood Business Mini-Grants:** Nearly $2.0 million in grants provided emergency funding between $1,000 and $10,000 to over 700 small businesses including women entrepreneurs in underserved communities and throughout the city.

In addition to these ongoing programs, the City has deferred until November 1, 2021 the collection of over $68.0 million in business registration fees, unified license fees, and the annual business tax in addition to providing a moratorium on commercial evictions for small and medium sized businesses. The City has also waived $5.0 million in fees and taxes for some of the hardest-hit industries, including entertainment venues and restaurants.

As the City recovers from the COVID-19 pandemic, enabling small businesses to reopen and thrive will be at the heart of its efforts. It is the City's goal to continue offering resources to assist small businesses and community organizations to start, stay, and grow in San Francisco. This includes technical assistance that can be found at the San Francisco Business Portal or financial assistance via grants and affordable loan products from the Office of Economic Workforce Development (OEWD) and community partners.

The City will also work to incorporate recommendations from the Economic Recovery Taskforce (ERTF), convened at the beginning of the pandemic, to create flexibility for businesses to operate and consider reducing or eliminating regulatory burdens. Part of the long-term path towards economic recovery must include making it easier to open and sustain businesses in San Francisco in the first place.

The Save our Small Businesses ballot measure, also known as Proposition H, sponsored by Mayor Breed and approved by voters in the November 2020, enacts zoning and code reform, making it easier for businesses to open and operate in San Francisco. Proposition H streamlines the permitting process for businesses, creates more flexibility in zoning and how businesses can operate, supports arts nonprofits, and encourages more vibrant commercial corridors throughout the City. It requires the City to shorten the permitting process for permitted uses to 30 days, which will save many small businesses months in process delays and often tens of thousands of dollars in associated costs. Proposition H additionally relaxes some zoning restrictions and allows more businesses to provide a mix of products and services.

Rebuilding Our Workforce

The San Francisco Bay area continues to have significantly fewer jobs than pre-pandemic levels, with unemployment hitting the leisure and hospitality sector the hardest. This sector includes hotels, restaurants, and the arts – all of which have further downstream effects on a variety of small retail, hospitality, and service-based businesses across San Francisco. Job losses can be attributed to several factors, most notably depressed tourism and a lack of business commuters.

The City and the OEWD have stood up many worker relief programs in response to COVID-19 to support immigrant workers, families unable to qualify for state or federal aid, and those without access to employer-sponsored sick leave benefits. As businesses re-open and jobs return, ensuring those with the greatest barriers to employment have access to jobs will be key to realizing the City's goals of an equitable economic recovery through programs such as the following:

Job Centers: Provide a seamless array of workforce services designed to assist jobseekers with finding employment as quickly as possible. These job centers are located citywide. For specialized job centers, services are focused for specific groups including but not limited to immigrants, homeless, veterans, the LGBT community, and those with HIV/AIDS, mental health disabilities, and hearing and communication challenges.

Workforce Training Programs: The City provides a series of training programs that connect job seekers in San Francisco with employment opportunities in both growing industries as well as those hardest hit by the COVID-19 recession. These programs include City Build, Health Care Academy, TechSF, and the Hospitality Initiative.

JobsNOW!: The JobsNOW! program at the Human Service's Agency (HSA) Department of Benefits and Family Support seeks to promote self-sufficiency among its clients by creating pathways to gainful employment. Recipients of assistance benefits administered by HSA, as well as any San Francisco residents who make less than 200% of the Federal Poverty Level, are eligible to participate. Forms of employment support range from job skills training, to paid internships with nonprofits and City departments, and even temporary job placements with private businesses.

ApprenticeshipSF: San Francisco's Department of Human Resources facilitates the Citywide ApprenticeshipSF program. The program's "earn and learn" model allows employees to earn a salary while also learning on-the-job skills from an assigned mentor. Programs are designed to move an apprentice from a low or no skill entry-level position to full journey level occupational proficiency. Apprenticeships are available for automotive technicians, cement masons, landscapers, machinists, park rangers, plumbers, and stationary engineers. Upon completion of an apprenticeship, participants receive an industry issued, nationally recognized credential that certifies occupational proficiency, is portable, and can provide a pathway to a career. In many cases, these programs provide apprentices with the opportunity to simultaneously obtain secondary and post-secondary degrees.

Many of these programs served as vital entry points for workers coming out of the Great Recession of 2008, and will serve as strategic workforce programs through this next one.

Restoring Public Transit

The City's top priority for transportation is restoring service that most equitably serves the needs of a recovering city. Reliable and safe transportation is a critical element of a thriving city. The City is committed to providing a transportation network that is safe, reliable, and sustainable. As a result of COVID-19, the San Francisco Municipal Transportation Authority (SFMTA) had to reduce transit service, and created a Core Service Plan to prioritize service on the City's busiest lines with the highest demand, in particular to support essential trips for those with the fewest alternatives.

SFMTA and other departments have also promoted several initiatives in response to COVID-19 to ensure safe travel options and outdoor activities. These include programs to help older adults, people with disabilities, and essential workers get around safely and affordably; Slow Streets to prioritize walking and biking with physical distancing; and Shared Spaces, a multi-agency program of the Economic Recovery Task Force that allows merchants and community groups to use public spaces like parks, parking lots and plazas, for restaurant pick-up and other neighborhood retail activities.

In the years ahead, the City is committed to restoring service and making it better than before, by providing a network that supports our residents, workers, and economic recovery through key programs and projects. These include programs that reduce transit costs for low-income residents, provide service reliability improvements, and Vision Zero, a multi-agency program aimed to reduce the number of traffic fatalities on San Francisco streets to zero.

Investing in the Future of San Francisco: Children and Youth

Fostering an equitable San Francisco begins with ensuring the health and success of our children, youth, and families. The City is committed to making investments at every stage of a child's development that transform the opportunities available to them. This commitment requires that every child in San Francisco has access to quality social services, education, healthcare, and provides guidance for building safe, secure environments. It is critical that children from underserved communities, those hardest hit by the health and economic consequences of the pandemic, have access to these resources.

Through a focus on the needs of children, youth, and families, San Francisco aims to become an ideal place for children to thrive and be vocal members of our community. Below are some of the key programs that seek to further child and youth development from birth through higher education.

Early Childhood Development

The Abundant Birth Project: The Abundant Birth Project is a simple, yet novel, approach to achieving better maternal health and birthing outcomes: provide pregnant Black and Pacific Islander women a monthly income supplement for the duration of their pregnancy and during the postpartum period as an economic and reproductive health intervention. Prematurity is a leading cause of infant mortality and has been linked to a number of lifelong health issues. This pilot program at the Department of Public Health (DPH) will provide monthly income supplements to approximately 150 Black and Pacific Islander women in San Francisco for the duration of their pregnancy and for the first six months of their baby's life, with a goal of eventually providing a supplement for up to two years post-pregnancy. Expecting Justice, in partnership with UCSF and UC Berkeley researchers and supported by the Hellman Foundation, will study the resulting health impacts of the pilot program, which is the first of its kind in the United States.

Babies and Families First Fund: San Francisco leads the country in high quality childcare and education due to the investments the City has made in increasing financial assistance for families, funding evidence-based programs, and providing training and quality improvement supports for early education professionals. Yet, for too many families, quality care and education for San Francisco's youngest are still out of reach. Bolstered by dedicated funding from the Babies and Families First fund established by Proposition C in June 2018 and enabled by the passage of Proposition F in November 2020, the City is newly committed to expanding access for hundreds of low and middle-income families as well as providing greater support for this critical early educator workforce by advancing their educational and career pathways. Further, through the partnership of the Office of Early Care and Educations and First Five, the City plans to deepen its investments in more comprehensive family and children's services that support the physical, emotional, and cognitive development of children with the goal of ensuring every child enters kindergarten set up for long-term success.

School-Age Children and Youth

Community Programs for Children, Youth and Their Families: The Department of Children, Youth, and their Families (DCYF) invests in over 400 programs that serve children and youth in all 11 districts of San Francisco. DCYF's programs are bundled into six service areas – educational supports; justice services; out of school time; enrichment, leadership, and skill building; mentorship; and youth workforce development. These programs are primarily implemented by DCYF's Community Based Organization (CBO) partners, who are selected through a rigorous proposal process. Grants are given to CBO partners on a five-year grantmaking cycle. The current cycle runs from 2018-2023 and funds 152 agencies with over $75 million. DCYF is preparing for its next five-year cycle to begin in 2024 by implementing a Community Needs Assessment, which ensures an equitable allocation of resources and that funds reach those with the greatest need. Each year, DCYF and its CBO partners supports nearly 15,000 students in K-8 afterschool programs, delivers over 115,000 nutritious free meals to youth 18 and under, engage over 4,000 youth in violence prevention and intervention programs, serves nearly 10,000 parents at Family Resource Centers, and more. DCYF also supports the San Francisco Beacon Initiative to make public schools' youth and family-centered institutions. There are currently 27 Beacon Centers serving 13,000 San Franciscans, who are empowered to collaborate and be active voices in the creation of their schools' culture, mission, and aims. This community-based approach aims to support life-long learners and engages their families as advocates and leaders in decision-making processes.

Community Hubs Initiative: In response to the COVID-19 pandemic and San Francisco Unified School District (SFUSD) school closures, Mayor Breed launched the Community Hubs Initiative, in partnership with DCYF, community-based organizations, the Recreation and Park Department, and the San Francisco Public Library, to provide full-day, in-person programming for 3,000 children and youth. The Hubs serve high-needs children and youth, including children and youth from low-income households, foster youth, and English Language Learners. The Hubs began serving these children and youth in September 2020 and will continue providing support until the need has subsided. At the Hubs, children and youth receive access to technology for distance learning, three nutritious meals each day, and additional enrichment programming, including STEAM, literacy, and nature-based outdoor play and education.

Supporting San Francisco's High-Potential Schools: Teachers are fundamental to children and youth's education and development. San Francisco, like most other cities and counties, faces challenges with teacher retention. In order to reduce teacher turnover, the City has committed to pay stipends to credentialed educators at SFUSD High Potential Schools. These schools experience a higher than average teacher turnover rate, compared to other SFUSD schools, and provide education to children in underserved communities. Nearly all of these schools are in the Bayview, Mission, and southeastern neighborhoods. These stipends aim to improve student outcomes by addressing difficulties with recruitment and retention faced in these schools.

Behavioral health in schools: Behavioral health is a critical part of San Francisco's investment in children and youth's development. Beginning in 2018, the City has provided $1.8 million a year in funding to SFUSD to expand mental health and wellness services at high potential schools throughout the public school system. Beginning in FY 2020-21, this ongoing funding will support mobile response team (MRT) services to provide SFUSD students with non-police, age-appropriate response for children and youth experiencing behavioral health crises or in need of preventative care. The program accepts referrals directly from SFUSD and works in partnership with SFUSD teachers and social work team.

Opportunities for All: The City will also support youth development outside of the classroom, by providing youth employment opportunities through Opportunities for All (OFA). In October 2018, Mayor Breed launched OFA, which prioritizes equitable access to opportunities by providing every youth participant with mentorship, a paid internship, and support to achieve employment. OFA uses an equity-based framework that focuses on each youth's strengths and how they are influenced by the world around them. OFA puts the youth at the center to make sure the experience best meets their unique needs and affords them the best opportunities for growth. In 2019, OFA placed 3,800 youth in paid internships in organizations in the fields of STEM, construction, automotive, civic engagement, law, culinary, hospitality, education, entrepreneurship, recreation, arts, business, and retail organizations. The Mayor will continue to focus on providing meaningful employment opportunities within San Francisco for the city's youth.

Free City College: Finally, higher education is a fundamental part of San Francisco's education aims for children and youth in our community. In 2017, San Francisco became the first metropolitan area in the United States to offer free higher education to its residents. This commitment was extended in 2019 by Mayor Breed and the Board of Supervisors through a ten-year memorandum of understanding between the City and County of San Francisco and the City College. This significant financial commitment provides equal access to education for all city residents. With this investment, the City hopes to see San

Franciscans achieve educational fulfillment and gain full-time employment in areas that provide greater financial security and personal enjoyment.

San Francisco is committed to supporting children throughout each stage of their physical, emotional, and mental maturation. Through these outlined programs, San Franciscans are provided more equal access to opportunities, shifting what has been historically disproportionate. This continuous approach supports healthy growth and development so that all children, youth, and eventually adults, can thrive.

Transforming San Francisco's Response to Housing and Homelessness

Expanding the City's Commitment to Affordable Housing

The development of new housing across all income levels is key to countering the housing crisis in San Francisco, which is central to making progress on other major citywide goals from supporting workforce development, to making San Francisco a vibrant home for families, to addressing the challenges of homelessness.

State law requires the periodic updating of the Housing Element of San Francisco's General Plan, which will be updated by the Department of City Planning in 2022, and the public participation process has already begun. The Housing Element is San Francisco's housing plan for the next eight years, 2022-2030, and the first one that will center on racial and social equity. The plan will define San Francisco's priorities for housing solutions, guiding decisions and resource allocation for creating housing and providing housing services. The Housing Element will provide an analysis of housing needs in the city and policies that address those needs. The update is required to include policies that provide equal housing opportunities to city residents, assist in housing development, preserve units at-risk of conversion from affordable to market rate, and improve and conserve existing housing stock.

More specifically, the City also works to advance and develop affordable housing sites under a variety of programs, serving many different populations. The affordable housing pipeline is a projection of all the underway affordable housing projects known to the City. This pipeline estimates that 3,426 new units of affordable housing will be built over the next five years, with 786 of those units expected in 2021 and 2022. Additional affordable housing may be developed beyond these figures as new or unexpected opportunities arise, such as state or federal financing for new site acquisitions.

Two of the City's largest programs for the development of affordable housing are the Local Operating Subsidy Program (LOSP) and HOPESF, which will continue to add new units and expand over the next five years.

Local Operating Subsidy Program: The Local Operating Subsidy Program (LOSP) is a partnership between the Mayor's Office of Housing and Community Development, the Department of Homelessness and Supportive Housing, 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 an operating subsidy to housing operators to cover the cost of this housing while also providing supportive services to these formerly homeless individuals to assist them in permanently exiting homelessness. The City will operate 1,342 of these units as part of LOSP in FY 2020-21, growing to 1,864 in FY 2021-22 as more sites are acquired. The City's investment in this program will total approximately $24.3 million in FY 2020-21 and $33.4 million in FY 2021-22.

HOPE SF: San Francisco will continue to make significant investments in housing and housing affordability across the City. HOPE SF is a major community development and reparations initiative that will rebuild four public housing sites in San Francisco's southeastern neighborhoods, creating 3,400 new homes without displacing existing residents. HOPE SF will renovate the Hunters View, Alice Griffith, Potrero Terrace, and Sunnydale-Velasco sites using a holistic and resident-driven model, creating mixed-income communities with social services and amenities. HOPE SF is financed through bond funds and a commitment of $5.0 million in annual support from the City's General Fund.

Bold Action on Homelessness

Preventing, reducing, and creating sustainable solutions to homelessness in San Francisco continues to be one of the City's top priorities. Under Mayor Breed's leadership, San Francisco has prioritized new investments and initiatives in order to achieve a significant and sustained reduction of homelessness in San Francisco. These strategies include building out the City's Homeless Response System through a coordinated and equitable system of care, expanding the City's congregate shelter capacity, increasing prevention and problem-solving strategies to reduce the number of people who become homeless, and increasing rehousing opportunities and resources for people experiencing homelessness.

The onset of the COVID-19 pandemic in early 2020 dramatically impacted people experiencing homelessness and created an immediate need for expanded COVID-safe shelter and housing resources. The City responded to these needs by creating multiple temporary emergency shelter programs and designing a Homelessness Recovery Plan that will dramatically expand pathways for people experiencing homelessness to access housing opportunities.

While the COVID-19 public health crisis has focused the approach to new homelessness investments, the City's commitment to the Department of Homelessness and Supportive Housing's (HSH) Five-Year Strategic Framework, and particularly the need to drive efforts through an equitable, Coordinated Entry approach, remain steadfast and foundational to response efforts. Key initiatives included in the Mayor's Homelessness Recovery Plan and long-term approach are outlined below. Funding for these programs is expected to be heavily supported by the Our City Our Home (OCOH) Fund, which was created through Proposition C in November 2018 and recently unlocked for use in fall 2020 by a favorable court ruling.

Shelters established for COVID-19 response: In response to the COVID-19 emergency, the City dramatically changed how temporary shelter services were delivered in order to keep clients and staff safe and minimize public health risks, including decreasing congregate shelter capacity to a COVID-safe capacity. At the same time, the City created the Shelter-in-Place (SIP) hotel program, as part of the State's Project Roomkey Initiative, and rapidly expanded temporary shelter slots by leasing approximately 2,600 hotel rooms for those at high risk for severe COVID-19 disease. Additionally, the City added 200 emergency congregate shelter beds at the Moscone Convention Facility and launched a new site with 120 recreational vehicles (RVs) to provide additional spaces for people experiencing homelessness to safely shelter in place. Lastly, the City piloted a new street shelter program through the creation of multiple Safe Sleep Villages and Safe Sleep Sites, generating approximately additional 260 shelter spaces. Most of these emergency programs are intended to be temporary COVID-19 response programming, and funding for the programs is heavily reliant on federal and state emergency aid, as well as on the City's OCOH Fund. As the City reopens and recovers from the pandemic, HSH has begun a rehousing plan to help guests in these settings find housing stability and will correspondingly unwind much of the emergency response programming over the coming fiscal year.

Reinflation of the shelters: When safe, the City will return to pre-COVID levels of congregate shelter. This will include opening shelters not able to safely function at full capacity during COVID, expanding active shelters back to appropriate levels of capacity and continuing to invest in creative solutions that help people stay safe as they access housing and services needed to exit homelessness.

Expansion of Permanent Supportive Housing and housing subsidy programs: The City's Homeless Recovery Plan leverages the largest one-time expansion of Permanent Supportive Housing in the City in 20 years, planning for an overall 4,500 permanent supportive housing placements to be made available through a combination of newly acquired or leased units, a pipeline of units currently in construction, and turnover within the City's current permanent supportive housing portfolio. This plan will ensure that homeless residents who have been moved into Shelter-in-Place hotels during the COVID-19 pandemic are able to access rehousing options that meet their unique needs even as the City continues to connect people experiencing homelessness to resources. Additional development of family and youth housing goals is currently underway. As of the publishing of this report, the City has received supplemental funding from the State's Project Homekey program to acquire two San Francisco hotel sites, one at 1000 Sutter Street and one at 440 Geary Street, to make progress in this work. Additionally, the City will provide significant resources over the five-year period to expand the City's Flexible Housing Subsidy Pool program, rapid rehousing, and other short- and medium-term subsidy programs to support adults, Transitional Age Youth (TAY), and families in securing housing stability. These resources, which are largely made possible during this time of economic recession by the new resources of the OCOH Fund, will ensure that the City can take an equitable, nuanced, and flexible approach to achieve housing goals that is responsive to the unique needs and circumstances of each client.

Construction of new SAFE Navigation Centers: In early 2021, two new Navigation Centers will open, adding 270 new long-term shelter beds to the City's portfolio of congregate shelter beds. The new Bayview SAFE Navigation Center at 1925 Evans will add 116 new adult beds at COVID-19 capacity and up to 195 adult beds at full capacity, plus 15-18 family beds. The new Lower Polk TAY Navigation Center at 888 Post will serve youth age 18-24, adding 34 TAY beds at COVID-19 capacity and 75 TAY beds at full capacity.

Prevention and problem solving: In accordance with HSH's Five-Year Strategic Framework goals, the City has added new funding for problem solving over the last three years. The funding is designed to offer those who are already homeless, or on the cusp of homelessness, assistance in finding safe, immediately available housing. In response to COVID-19, HSH has further honed its prevention resources to a more targeted approach that ensures homelessness prevention resources go to households most likely to become homeless and offer more flexible support to those households. In addition, the City currently funds targeted homelessness prevention programming, offering financial and support services to households facing an immediate housing crisis with a high likelihood of becoming homeless. Both prevention funds and problem-solving funds will be expanded in the coming years as new resources have been made available through the OCOH Fund.

Together, these initiatives will secure shelter and housing for a historic number of people currently living in highly unstable conditions. In addition to creating more housing options, the City aims to bring an elevated level of mental health care to over 4,000 unhoused individuals suffering from behavioral health and substance abuse. Details about behavioral health programs are discussed below.

Cultivating Healthier and Safer Communities

Making long-term investments in the health and wellness of San Francisco residents from birth to old age is a key priority for City departments including the Department of Public Health, Human Services Agency, and Department of Homelessness and Supportive Housing. The focus of this work is on building systems of care for the City's most vulnerable, including San Franciscans who are low-income, unhoused, aging, or those with disabilities. Caring for the whole individual also extends to those involved in the justice system, where the City is seeking to transform deeply inequitable, punitive systems into ones that acknowledge the need for community support, mental health care, and rehabilitation.

Caring for an Aging San Francisco

By 2030, older adults – those over the age of 60 – will make up nearly 26% on San Francisco's population. Part of the City's responsibility to its residents includes making San Francisco a safe, vibrant, and engaging home for those older adults. This work is largely led by the Department of Disability and Aging Services (DAS) and over the next five years, DAS will continue to focus on its core spectrum of services for older adults, as well as those with disabilities. These services include engagement and wellness assistance to promote a healthy aging experience for active and independent members of the community, services that support stability in the community and prevent unnecessary institutional care, crisis intervention services for individuals requiring immediate assistance, and guardianship services for those unable to manage their own needs due to mental and cognitive challenges. While needs at all points along the continuum of care are steadily expanding, growth in demand for engagement and wellness services has been especially profound as a result of the COVID-19 public health emergency. DAS will continue to address this heightened level of need while maintaining its network of services for disabled and older adults.

Behavioral Health Reform

While San Francisco has established many innovative practices and successes in caring for people experiencing homelessness, mental illness and substance use disorder, these interventions have been inadequate at addressing this growing crisis. In March 2019 the Mayor appointed a new Director of Mental Health Reform to develop strategies to improve San Francisco's approach to mental health and substance use treatment for adults experiencing homelessness. The Mental Health Reform team conducted a thorough review of the past 10 years of strategic planning processes on the topics of homelessness and behavioral health in San Francisco, met with key stakeholders in the Department of Public Health (DPH) and the community, and established a two-pronged vision for the department and the people it serves:

> ***For our clients*:** People experiencing homelessness have low-barrier access to welcoming, high-quality behavioral health care that matches their needs.
>
> ***For our system of care*:** A system of care grounded in evidence-based practices that reduces harm, increases recovery, and is suited to efficiently deliver behavioral health services to people experiencing homelessness.

Accompanying this vision, the Director of Mental Health Reform established three core principles for this work: equity, transparency, and accountability, and has since identified a target population – around 4,000 adults experiencing homelessness who also suffer with co-occurring mental health and substance use disorders – and the key deliverables needed to better serve and care for them.

In December 2019, the Mayor sponsored and the Board of Supervisors voted unanimously in favor of Mental Health SF (MHSF), which legislated a comprehensive overhaul of San Francisco's mental health system, and provides mental health care to underserved San Franciscans, such as those who have serious mental illness or substance use disorder and lack insurance, or who are experiencing homelessness.

DPH has organized its reform work through five key programmatic areas which meet the requirements of the MHSF legislation and further the Mayor's vision. These five areas include:

1. **Office of Coordinated Care (OCC):** The OCC will oversee the seamless delivery of mental health care and substance use services across the City's behavioral health systems and ensure that MHSF is accountable and proactive in how it delivers care. The OCC will ensure that people throughout the community, including consumers of services and providers, know about DPH services; make services more accessible, efficient, and effective; and improve data collection and reporting. This includes a new behavioral health placement tracking system that monitors and evaluates service demand, patient wait times, and patient flow throughout behavioral health services. This data system will form the backbone of a transparent process for clients to be referred, authorized, and placed into behavioral health programs, benefiting the Mental Health Reform population as well as all behavioral health clients.

2. **Mental Health Service Center (MHSC):** The MHSC will create a unified portal of entry to the behavioral health system of care that reduces barriers and provides seamless access to services. The MHSC will provide an array of wellness and recovery services including triage, assessment, placement authorization, treatment plans, pharmacy services, psychosocial services, and crisis stabilization. Most importantly, the MHSC will bridge and link clients to ongoing care. Data and community input will drive decisions including how to ensure equitable care for the diverse populations of San Francisco.

3. **New beds and facilities:** Using the quantitative information provided by the Mental Health Reform bed optimization study and guidance from MHSF legislation, DPH aims to enhance its behavioral health residential treatment portfolio to match immediate community needs. DPH is focusing on expanding bed capacity to meet the needs for crisis diversion, drug sobering, managed alcohol, and safe consumption services, additional locked subacute beds, and long-term supportive housing, such as board and care, to promote stability and wellness, especially for people experiencing homelessness.

4. **Street Crisis Response Team (SCRT)**: In 2020, the City launched SCRT as a pilot program to help San Franciscans who are experiencing behavioral health crises in public spaces with a non-law enforcement response to 911 calls. The SCRT pilot is a collaboration between the San Francisco Department of Public Health and the San Francisco Fire Department with significant support from the Department of Emergency Management. The first team launched in November 2020; each team includes a community paramedic, a behavioral health clinician, and a behavioral health peer specialist. The goal of the new program is to provide trauma-informed clinical interventions and care coordination for people who experience behavioral health crises on the streets of San Francisco, diverting individuals in crisis away from emergency rooms and criminal legal settings into behavioral health treatment. Once the program is fully ramped up, the City expects that SCRT teams will be able to respond to approximately 17,000 calls for service per year, which is equivalent to the number of non-violent "mentally disturbed person" calls to which the San Francisco Police Department (SFPD) currently responds.

5. **Overdose death prevention:** To address the dramatic increases in overdose deaths due to opioids and stimulants, DPH will expand existing efforts and implement new initiatives. DPH aims to reduce overdose deaths and racial disparities through increased distribution of naloxone, expanded medication linkage

programs from acute/urgent care, outreach and harm reduction services at social service and other high-risk sites, expanded low-threshold access to buprenorphine to increase the number of people in life-saving treatment, expanded low-threshold contingency management, and the development of a robust data and surveillance system to monitor progress.

Through these five targeted program areas, DPH aims to achieve measurable improvements in the health and wellbeing of the 4,000 San Franciscans identified as experiencing homelessness and co-occurring mental health and substance use diagnoses, and the San Francisco community as a whole.

Reimagining Public Safety

In June 2020, Mayor Breed introduced a roadmap for public safety system reform that will fundamentally change the nature of public safety in San Francisco and address structural inequities within law enforcement and crisis response. This plan includes ending the use of police in response to non-criminal activity, addressing police bias, strengthening accountability, and promoting economic justice. The City will continue to reinvest public safety dollars into programming that supports the African American community including in areas of mental health, wellness, homelessness prevention, education, youth development, and economic opportunity. These programs will be discussed, tracked, and evaluated on an ongoing basis through the Human Rights Commission's continuing process of community engagement and investment, which kicked off in 2020 with the allocation of $120 million in funding that was reinvested from public safety agencies over two years.

As part of these efforts, in September 2020, Mayor Breed announced the formation of a Steering Committee to help guide the City's process for identifying alternatives to police response for non-violent calls to 911 and 311. The Committee will identify alternative responses that could extricate the police from responding to calls that do not require an armed officer or situations that could be more effectively resolved without the presence of armed police. Non-emergency calls currently make up a third of the 750,000 calls SFPD receives annually. Beginning in FY 2021-22, San Francisco aims to divert all non-emergency, low priority calls for service away from the Police Department to non-law enforcement agencies, such as DPH.

As part of the work to change the nature of public safety in San Francisco, City partners plan to support and expand a number of programs:

Street Crisis Response Team: As described above, the Street Crisis Response Team pilot launched in November 2020 aims to provide an appropriate non-law enforcement response to behavioral health emergencies in San Francisco and divert individuals in crisis away from emergency rooms and criminal legal settings into behavioral health treatment. Once fully ramped up in 2021, the SCRT could respond to as many as 17,000 calls per year, which police have traditionally responded to.

Eliminating municipal fines and fees for low-income households: San Francisco has led the country in alleviating the disproportionate adverse impact of fines and fees on people with low incomes and communities of color. The Financial Justice Project within the Office of the Treasurer and Tax Collector works with City departments and the courts to assess and reform fines and fees. This includes the City's work to eliminate administrative fees in the criminal justice system, including fees for phone calls and markups on commissary items in jails, as well as efforts to stop the suspensions of driver's licenses for people who missed traffic court dates, and a recently launched online tool for people struggling with traffic court debt.

Alternatives to incarceration: San Francisco has led the nation in advancing justice reforms, maintaining one of the lowest incarceration rates in the country. In August 2020, with the jail population at record lows, the City announced an earlier than anticipated closure of County Jail #4, part of the long-standing efforts to shift resources towards alternatives to incarceration. San Francisco will continue to implement programs that reduce recidivism and promote rehabilitation.

Examining law enforcement hiring: As part of a number of public safety reforms announced in the summer of 2020, the City has begun identifying and screening law enforcement officials for indicators of bias during the hiring and promotion process. Many studies show that often unconscious or implicit bias plays a significant role in the split-second decisions that lead to the disproportionate policing, incarceration, and use of force. The Department of Human Resources seeks to use the hiring process to proactively identify candidates through the examination process who possess the values, skills, and abilities that match those of a law enforcement agency grounded in reform.

Supporting diverse communities: A key aspect of creating a safer community is supporting San Francisco's diverse population by improving crime reporting and supporting victims of hate crimes and prejudice-based incidents. This is the primary focus of the Police Department's new Community Liaison Unit, a team of officers responsible for SFPD's tracking of prejudice-based incidents, identifying patterns, and intervention techniques, and helping the community navigate the criminal justice system. They will serve as a liaison to San Francisco's diverse communities, including the Asian and Pacific Islander, African American, LGBTQ, Muslim, and Latino communities, communities with limited English proficiency, and older San Franciscans.

Continuing collaborative reform: In 2016, SFPD began a collaborative reform initiative with the partnership of the U.S. Department of Justice under the Obama Administration, and subsequently with the California Department of Justice, after the termination of policing reform under the Trump Administration in 2017. While SFPD has made progress on a number of the 272 recommended reforms that resulted from this collaboration, the City is committed to completing all of them expeditiously.

San Francisco has led the nation in criminal justice reform, reimagining what public safety looks like in a city. The Mayor's roadmap to end the use of policing as our sole answer to maintaining public safety drives this work, providing the City with an opportunity to invest in the reconstitution of a public safety network that is comprised of not just a single solution, but with the creation of specialized responses that better meet the needs of the city's residents, business owners, workers, and visitors.

Conclusion

The Five-Year Financial Plan informs some of San Francisco's most important fiscal decisions for years to come, guided by Mayor Breed's goals for the City. Long-term planning enables the City government to meet day-to-day issues that arise and, as the COVID-19 emergency has demonstrated, provides the foundation required to respond to unprecedented and unexpected crises. Looking ahead to the next five years, equity will be the guiding value as the City plans its recovery from the devastating impacts of the COVID-19 pandemic and determines how to most meaningfully invest its resources.

Page intentionally left blank.

Appendices

Other Long-Range Financial Planning
Major Department Issues and Goals

Other Long-Range Financial Planning

In addition to this document, which provides a high-level look at projected revenues and expenditures in the next five years, the City has additional citywide long-term planning processes, including documents specifically focused on investments in capital projects and information and communication technology. Outlined below are additional long-term financial liabilities that extend decades into the future, beyond the scope of the five-year outlook of this report. Further, the Ten-Year Capital Plan and Five-Year Information and Communication Technology Plan inform the Five-Year Financial Plan Base Case, and the Five-Year Financial Plan fiscal strategies inform the development of the funding for each of these two plans.

LONG-TERM LIABILITIES

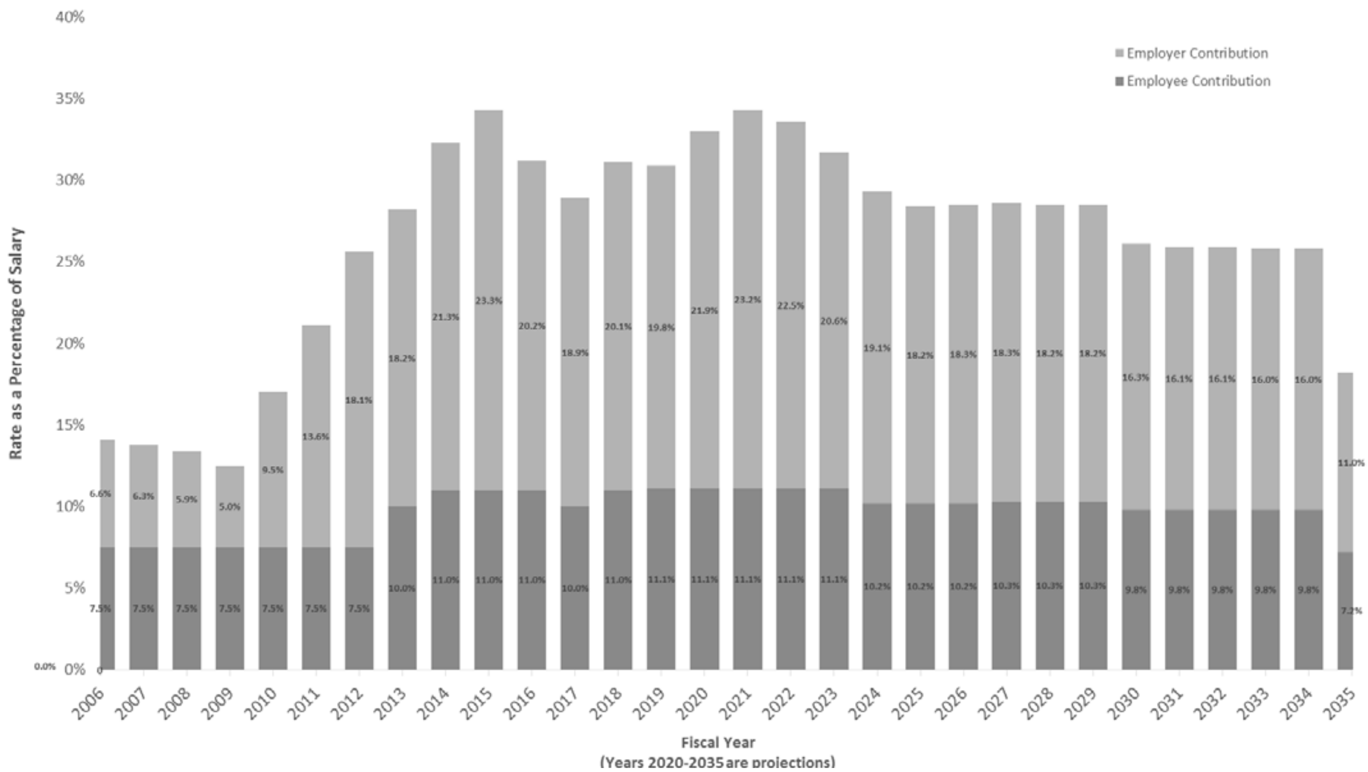
While this report focuses on the financial outlook of the City over the next five fiscal years, the City has financial obligations that extend decades into the future, such as its pension liability, the cost of providing health care to retirees and their dependents (OPEB, or Other Post-Employment Benefits),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

Pension Liability

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% of payroll in FY 2005-06 to 22.6% in FY 2020-21, representing employer contributions of $126.5 million and $739.3 million, respectively. This plan anticipates contribution rates to peak in the current fiscal year, and decline over the forecast period as the cost of prior pension enhancements and investment earnings shortfalls 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 February 2020, employer contribution rates are projected to decrease 32% over the next decade, as illustrated in Figure 18 below.

Note that the rate estimates in this section vary from those presented in the base case discussion above as they assume future supplemental COLA increases every other year, do not include prepayment discounts, and assume wage increases of 3.5% annually. Projections are highly sensitive to a number of 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 18: Actual and Projected Employer Retirement Contribution Rates
FY 2005-06 through FY 2030-31



Other Post-Employment Benefits (OPEB) Liability

The City also carries a significant unfunded OPEB liability, predominantly due to a retiree health benefit in place prior to recent voter changes. For retirees hired before January 2009, the City guaranteed the full cost of health benefits for retirees after five years of City service. The actuarial liability for retiree health benefits is currently estimated at $3.6 billion. This represents estimated future retiree medical benefit liabilities of $3.9 billion offset by a balance of $0.3 billion as of FY 2018-19 year end to meet these future costs.

The City's voters have adopted a number of significant changes to these benefits in recent years, including adoption of a new lower-cost benefit plan for new employees, creation of a trust to prefund these benefits, 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 over time, from 0.4% as of July 2012 to approximately 20% by the end of this report's forecast period in FY 2025-26, reaching full funding by 2049. The City's 2015 actuarial analysis projected full funding of the plan would be reached in 2043. Given mortality improvements and other actuarial updates, the full funding date was extended to 2049 in the most recent analysis, conducted in November 2019.

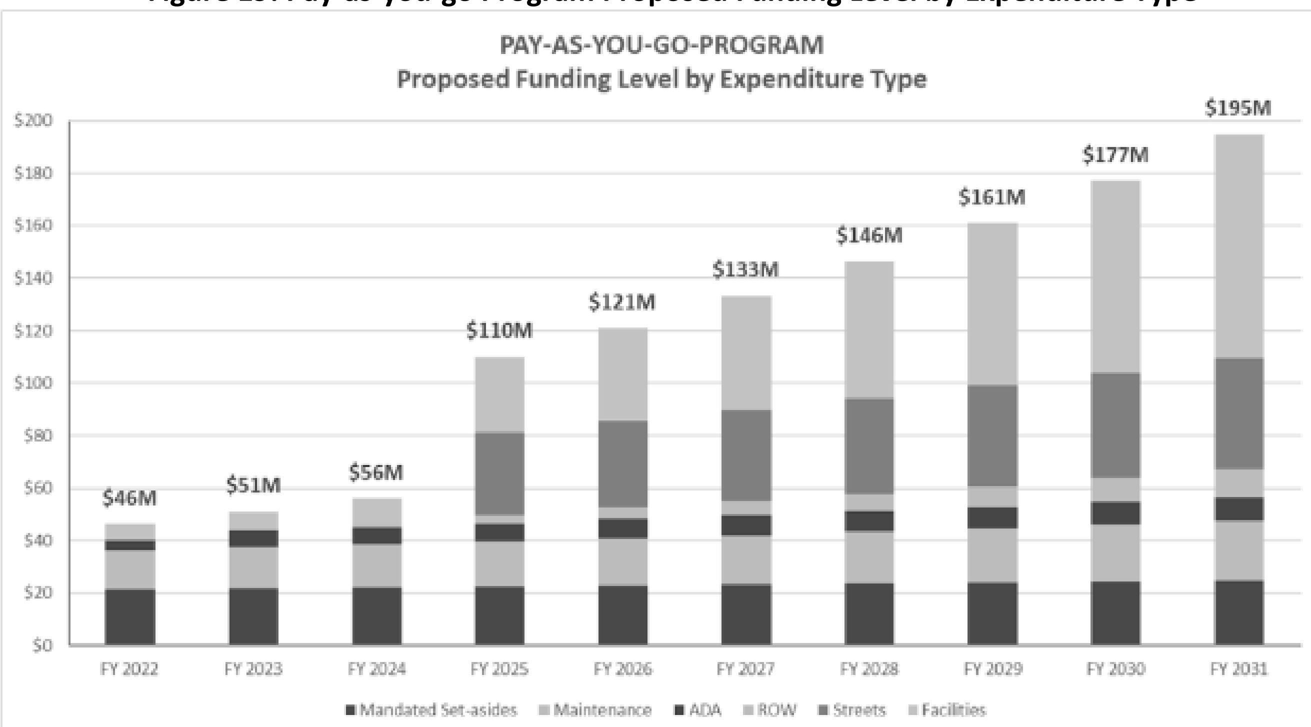
As with all long-term projections, these incorporate assumptions regarding events far into the future, including the rate of investment returns, the size of the workforce, wage increases, and healthcare cost trends. The most significant cost driver is medical inflation, and to the extent the City can control future inflationary increases, future costs will be lower than projected. However, if medical inflation exceeds projections by 1% 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 in carefully in future years.

Capital and Deferred Maintenance

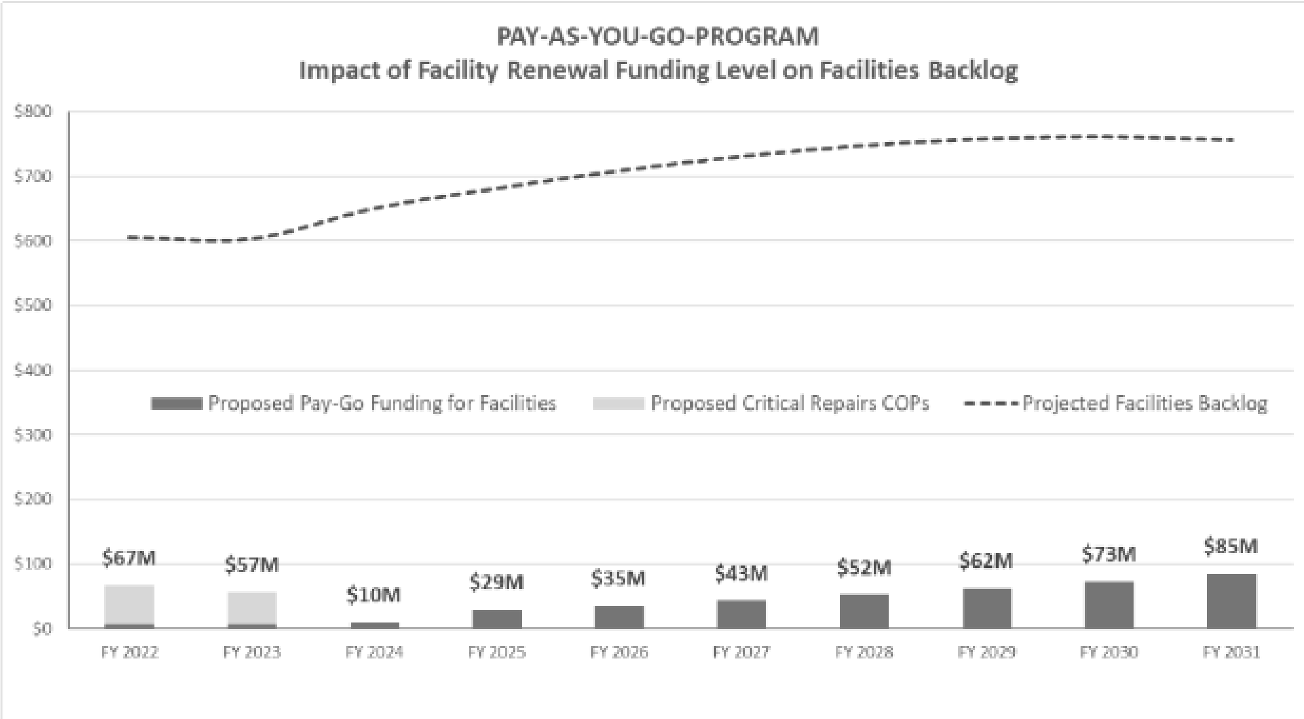
The booming Bay Area economy of the recent past and the support of the Mayor, Board of Supervisors, and citizens of San Francisco gave rise to historic levels of capital investment in the years leading up to 2020. As a result, even in the face of the current economic crisis, San Francisco is well positioned to continue building a healthy and well-balanced infrastructure program for future generations. Despite this, a funding gap still remains for deferred facilities and other capital needs in General Fund departments over the next 10 years, assuming the recommended Pay-As-You-Go program funding levels shown in Figure 19 below.

Figure 19: Pay-as-you-go Program Proposed Funding Level by Expenditure Type



Current projections estimate a facilities backlog of $621.0 million for General Fund facilities at the end of FY 2021-22. As shown in Figure 20 below, at currently proposed funding levels, this backlog is expected to grow to around $750.0 million by FY 2030-31, but that backlog growth is projected to decelerate as the Pay-as-You-Go Program funding levels increase over the 10 years. Additionally, the November 2020 voter-approved General Obligation bond (Proposition A) and additional Certificates of Participation newly programmed into the Capital Plan will help supplement the General Fund capital allocations in the coming years, further addressing these backlog needs.

Figure 20: 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 2021 and submitted to the Board of Supervisors and the Mayor, will cover FY 2021-22 to FY 2030-31.

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. Currently, the funds available in this program are escalated each year by 10% with a significant increase in FY 2024-25.
- **Debt financing tools**: This category of funding includes the General Obligation (G.O.) 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 both of these debt programs, including:
    - When issued, G.O. bonds proposed by the Capital Plan will not increase voters' long-term property tax rates above 2006 levels. Therefore, new G.O. 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% 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 2021-22 through FY 2025-26 and is expected to be adopted by the Committee on Information Technology (COIT) in the spring of 2021.

Since the adoption of the last ICT Plan in 2019, 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 property tax and assessment system, and 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:

- **Pay-As-You-Go program**: 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. This category is inflated each year by 10% with a significant increase in FY 2024-25.
- **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. This category also increases annually 10% each year with a significant increase in FY 2024-25 to address the City's aging information and communications infrastructure.

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/*

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 human connections with the natural world, and be a powerful voice for biodiversity and environmental learning across the globe;
- Facilitate collaborative engagement, including community convenings, collective impact alliances, and partnering with BIPOC communities in pursuit of social justice;
- Provide science, technology, engineering, art, and museum (STEAM) education opportunities to all, especially currently underrepresented communities;
- Be a leader in workforce inclusivity, and enhance racial equity practices to ensure that opportunities reach and serve diverse communities; and
- Maintain viability as a public attraction through sustainable fiscal operations.

Adult Probation

- Provide a continuum of integrated services designed to address the needs of clients and help them permanently exit the criminal justice system;
- Support high-risk clients in the community through legal and evidence-based supervision strategies designed to reduce recidivism and improve outcomes;
- Strengthen collaboration across agencies and community-based organizations to better address client and community needs;
- Support victims of crime recover from financial and emotional hardships;
- Prioritize racial equity to ensure a diverse and inclusive department that is well-positioned to identify and address the needs of the community and the vulnerable populations we serve;
- Develop and implement the Racial Equity Action Plan, which includes goals and objectives designed to advance the needs of people of color; and
- Focus on data quality and transparency efforts to improve the public reporting of client, staff, and services data.

Airport

- Improve passenger confidence in traveling through SFO;
- Enhance the safety, health, and well-being of Airport Commission employees;
- Ensure the financial recovery, stability, and vitality of SFO & continued support of its business partners;
- Care for and support SFO's community and local workforce;
- Build resilience and future-proof the Airport by implementing new tools and technologies to address future pandemics; and
- Apply a racial equity lens in planning internal practices and systems, services to the traveling public, and community access to the Airport's economic opportunities.

Arts Commission

- Invest in a vibrant and equitable arts community to ensure affordability, sustainability, and recovery for individual artists and non-profit organizations;
- Enrich the urban environment by commissioning high-quality and diverse public artworks, ensuring the quality of the built environment, and preserving the City's cultural assets;
- Raise the visibility of San Francisco's arts community by collaborating with city partners to shape innovative cultural policy and recovery policy for the arts and culture sector;
- Utilize racial equity and accessibility as a key lens to assess agency-wide grant applications and guidelines, RFPs and RFQs, and artist agreements to ensure parity of artists receiving financial and exhibition opportunities; and
- Ensure consistent racial equity training for staff and Commission to advance the agency's racial equity goals and action plan.

Asian Art Museum

- Provide a diversified portfolio of programs and exhibitions relevant to both local and global audiences;
- Reach and engage diverse audiences through integrated marketing and communications efforts that optimize the use of all platforms, with significantly increased emphasis on the Museum's digital engagement channels;
- Encourage creativity and collaboration through interdisciplinary team engagement, community outreach, community advisory engagement, and education programs for SFUSD and other local schools;
- Provide a sense of belonging to all current and potential audiences through the artwork we choose to exhibit and the public and education programs we develop;
- Maintain financial and programmatic sustainability; and
- Advance diversity and racial equity by training staff and implementing measures that ensure diversity and racial equity in volunteer, staff, and board member recruitment.

Assessor-Recorder

- Overhaul and modernize the City's legacy property tax and recorder IT systems;
- Strengthen and standardize data collection and assessment practices to ensure fairness in taxation, including adjustments to policies and procedures with state law changes;
- Prioritize activities that drive the City's economic recovery such as streamlining our mapping, parcel management, and assessment of parcels that impact construction, including affordable housing construction;
- Implement the Department's Racial Equity Action Plan, which includes providing ongoing racial equity training and development for leadership and staff; and
- Commit to ensuring all communities, especially immigrant and low-income communities, have access to financial resources and education.

Board of Appeals

- Enhance the appeal process for all participants (the public, Board members, and staff) through the increased use of technology;
- Foster workplace development through cross-training employees to ensure coverage and service provisions at all times;
- Analyze and amend the Board's rules of procedure and governing legislation to modernize appeal processing, enhance the public's understanding of appeal rights and the appeal process, and eliminate inconsistencies;
- Develop a Racial Equity Action Plan to advance equity in all aspects of the Department's work; and

- Collaborate with the Human Rights Commission's "Engineering through Equity Program" to train all staff and commissioners.

Board of Supervisors

- Provide public information and accommodations for equitable access to legislative matters that impact marginalized communities, as introduced by the Board of Supervisors;
- Conduct legislative processing, targeted neighborhood outreach, and civic engagement to resource marginalized communities;
- Provide timely website updates and public noticing, ensuring equitable accessibility for public participation;
- Provide referrals to City resources; and
- Promote diversity in the Department's workforce by recruiting highly qualified candidates and fostering meaningful collaborative partnerships with City departments and community stakeholders.

Building Inspection

- Review plans and issues 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;
- Utilize efficient and effective administrative practices;
- Engage and educate customers, contractors, and stakeholders on DBI's services, functions, and legislated programs;
- Advance racial equity by continuing to increase recruitment efforts to include a diverse applicant pool; and
- Expand and strengthen outreach efforts with diverse communities to ensure building safety throughout San Francisco.

Child Support Services

- Increase child support collections and payment reliability;
- Improve caseworker processes and communication to understand customer satisfaction and whether customer needs are met;
- Aggregate and analyze performance data by race and ethnicity to identify any disparities in treatment or inequitable practices towards people of color and other traditionally marginalized groups; and
- Develop and implement new options for communicating with customers and enhance program outreach to deliver a clear and accurate image of programming to the public.

Children and Families Commission

- Facilitate innovative work between organizations, communities, individuals, and public agencies to advance the well-being of children from birth to age eight and their families;
- Ensure all city-funded early care and education sites participate in the Quality Rating and Improvement System and meet quality standards;
- Provide family support programs and systems to improve families' ability to support children's life-long success;
- Establish a system of universal early identification and intervention for children birth to age five;
- Confront and disrupt structural inequities within the early childhood system of care that are a driving force behind opportunity gaps, adverse childhood experiences, and disproportionate outcomes for children and families; and

- Examine how racism and inequity affect internal and external policies, procedures, investments, and accountability metrics, in order to fundamentally shift practices, and model the expectation that San Francisco is a place where everyone's rights are protected.

Children, Youth, and Their Families

- Promote high-quality youth development programming that is innovative and effective in meeting the needs of San Francisco's children, youth, and families;
- Support the development of stable, high-quality community-based organizations and programs through training, professional development, and capacity building;
- Provide leadership in developing collaborative solutions with other city agencies that effectively address disparities, inequities, and structural deficiencies;
- Prioritize children, youth, Transitional Age Youth, and families' voices in informing funding approaches, best practices and areas of focus;
- Collaborate with city stakeholders to help set funding priorities, practices, and policies that are based on an equity framework;
- Promote youth and family-focused programming that specifically addresses racial disparities, especially those impacting African American, Latinx, Pacific Islander, and Low-Income Asian children, youth and families; and
- Prioritize engagement with communities of color to ensure that approaches are informed by the voices of those most likely to benefit.

City Administrator

- Complete a multi-year effort to open new facilities that will improve the resilience and responsiveness of core City services, including seismically safe replacements for the Hall of Justice and Animal Care and Control;
- Provide support for the City's COVID-19 response and recovery efforts, including the coordination of Community Education and Response Teams and the development and management of the reopening plan for government services;
- Strengthen the City's resilience and recovery planning, including disaster mitigation through research, establishing technical standards, and earthquake retrofitting;
- Continue development of Treasure Island, ultimately providing up to 8,000 housing units, new commercial and retail space, and over 300 acres of parklands, wetlands, recreational sites, trails, and native habitat on the island by 2030; and
- Continue to deepen support of vulnerable populations through direct financial support, policy enforcement, process change, and prioritize equity considerations when providing public dollars or services.

City Attorney

- Provide advice and counsel to city departments on legal issues related to the administration of local government, and draft legislation expressing the desired policies of the City;
- Represent the City in civil litigation of critical importance to the welfare of the citizens of San Francisco;
- Retain and recruit quality employees by developing strategies for succession planning, as well as professional development and leadership training;
- Improve outreach, recruiting, and hiring to increase the racial diversity of our workforce by leveraging the internship program, partnerships with law schools and municipal organizations, and relationships with professional organizations to get a more diverse applicant pool, as well as encourage diverse City Attorney's Office staff to serve as ambassadors to their communities to increase interest in joining our office; and

- Create a Racial Equity Taskforce to help further enhance office culture and retain a diverse workforce so that everyone's professional development is fulfilling and rewarding.

City Planning

- Create opportunities for new housing at all income levels throughout the City;
- Support existing and new small businesses;
- Foster excellent design in our buildings and civic spaces;
- Enhance customer service and organizational efficiency as a partner with the new Permit Center;
- Manage growth while planning for resilience and sustainability;
- Elevate racial and social equity and environmental justice in all aspects of our work; and
- Advance opportunities for vulnerable households and communities of color while preserving cultural resources and stemming displacement.

Civil Service Commission

- Expand employment opportunities by reviewing job classifications and minimum qualifications to determine if requirements are restrictive or applicable to the employee's ability to perform the work on the first day of employment;
- Ensure the timely resolution of appeals;
- Create training programs and management programs in partnerships with other departments and unions; and
- Review rules, policies, and procedures to determine if amendments are necessary to enforce changes and increase transparency.

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;
- Support informed policy decisions;
- Safeguard the City's long-term financial health;
- Provide high-quality financial services;
- Increase access to useful and timely information; and
- Invest in and value employees.

Disability and Aging Services

- Maintain a strong network of community-based services, strengthen the caregiver network, and support high-risk individuals to live in the community instead of institutional settings;
- Protect populations from abuse, neglect, and exploitation by developing specialized resources to address high-risk and complex needs and collaborating with community and government partners;

- Provide consumer-centered programs and use an equity lens to ensure services are culturally appropriate for the City's diverse low-income seniors and adults with disabilities, particularly those from communities of color;
- Address current and future population needs through large-scale planning efforts, and increase the use of evidence-based programs, performance measures, and data-sharing to maximize impact and outcomes; and
- Support and develop an engaged professional workforce prepared to work with older adults and people with disabilities.

District Attorney

- Expand supports for all crime victims, regardless of system involvement;
- Increase transparency and accountability by modernizing data systems and technology;
- Build organizational capacity to conduct research, analysis, and evaluation of innovative programs that prevent crime and promote public safety;
- Implement programs and policies that focus on restoration and healing rather than just punishment;
- Reduce racial disparities and overreliance on incarceration by expanding diversionary programs, minimizing the use of status-based sentencing enhancements, and resentencing individuals who have received excessive sentences;
- Enhance recruitment and training efforts to create a more diverse and inclusive workplace; and
- Build community trust in law enforcement through enhanced transparency, accountability, and equal enforcement of the law.

Early Care and Education

- Build a citywide early care and education system that enables all families with children 0-5 years old to access high-quality early education and care;
- Increase the percentage of children who are school-ready as indicated by the Kindergarten Observation Form, targeting African American children, Latino children, English language learners, low-income children, and children with disabilities;
- Streamline funding to ensure a seamless system for children, families, and providers with the intent of fully utilizing federal and state resources;
- Evaluate and improve strategies to recruit, retain, and promote San Francisco early educators; and
- Integrate with First 5 San Francisco so there is one centralized entity in San Francisco with the shared commitment to support children from birth to five - and their families - with abundant opportunities to be healthy, to learn, and to grow.

Economic and Workforce Development

- Facilitate a resilient and robust economy that helps businesses start, stay, and grow in San Francisco;
- Create economic prosperity for all residents, including the unemployed, underemployed, and hard to employ, by preparing, training, and connecting San Franciscans to sustainable jobs with strong career pathways;
- Support diverse and vibrant neighborhoods by strengthening and investing in small businesses, non-profits, community organizations, commercial corridors, and public spaces;
- Lead the approval and implementation of significant development projects to create space for jobs, recreation, community benefits, and housing affordable to a variety of income levels;
- Deliver excellent service through collaboration, transparency, and team member support within the Department and the diverse communities it serves;

- Ensure that OEWD's programs and services do not disadvantage or limit access, training, employment, or growth opportunities based on race through the work of the Racial Equity Committee; and
- Continue efforts to dismantle structural and institutional racism and build the capacity of our staff and partners to apply racial equity principles to our policy decisions, budgeting and grantmaking process, service delivery, and internal work culture.

Elections

- Provide fully equitable and accessible registration, outreach, and voting services to all eligible San Francisco residents;
- Strengthen collaboration with local community-based organizations and city agencies to provide meaningful voter education;
- Incorporate the impact of racial equity and vulnerable population issues into service, human resources, and budget decisions;
- Evaluate the potential adoption of the Voter's Choice Act voting center model in future San Francisco elections;
- Support the City's Redistricting Task Force, and update voter rolls and align precinct lines with new district boundary lines following redistricting; and
- Secure the City's voting system following the expiration of the current lease contract.

Emergency Management

- Improve the City's resiliency and ability to recover from an emergency event or natural disaster;
- Ensure equity in emergency preparedness through the development of partnerships with community-serving organizations, educational institutions, neighborhood groups, and businesses;
- Meet current and new performance standards for answering 9-1-1 calls and dispatching police, fire, and medics; enhance and improve call-taking and dispatching capabilities with system upgrades to Computer Aided Dispatch and migration to a Next Generation 9-1-1 platform;
- Coordinate with the city, state, federal, and non-profit partners, and participate in regional training and exercises to collaboratively plan for and respond to large-scale emergencies;
- Pursue and leverage multiple federal grant funding opportunities to coordinate with city, state, federal, and non-profit partners to enhance regional public safety preparedness capabilities and initiatives;
- Collaborate with partners to help make San Francisco a leader in finding alternatives to traditional policing responses that improve outcomes for people in crisis, address racial disparities, and allow for equitable delivery of public safety services in our city; and
- Emphasize diversity and inclusion in the Department of Emergency Management's recruiting practices and develop occupational pathways for those interested in pursuing a career in the field of Emergency Management.

Environment

- Develop policies and programs that support the City's climate action plan, which include sending zero waste to landfill, ensuring 80 percent of all trips are on sidewalks, bikes, or transit, and transitioning to 100 percent renewable energy;
- Improve affordability and support climate action by incentivizing cost-effective energy efficiency upgrades for residents and businesses;
- Protect fire responders, vulnerable populations, and all San Franciscans by reducing the impact of toxic chemicals in our everyday lives;
- Expand biodiversity and compost initiatives to support healthy ecosystems and ensure we meet our carbon reduction goals through carbon sequestration; and

- Evaluate and improve the Department's internal and external policies and programs to better serve Black, Indigenous, and People of Color, and increase equitable representation in all levels of the Department's workforce.

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; and
- Develop and implement a Racial Equity Action Plan to advance racial equity in services to the public and in departmental operations, policies, and practices.

Fine Arts Museums

- Sustain and develop the City's prestigious collections of world art;
- Mirror and model the diversity of San Francisco in hiring, exhibitions, accessibility, programs, and community outreach that welcomes the underserved;
- Contribute to San Francisco's economy and civic pride as a must-see destination for local, national, and international visitors;
- Excel in operational and fiscal management of city resources;
- Continue to diversify staff through alternative recruitment strategies and updated outreach; and
- Increase engagement with BIPOC and other underrepresented groups to the Museums by becoming a more inclusive and welcoming environment for staff and visitors.

Fire Department

- Ensure that the Department continues to provide the highest level of service possible;
- Maintain ambulance response times to Code 2 calls under 20 minutes and Code 3 calls under 10 minutes for at least 90 percent of service calls;
- Construct a state-of-the-art Fire Training Center while updating the Department's aging facilities and equipment;
- Ensure first responders have the necessary rescue tools and personal protective equipment to address emergency incidents and meet the demands of a growing city;
- Enhance the support for Department members by providing a comprehensive professional development program as well as expanding crucial resources available for physical, mental, and behavioral health and wellness;
- Have the Department's Racial Equity Advisory Committee, under the guidance of its Diversity, Equity and Inclusion Office, complete a comprehensive review process of the Department's practices and processes through the lens of racial equity; and
- Develop a Racial Equity Action Plan to be incorporated into the Department's upcoming strategic plan update.

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 that programs, services, and resources address the entire cycle of health, elevating engagement, and strengthening member knowledge and confidence in accessing and utilizing health plan benefits;
- Offer a spectrum of design, cost, and services and collaborate with our stakeholder organizations, agencies, and departments to deliver on the whole person perspective;
- Support members and their families in living holistically and fostering an environment of well-being, targeting the social determinants of health that affect a wide range of quality-of life-risks and outcomes;
- Center racial equity within our city department, policies, practices, and budget in a formalized, intentional, specific, and explicit way. Address health disparities affecting historically marginalized communities, including Black, Indigenous and People of Color, and align incentives for systemic change; and
- Cultivate organizational excellence as a reflection of the inclusive standards, processes, and employee culture that engages and empowers our staff to deliver the highest standard of member services.

Homelessness and Supportive Housing

- Create alignment and standardization across homelessness interventions by implementing coordinated systems for adults, families with children, and youth;
- Implement performance accountability measures across the entire homelessness response system by December 2022;
- Achieve the following results through the Homelessness Recovery Plan: rehousing people experiencing homelessness who were sheltered in Shelter in Place Hotels during the COVID-19 pandemic, opening 1,500 new units of Permanent Supportive Housing and placing an additional 3,000 people into existing Permanent Supportive Housing, increasing diversion and rehousing resources, and reactivating Congregate Shelter to the maximum COVID-informed capacity;
- End family homelessness by December 2022 through a combination of additional Rapid Rehousing, Rent Subsidies, Permanent Supportive Housing, and other interventions;
- Reallocate resources, develop new housing units, invest in new housing programs, and work on preventative strategies to reduce chronic homelessness among adults by 50 percent by 2022;
- Offer flexible, low-barrier housing models and tailored services to reduce youth homelessness by 50 percent by 2022;
- Convene HSH provider partnerships and make space for provider/government discourse; and
- Center equity across all funding allocations and programming, and continue to incorporate equity principles and practices in Coordinated Entry System.

Human Resources

- Retain top talent while shaping the future workforce through the use of career development programs and expanded apprenticeship, fellowship, and internship opportunities;
- Implement new systems and utilize technological advances to reduce data vulnerabilities, increase productivity, add analytic capacity, and improve reporting;
- Improve employee well-being, satisfaction, and engagement through employee engagement tools and trainings;
- Champion diversity, equity, inclusion, and belonging by building, supporting, and retaining a workforce that reflects San Francisco’s diverse community at all levels of employment;
- Develop policies and programs that support the City workforce through the COVID-19 response, business continuity, and economic recovery;
- Support efforts to ensure that the City workplace and employment-related decisions are free of bias, harassment, and discrimination; and

- Partner with the Office of Racial Equity and other City departments to lead citywide efforts to create more equitable, inclusive workplaces where all City employees feel valued, respected, and engaged at work.

Human Rights Commission

- Empower and resource communities most impacted by COVID-19, given the stark, racialized outcomes of the pandemic;
- Develop the Office of Racial Equity to build our Citywide effort towards racial justice while meeting and championing legislative, budgetary, and policy priorities;
- Strengthen the Office of Sexual Harassment, Assault Response, and Prevention (SHARP) survivor response system, by including survivors who have never reported;
- Grow support for community-led collectives;
- Amplify role as public advocates for persons experiencing discrimination in housing. employment and public accommodations; and
- Develop metrics for measuring and understanding our impact.

Human Services Agency / Department of Human Services

- Help low-income San Franciscans enroll in and maintain all of the public benefits for which they are eligible, including cash assistance, health insurance, food, and nutrition support, subsidized child care, and job training and placement;
- Create pathways to self-sufficiency for public assistance clients through employment, education, and related support services;
- Improve the safety of children and families in child welfare through evidence-based, culturally appropriate and family-centered safety assessment tools and practices;
- Enhance the well-being of foster youth by ensuring they have permanent, nurturing relationships;
- Improve use of data and modernize business processes, technology, and facilities to expand access to services, strengthen the customer experience, and make internal programs run more smoothly;
- Bring an equity lens to each stage in the hiring process and implement agency-wide transparency and inclusive acting assignment policy to give all qualified applicants the opportunity to be considered for temporary promotional opportunities; and
- Conduct an equity review of all discipline measures prior to implementation using a racial equity tool to consider the decision with an equity lens.

Juvenile Probation

- Reimagine how the City addresses juvenile crime and delinquency – from referral through reentry – in collaboration with community and government partners; emphasizing research, evidence-based practices, and innovation; and sustainably addressing pervasive racial disparities throughout the system;
- Advance a Whole Family Engagement strategy that places racial equity at its center to ensure that all youth have full and equal access to opportunities, power, and resources; that advances youth- and family-centered case plans and goal development to help justice-involved youth thrive; and, that minimizes unnecessary or further justice system involvement; and
- Bolster equitable leadership development opportunities for Black, Latino, and Asian/Pacific Islander staff throughout the Department and pursue just transitions for staff whose positions may end with the closure of Juvenile Hall.

Law Library

- Help the community locate legal resources that address their rights and legal needs through online resources such as tutorials, seminars, one on one reference assistance, comprehensive legal databases, resource guides, newsletters, and forms;
- Develop partnerships with local, state and national legislators and agencies to expand outreach and awareness to the public about the free services and legal resources available at the law library;
- Ensure continued exceptional services by maintaining and supporting staff and facilitating their professional development; and
- Continue to provide staff that reflect the diverse demographics of library users and the community, to support racial equity, and engage staff awareness and practice of racial equity issues.
-

Mayor's Office of Housing and Community Development

- Create permanently affordable housing opportunities by building new affordable housing, helping households qualify for below market rate housing, and providing down payment assistance loans to income-qualified first-time homebuyers;
- Preserve affordable housing by acquiring rent-controlled properties at risk of converting to market-rate and partnering with the San Francisco Housing Authority to preserve existing public housing;
- 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 racial equity;
- Stabilize communities through healthy physical, social, and business infrastructures, especially for those communities at risk of displacement; and
- Seek to advance opportunities and improve programmatic outcomes for Black, Brown, and low-income residents by assessing programs, contracts, and procurements to ensure they advance the City's racial equity goals.

Municipal Transportation Agency

- Ensure fair treatment, access, opportunity, and advancement through addressing racial and social inequities;
- Promote safe streets and travel options free from transportation-related injuries;
- Prioritize the most efficient forms of transportation to connect communities and promote economic opportunity, health, and cultural activity;
- Support the city and its economic recovery with reliable transit service and a street system that maximizes the movement of people and goods;
- Reduce carbon emissions and pollution, especially in the most-impacted communities;
- Prepare the transportation system for rapid economic, environmental, and social change;
- Engage transparently with the public to understand community needs and ensure the efficient use of public resources; and
- Deliver effective projects and services to meet the needs of the public.

Police

- Build strong partnerships with the community and city agencies for addressing community-wide challenges that impact safety with respect;
- Improve ability to respond in a timely, informed, unbiased, and procedurally just way, and work towards a collaborative resolution;

- Align on a shared vision and transparent way of measuring safety with respect in order to work better with each other and the community;
- Instill safety with respect to how the Department organizes, evaluates performance, recruits, trains, promotes, rewards, deploys, and leads; and
- 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;
- Facilitate corrective action in response to complaints;
- Investigate all officer-involved shootings for police misconduct;
- Regularly audit the Police Department's internal policies on use-of-force and officer misconduct;
- Educate vulnerable populations about their rights and resources through community outreach and engagement;
- Establish audit and investigation functions to address biased policing; and
- Provide internships and job training opportunities for students from underrepresented backgrounds.

Port

- Enhance and balance the Port's maritime and economic purpose, history, and changing relationship with the City;
- Lead the City's effort to protect residents and businesses from flood risks, and reduce seismic risk to Port property;
- Improve relationships with the community, city agency partners, and the media to strengthen public understanding of Port projects and mission;
- Increase racial diversity and engagement in workforce training, contracting and leasing opportunities, and at waterfront parks and open spaces;
- Implement Port-wide practices that protect the environment and promote ecological balance, such as achieving zero waste in operations and construction;
- Promote diverse business opportunities and living wage jobs, affordable housing in new waterfront communities, and integrated public transit service; and
- Increase operating revenues and new capital sources to address the Port's deferred maintenance backlog.

Public Defender

- Provide competent, vigorous, and ethical legal representation to indigent persons accused of crimes or involved in conservatorship matters in San Francisco;
- Protect vulnerable populations and advocate for clients' release, and provide re-entry services to clients upon release;
- Ensure fair and transparent treatment of all cases, including providing immigrant representation;
- Advocate for law enforcement transparency and accountability;
- Address and combat racial inequities throughout the criminal legal system through public defense strategies and policy change; and
- Recruit, hire, train, support, and mentor diverse public defenders to ensure that our office reflects the clients we serve.

Public Health

- Respond and adapt to the COVID-19 Pandemic in collaboration with other City agencies and community organizations;
- Ensure equitable access to all by reducing economic barriers to health and addressing health disparities;
- Build a sustainable and inclusive workforce through creating an anti-racist workplace culture that respects, values, and invests in people through training, policy, and accountability; improving hiring and retention to increase the number and mobility of staff from underrepresented racial groups, and spreading those gains to increase inclusion all protected groups;
- Re-envision the behavioral health system to expand access to care and care coordination for improved outcomes; and
- Complete the implementation of Epic, the department's Electronic Health Record system.

Public Library

- Provide accessible and welcoming library facilities to meet the needs of all San Franciscans;
- Deliver robust collections, services, and programs to promote literacy and learning;
- Engage youth in learning, workforce development, and personal growth opportunities;
- Provide access to innovative information services through access to high-speed broadband, technology, and the library's virtual presence;
- Support the economic recovery and resiliency of San Francisco with targeted programs and services; and
- Implement the San Francisco Public Library's departmental racial equity plan.

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;
- Focus on efficiency, effectiveness, and accountability across the organization;
- Attract, retain, and develop an effective workforce, reflective and supportive of our communities, that consistently delivers high-quality services to stakeholders;
- Assure financial integrity and sustainability, meeting today's operating and capital investment needs while managing risk and long-term affordability for the future;
- Foster trust and engagement with our customers, employees, and the communities we serve through open and timely communication and education;
- Manage the resources entrusted to our care to ensure environmental and community health;
- Commit to the fair treatment of people of all races, cultures, and incomes and affirm diversity, inclusiveness, and respect as the agency's core value. We recognize the need to proactively take on structural racism and prioritize racial equity in both policy and practice;
- Identify a Racial Equity Lead in each Enterprise to is work with leadership and frontline staff around developing Racial Equity Plans.

Public Works

- Reduce time to hire, strengthen recruitment processes, and improve onboarding for employees, and engage employees by improving low scoring areas from the employee engagement survey;
- Create a continuous improvement program, so employees make and own changes to our key services and work processes;
- Improve project delivery by adopting key metrics, and gather and incorporate feedback from customers and clients;
- Ensure long term maintenance, safety, design, and activation of public spaces;

- Add Government Alliance on Race and Equity trainings, continue the internal Racial Equity Working Group and expand internal communication with staff to understand how historical and structural racism has impacted City government;
- Develop a Racial Equity Action Plan and focus on internal issues, such as hiring, promotional opportunities, discipline, and fostering a culture of inclusion and belonging; and
- Expand grant programs for entry-level positions and workforce development training.

Recreation and Parks
- Inspire public space by renovating outdated parks and playgrounds and building new parks;
- Inspire play by overcoming language barriers and increasing participation in recreational activities for residents living in low-income neighborhoods;
- Strengthen the safety, health, and well-being of San Francisco's youth and seniors;
- Inspire investment by identifying public investment strategies in partnership with the Mayor, Board of Supervisors, the Park Recreation and Open Space Advisory Committee, SF Parks Alliance, and the parks community; and
- Inspire the Recreation and Parks team by using data-driven decision-making for all programs and operations and providing job trainings and career pathways.

Rent Arbitration Board
- Efficiently process tenant and landlord petitions by streamlining the system, including processing some petitions and applications without hearings where appropriate;
- Educate tenants and landlords on the complex Rent Ordinance;
- Make all applicable documents available in Chinese, Spanish, and Filipino to ensure all information is accessible to a diverse community; and
- Strengthen data sharing with other departments to ease the workload and increase the ability to provide fair treatment in resolving disputes.

Retirement System
- Prudently invest SFERS Trust to achieve full funding of City's pension liabilities;
- Educate employees about retirement planning and financial wellness;
- Enhance member experience through the SFERS 24/7 self-service web portal for active and retired members;
- Establish operational risk management and quality assurance programs for retirement services
- Support a qualified and sustainable workforce; and
- Recruit investment talent through the Toigo Foundation in order to advance racial equity.

Sheriff
- Provide for the secure and safe detention of persons arrested or under a court order;
- Maintain public safety following the closure of the Hall of Justice, and continue to explore alternatives to incarceration;
- Keep COVID-19 out of San Francisco jails;
- Improve data collection, reporting capability, and transparency with upgrades to information technology infrastructure;
- Provide alternative sentencing options, as well as education, skill development, counseling, and crime prevention programs in jail;
- Continue to hire, train, and prepare staff at all levels to be representative of and accountable to the people of San Francisco; and

- Maintain an inclusive environment where people of all backgrounds can thrive.

Status of Women

- Advance women and family economic security through City policies and programs;
- Maintain and enhance a safety net for survivors of violence through the Gender-Based Violence Prevention and Intervention Grant Program;
- Expand housing and security through policies and programs to reduce homelessness amongst women and girls; and
- Incorporate a racial equity lens in all operations, which include internal and external citywide policies and programs.

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 on-premise and remote city workers;
- Enhance cybersecurity efforts to secure networks and data, and remain vigilant against cyber threats;
- Leverage enterprise business systems to accelerate the transition and transformation 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 municipal operations; and
- Develop a Racial Equity Action Plan that aligns with the Department's Strategic Plan and implement insightful metrics to create racial equity within the workplace.

Treasurer-Tax Collector

- Maximize revenue by building and executing high-quality collections and compliance systems that balance equity, security, and ease of use;
- Assess and reform fines, fees, and financial penalties that have a disproportionate impact on low-income people and people of color;
- Manage the City’s Treasury service to increase operational efficiency and decrease cost;
- Manage the City’s investment portfolio to preserve capital, maintain liquidity, and enhance yield;
- Provide high-quality customer service and diverse channels that support all San Franciscans; and
- Equip San Franciscans with knowledge, skills, and resources to strengthen their financial health and well-being

War Memorial

- Provide first-class facilities that are accessible to all residents and visitors for cultural, educational, and entertainment activities;
- Offer affordable spaces for non-profit organizations that support veterans or provide cultural, artistic, and educational programming;
- Create and implement policy on racial equity in collaboration with the Department’s Racial Equity Committee; and
- Maintain, upgrade, and preserve important historic facilities and capital assets for the future.

Page intentionally left blank.

CITY AND COUNTY OF SAN FRANCISCO

TO: Mayor London Breed
President Shamann Walton and Members of the Board of Supervisors

FROM: Severin Campbell, Board of Supervisors Budget & Legislative Analyst
Ashley Groffenberger, Mayor's Budget Director
Ben Rosenfield, Controller

DATE: March 31, 2021

SUBJECT: **Budget Outlook Update (March Update to the Five-Year Financial Plan)**

Executive Summary

San Francisco Administrative Code Section 3.6(b) requires the Mayor, Board of Supervisors Budget Analyst, and Controller to submit regular updates to the City's Five-Year Financial Plan (sometimes referred to as the Joint Report), which was published on January 15, 2021. This updated projection shows a cumulative deficit projection of $499.3 million by FY 2025-26, which is a $23.0 million improvement from the prior FY 2025-26 deficit of $503.3 million. In the upcoming two fiscal years, the period for which the City is required to adopt a two-year budget, the cumulative shortfall is $22.9 million, or an improvement of $630.3 million from the $653.2 million deficit projected in the January report.

Table 1. Updated Base Case – Summary of FY 2022-26 General Fund-Supported Projected Budgetary Cumulative Surplus / (Shortfall) ($ Millions)

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
SOURCES Increase / (Decrease)	255.8	466.0	577.5	880.8	1,100.7
	-	-	-	-	-
Uses	-	-	-	-	-
Baselines & Reserves	(58.9)	(162.4)	(349.1)	(417.2)	(494.6)
Salaries & Benefits	(110.3)	(209.1)	(307.9)	(414.9)	(527.1)
Citywide Operating Budget Costs	2.5	(12.3)	(106.2)	(236.7)	(332.7)
Departmental Costs	(73.4)	(120.8)	(165.1)	(202.4)	(245.6)
USES (Increase) / Decrease	(240.0)	(504.7)	(928.3)	(1,271.1)	(1,599.9)
Projected Cumulative Surplus / (Shortfall)	15.8	(38.7)	(350.7)	(390.3)	(499.3)
Two Year Deficit	(22.9)				

CITY HALL • 1 DR. CARLTON B. GOODLETT PLACE • ROOM 316 • SAN FRANCISCO, CA 94102-4694
PHONE 415-554-7500 • FAX 415-554-7466

Changes to the March Update projection are primarily driven by the following factors:

- **American Rescue Plan Act of 2021.** On March 11, 2021, President Biden signed the American Rescue Plan Act (ARPA), which among many other things, provides direct and indirect funding to states and local governments. This forecast assumes $636 million of one-time direct federal aid from the Coronavirus Local Fiscal Recovery Fund to offset revenue losses in the General Fund. The forecast assumes the funds are drawn down evenly in FY 2021-22 and FY 2022-23.

- **Modest Increase in Local Tax Revenue Projection.** Local tax revenues are expected to recover at varying speeds from the stark and immediate losses of FY 2019-20 and FY 2020-21 throughout the plan period. While the overall projection trajectory for most local tax revenues is similar to our projections in the January forecast, projected property tax revenues are materially higher, mostly due to updated State guidance on the calculation of Excess ERAF and updated assumptions about temporary reductions in assessed values. This positive change is partially offset by additional anticipated weakness in business, hotel, sales, and parking taxes, largely driven by an assumed slower return of office workers and travelers to San Francisco.

- **Changing Reserve Assumptions.** In the January forecast, the City anticipated withdrawing $187.9 million of Economic Stabilization Reserves in each of the next two fiscal years, exhausting the full balance in those reserves. Given improvement in the budget outlook for the coming two fiscal years, these updated projections assume the withdrawal of Economic Stabilization Reserves in FY 2021-22, consistent with the adopted budget, but no further withdrawals thereafter. Furthermore, revenue growth is projected to require some deposits to these reserves beginning in FY 2023-24. Neither the January nor the March update assumes the use of the COVID Response and Economic Loss Reserve.

- **Reductions to Cost of COVID-19 Response.** This update includes a reduction in projected expenditures needed to support citywide COVID-19 response programming, compared to January projections. This reduction is due to the assumed use of FY 2020-21 projected project surplus to offset costs in the following year, and due to assumed gradual declines in program costs over the fiscal year as recovery and reopening efforts continue.

- **Salary and Benefits Costs.** This update assumes salary and benefits savings compared to the January projections, primarily due to a higher FY 2020-21 rate of return on the retirement system's investments, and also lower growth in FY 2021-22 retiree health costs. Given these projections, no wage delays are assumed in closed labor contracts, which would have been triggered under those contract terms if the projected shortfall exceeded $200 million.

While the two-year projected deficit has declined significantly since the January projection, it is largely due to one-time federal stimulus revenue. The Government Finance Officers Association, representing public finance officials throughout the United States, has urged recipients of ARPA funds to avoid creating new programs or enhancements that require an ongoing financial commitment, given the temporary nature of the relief aid.

Even with assumed recovery of local revenues, the City continues to face a persistent structural deficit in later years of this forecast, due in part to rising employee costs, increasing voter mandated baselines and set-asides, increased local support of existing entitlement programs, and growing citywide operating costs. While this structural shortfall is significantly reduced in the upcoming two budget years due to federal stimulus funds, expenditure growth is still projected to exceed revenue growth over the five-year period, resulting in significant shortfalls during the final three years of the projection as the one-time sources assumed in FY 2021-22 and FY 2022-23 are depleted.

Changes from the January 2021 Five-Year Financial Plan Projection

Table 2 below outlines the cumulative changes from the January 2021 projections that are reflected in this update; these changes are described in more detail below.

Table 2: Cumulative Changes to Updated Projected Budgetary Surplus / (Shortfall) ($ Millions)

Changes - Cumulative	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Sources - Revenue and Fund Balance	373.4	197.5	90.3	148.7	137.2
Uses - Baselines & Reserves	(4.5)	(4.7)	(107.0)	(124.0)	(140.0)
Uses - Salaries & Benefits	40.5	24.4	10.2	19.0	38.1
Uses - Citywide Operating Budget Costs	23.9	(4.2)	(12.0)	(17.2)	(27.9)
Uses - Departmental Costs	(6.4)	(9.6)	(8.6)	(3.5)	(3.3)
Total Cumulative Change	**426.9**	**203.4**	**(27.1)**	**23.0**	**4.1**
Change in Two Year Deficit	**630.3**				

SOURCES- Revenue and One-Time Sources: Compared to the January Five-Year Plan, projected General Fund sources grow by $373.4 million in FY 2021-22, and cumulatively grow by $137.2 million over the five-year period. Key drivers of this change include:

- **One-time federal stimulus from the American Rescue Plan Act of 2021:** As described above, the updated projection assumes $318.0 million of direct stimulus funding in FY 2021-22 and another $318.0 million in FY 2022-23.

- **General Fund Local Tax Revenues:** As described above, General Fund revenue has improved from the prior projection, mostly due to property tax increases that offset weakness in business, hotel, sales, and parking taxes. The projections incorporate a host of revenues approved in the November 2020 election, including an increase to transfer tax rates (Prop I), overhaul of business taxes (Prop F), and establishment of a new tax on executive compensation (Prop L). In addition, in December 2020, the Mayor and Board of Supervisors delayed the imposition of the cannabis tax to January 2022. In March 2021, the Mayor and Board of Supervisors proposed to defer business registration fees originally due in April 2021 to November 2021, for businesses that have less than $25.0 million of Gross Receipts Tax. Both of these deferrals are accounted for in the projections. The most significant changes in revenue are discussed below:

    - **Property Tax.** The largest driver of the projected increase in property tax revenues reflects guidance on the calculation of excess ERAF issued by the State Controller's Office in February, which reduced the amount of ERAF assumed allocated to the School District for charter schools by approximately $50 million per year compared to January projections. In addition, assumptions about temporary reductions in assessed valuations (I.e. Prop 8 reductions) have been updated to align with the overall economic forecast and recent transactions. The January projection assumed 20% reductions versus January 1, 2020 values in each year of the forecast for hotel, retail, and unsecured property. Current projections assume no reduction in hotel values in FY 2023-24 through FY 2025-26 and reductions of 10% in retail and unsecured property in FY 2024-25 and FY 2025-26. The January report assumed 7% reductions in office values versus January 1, 2020 values in each year of the forecast; these have been reduced to 5% in FY 2021-22 and FY 2022-23 and 2.5% thereafter. Multifamily residential values, previously assumed reduced 2% in each year, are assumed reduced 3% in FY 2021-22 and FY 2022-23 and 0% thereafter. Finally, projections reflect an increase in property tax increment allocations to the redevelopment successor agency (OCII) of $65 million over the forecast period, partially offset by an additional 0.9% in secured roll growth in FY 2021-22 given changes in ownership and new construction values enrolled in the current fiscal year.

- Business Tax. The City's business tax revenues are determined in part by the share of a business' workforce that physically works within the City. As such, the number of workers who telecommute can dramatically affect revenue. The March projection extends the degree and duration of telecommuting by workers in office-based industries from the January projection, with 100% telework through the 2nd quarter of 2021, gradually stepping down to a permanent telecommuting factor of 25%. The projection also increases the FY 2023-24 through FY 2025-26 economic growth assumption from 2% to 3% to reflect increased productivity as more businesses can utilize the same amount of office space, as some workers work from home. Finally, the projection takes into account the impact of delays of tax year 2020 business tax filings on tax year 2021 prepayments. The Tax Collector has pushed filing deadlines for tax year 2020 from February 2021 to April 2021, and waived late penalties on tax year 2021 prepayments, which are typically based on the tax year 2020 filing. As a result, prepayments that would have typically been remitted in FY 2020-21 are anticipated to be paid in FY 2021-22.

- Hotel Tax. Hotel tax is still anticipated to recover to pre-pandemic levels by FY 2025-26, with pent-up demand from domestic leisure travelers leading the recovery in FY 2021-22 and FY 2022-23 and convention and business travelers returning in subsequent years. However, due to lower than expected receipts in the current year, the projection has been slightly lowered in FY 2021-22 and FY 2022-23. Revenue per available room, an industry metric highly correlated with hotel tax revenue, is assumed to be $47, $135, $187, $206 and $222 in FY 2021-22 through FY 2025-26, respectively.

- Fund balance: This projection does not assume the use of any of the $125 million in projected FY 2020-21 surplus reported in the Six-Month Report, as this entire amount is appropriated for one-time purposes in legislation pending before the Board of Supervisors. Consistent with the January projection, $0.8 million of General Fund fund balance available for appropriation is assumed spent in FY 2021-22.

- **Use of Reserves**: This projection assumes that $188 million from the Economic Stabilization Reserve is withdrawn in FY 2021-22, which is consistent with the FY 2021-22 adopted budget, but does not assume any additional withdrawal of reserves in FY 2022-23. This leads to a decrease of $188 million in one-time FY 2022-23 sources as compared to the January projections, which assumed that the same amount of reserve funding would be withdrawn in each of the two budget years (which would fully deplete the Economic Stabilization Reserve by the end of FY 2022-23). Given the significant influx of one-time federal stimulus revenue in the short term, the City now does not project needing to fully deplete these reserves as originally anticipated in the January Five-Year Plan.

- **Departmental Revenues:** This projection assumes updates to various departmental revenue projections that are not otherwise included in General Fund local tax revenue projections. These updates include: increased revenue projections in the Department of Public Health; decreased permit revenue projections in the Department of City Planning; lower ambulance billing revenue and permit revenue projections in the Fire Department; and, projected rents, concessions, and fee revenue losses in the Department of Recreation and Parks.

USES- Baselines and Reserves: Increases in projected General Fund revenues result in corresponding increases to baselines and reserves. Compared to the January Five-Year Plan, projected costs grow by $4.5 million in FY 2021-22, and cumulatively grow by $140.0 million over the five-year period.

- **Baselines:** Most of the City's Charter-mandated baselines (including Municipal Transportation Agency, Library, and the Public Education and Enrichment Fund) are driven by changes in aggregate discretionary revenue (ADR), which typically follows the General Fund revenue projection. As projected ADR increases from the prior projection in FY 2022-23 and beyond, the City must also increase its General Fund contribution to these baseline departments and programs.

- In addition to the formula-based revenue baselines, two other major changes are included in this projection. The Municipal Transportation Agency (MTA) baseline is adjusted, on occasion, for significant changes in service. The March projection assumes the Central Subway opens for revenue service in Spring 2022, resulting in an ongoing increase in the MTA baseline. The forecast also updates the MTA's population adjustment baseline (November 2014 Proposition B), which annually adjusts the MTA's existing baselines in proportion to increases (but not decreases) in the City's daytime or night time population, whichever is greater. As San Francisco's economy recovers from pandemic, its daytime population is projected to grow by nearly 10% in 2022, as office workers return downtown and visitors travel to the City for leisure and business. As a result of this rapid increase in daytime population, the Prop B baseline is anticipated to more than double from FY 2020-21 level of $55.6 million to $129.7 million by FY 2025-26.

- **Deposits to Reserves:** Revenue increases trigger additional General Reserve, Budget Stabilization Reserve, and Rainy Day Reserve deposits. A higher deposit to the Salary and Benefits Reserve is also assumed to reflect recent increases in reserve draws as well as one-time costs to backfill additional COVID sick pay in FY 2020-21.

USES- Salaries & Benefits: Compared to the January Five-Year Plan, salary and benefit projected costs decrease by $40.5 million in FY 2021-22, and cumulatively decrease by $38.1 million over the five-year period. These changes are primarily driven by:

- **CPI Changes for Labor Projections:** In years where contracts are open, projections continue to assume consumer price index (CPI) increases, which are revised in this Plan to be 2.78% in FY 2021-22, 3.26% in FY 2022-23, 3.29% in FY 2023-24, 3.08% in FY 2024-25, and 2.93% in FY 2025-26. These changes are based on updates to the average projections of the California Department of Finance SF Area CPI and Moody's SF Metropolitan Statistical Area CPI. CPI assumptions have been updated as follows:

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
January 2021	3.01%	2.88%	3.10%	3.11%	2.98%
March 2021	2.78%	3.26%	3.29%	3.08%	2.93%
Difference	*-0.23%*	*0.38%*	*0.19%*	*-0.03%*	*-0.05%*

- **Retirement Benefits – Employer Contribution Rates:** This projection includes updates to the employer contribution rates for the San Francisco Employees' Retirement System (SFERS). The long-term savings from the prior projections are primarily due to an update to the year-to-date return assumption from 7.4% to 15% in FY 2020-21 in the SFERS investment portfolio, which drives lower employer contribution rates over the five years of the projection and triggers a supplemental cost of living adjustment (COLA) payment for eligible SFERS participants in FY 2021-22. In the budget year, savings are the result of the Retirement System Board's adoption of lower price and wage inflation assumptions, demographic assumptions that reduced the rate, a higher level of assets at FY 2019-20 close, and payroll growth experience. While the Retirement System Board has discussed reducing its actuarially assumed rate of return from 7.4% to 7.3% in recent months, and will do so again at its April 2021 meeting, it has not yet taken action to do so, therefore, the 7.4% rate assumed in our January report is unchanged.

  Health and Dental Benefits for Retired City Employees: These projections also assume that health costs for retired City employees will increase at a lower rate in FY 2021-22 compared to the January projections, due largely to a drop in health care utilization in 2020 and higher Medicare subsidies for retiree health plans.

USES- Citywide Operating Costs: Compared to the January Five-Year Plan, projected citywide operating costs decrease by $23.9 million in FY 2021-22, and cumulatively grow by $27.9 million over the five-year period. These changes are primarily due to the City's updated COVID-19 Response expenditure projections.

- **COVID-19 Response:** This projection assumes that the City will incur $71.9 million in General Fund costs to carry out COVID-19 response programs in FY 2021-22, a lower local cost than budgeted in FY 2020-21. The updated estimate uses FY 2020-21 projections as reported in the Controller's Six Month Report and incorporates anticipated General Fund savings and improved

FEMA recoveries also detailed in that report. The updated projection further assumes that program needs and associated costs gradually decrease over the course of FY 2021-22 as vaccine distribution accelerates and the City continues to reopen.

Table 3: FY 2021-22 COVID-19 Response Projected Costs, by Program Area (based on FY 2020-21 Projections)

COVID-19 Response Program Area	Projected General Fund Cost ($ Millions)
Emergency Response and Coordination	(5.4)
Food Security Programs	(26.4)
Health Programs	(88.0)
Emergency Shelter and Housing	(71.0)
Projected General Fund Cost	**(190.8)**
FY 2020-21 Savings as reported in Six Month Report	*77.3*
Grants and Other Non-General Fund Sources	*41.6*
Total Projected General Fund Cost	**(71.9)**

- **Inflation on Non-Personnel Costs:** This update assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase at the rate of the updated Consumer Price Index (CPI) projection, which projects increases of 2.78% in FY 2021-22, 3.26% in FY 2022-23, 3.29% in FY 2023-24, 3.08% in FY 2024-25, and 2.93% in FY 2025-26.

- **Real Estate:** General Fund lease and operating costs for City-owned and leased facilities have seen minor changes since the January projections, primarily due to updated information on lease terms, changes to modeling methodology, and changes in tenancy.

USES- Departmental Operating Costs: Compared to the January Five-Year Plan, departmental projected costs grow by $6.4 million in FY 2021-22, and cumulatively grow by $3.3 million over the five-year period. Primary drivers of these changes include the following:

- **Convention Facilities Center:** This update assumes that the Convention Facilities General Fund subsidy will decrease in FY 2021-22 and increase in FY 2022-23 due to updated operating and event schedule projections. The update also assumes the General Fund will backfill a projected shortfall of $11.7 million in Moscone Expansion District assessment revenue to fund debt service payments.

- **HSA County Aid:** This update modifies previous projections of the local cost of entitlement programs to reflect current-year trends. The reduced costs are due to slower than anticipated growth in the CAAP and CalWORKs caseloads in the current year, an anticipation of economic recovery further reducing caseloads in FY 2021-22 and FY 2022-23, and a lower COLA adjustment in line with the Governor's budget. Previous projections had assumed a surge in

CAAP and CalWORKs enrollment due to the economic downturn, as was the case in prior recessions, however caseload rates have come in below projections, consistent with statewide trends.

- **Affordable Housing & Permanent Supportive Housing projects:** This update assumes slightly increased projected costs for the City's Local Operating Subsidy Program (LOSP) and other permanent supportive housing projects, primarily due to project timeline changes and lease inflationary costs.

Key Factors that Could Affect the Forecast

Even as the City gradually recovers from the COVID-19 pandemic, significant uncertainties and outstanding policy choices remain that could affect the City's financial condition over the next five years. The following factors could materially affect the outlook:

- **Local General Fund Revenues:** Economically sensitive revenues such as business and hotel taxes are still subject to historically high levels of uncertainty as the local and national economies gradually recover from the COVID-19 pandemic, and international travel returns.

- **State and federal budget impacts:** Federal and state legislative and regulatory actions are driving large revenue improvements in this projection, and any future federal or state legislative and regulatory actions could create additional changes. This projection does not yet take into account funding from the American Rescue Plan Act of 2021 the City may be eligible for, other than direct city and county allocations from the Coronavirus Local Fiscal Recovery Fund, as departments are still working to understand magnitude and eligibility restrictions for any additional funding that may be allocated to San Francisco. Similarly, the Governor will likely introduce changes to the FY 2021-22 state budget in the upcoming May Revise, which will be further amended by the state legislature; this projection does not assume significant new state budget proposals at this time, nor does it assume legislative changes affecting excess ERAF revenue.

- **Local COVID-19 Response Costs:** As economic recovery and City reopening efforts evolve, the City will continue to refine projections of the level of General Fund support needed for local COVID-19 response programs in FY 2021-22. Changes could be driven by new information regarding federal or state reimbursement or stimulus funding, or by refined understandings of level of need and associated costs of the City's current COVID-19 response programs.

- **Pending or proposed new programs or legislation:** No pending or proposed legislative changes with a fiscal impact are assumed in this projection, with the exception of the $125 million supplemental ordinance discussed above. 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 finally adopted legislation.

- Retirement Employer Contribution Rate: While the Retirement System Board has discussed reducing its actuarily assumed rate of return from 7.4% to 7.3% in recent months, and will revisit the question at its April 2021 meeting, it has not yet taken action; therefore, the 7.4% rate assumed in our January report is unchanged. Adoption of the 7.3% rate would increase employer contribution rates and annual costs by approximately $48 million beginning in FY 2021-22.

- Key policy choices: This projection reflects current service levels and continuity of choices adopted by the Mayor and Board in recent budgets. The following significant policy choices are not assumed in this projection, but would materially change this forecast if pursued during the forecast period:

    a. Backfill lost hotel tax revenue for arts programs: Proposition E, passed in 2018, allocated 1.5% of the 14% hotel tax rate (or approximately 11% of revenue) to arts programming outside of the General Fund. Due to continued weakness in hotel taxes, the revenue generated by this 1.5% rate will be insufficient to meet the funding requirements established in Prop E in FY 2021-22, which policymakers could choose to partially or fully backfill through a General Fund transfer, similar to the hotel tax backfill included in the supplemental appropriation ordinance (file 210177) currently pending at the Board. This projected shortfall totals approximately $18.6 million in FY 2021-22 and $2.6 million in FY 2022-23.

    b. Spending associated with excess ERAF: The Mayor and Board adopted a legislated policy in 2019 that stipulates that at least 50% of excess ERAF revenues be dedicated to one-time affordable housing production and preservation, and 50% be made available for other purposes. This policy was not adhered to in the most recent adopted budget, which programmed excess ERAF as a support for the City's operating budget, and accordingly the policy is not assumed in this forecast. This report assumes the City will continue to receive excess ERAF revenues in all years of the forecast according to current state law. However, the report does not assume expenditure allocations in accordance with the legislation referenced above, and primarily uses these revenues to solve for projected revenue losses. Should the Mayor and Board adopt budgets consistent with this policy, the General Fund deficit would increase commensurately.

    c. Spending associated with increased transfer tax rate: Revenue generated by the increase in transfer tax rate, approved by the voters in November 2020, has been discussed as a source for new program expenditures. Projected revenue, net of baselines, generated by this measure totals approximately $63.9 million in FY2021-22, $87.5 million in FY2022-23, and approximately $111.2 million annually thereafter. To the extent that these revenues are programmed for new uses, projected shortfalls will increase commensurately.

    d. Slower draw of reserves: Given the significant size of the one-time federal stimulus, the City could choose to further slow its planned withdrawals from its Economic Stabilization Reserves, retaining these funds to manage structural budget issues in later years of the forecast. This projection assumes withdrawals of $187.9 million in FY 2021-

22; reducing this draw would increase shortfalls in the short term commensurately but reduce shortfalls in later years of the forecast.

Conclusion

This update presents a much-improved forecast for the two-year shortfall for FY 2021-22 and FY 2022-23, primarily due to the unprecedented level of federal stimulus funding contained in the American Rescue Plan Act of 2021. The temporary nature of this aid, coupled with continued uncertainty stemming from the extraordinary nature of the COVID-19 pandemic and its evolving effect on local revenues, presents meaningful downside risk to the City's financial outlook. Moreover, an unusually large number of policy choices and external factors exist that could further change this five-year outlook, either positively or negatively.

In the remaining three years of the five-year projection period, a significant structural deficit of over $350 million persists and grows each year as expenditure growth projections outpace revenue growth projections. Closing these shortfalls will require some combination of expenditure reductions and additional revenues, and will likely pose difficult choices for policymakers. In the upcoming budget cycle, to the extent that policymakers make choices that curtail ongoing spending increases, the City can avoid exacerbating these shortfalls and reduce difficult choices in the future, thereby maximizing the City's ability to maintain its services and programs for San Franciscans.

Appendix A: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2022-26 – INCREMENTAL CHANGE ($ in millions)

This appendix provides an updated version of Table 3 from the January Five-Year Financial Plan.

Line	**SOURCES Increase / (Decrease)**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
1	General Fund Taxes, Revenues and Transfers net of items below	193.7	450.9	350.6	254.1	193.9
2	Proposition F - November 2020 (Business Tax, General Fund Repayments)	28.0	(153.0)	0.5	-	-
3	Proposition L - November 2020 (Executive Pay)	-	60.0	20.0	20.0	-
4	Proposition I - November 2020 (Transfer Tax)	82.9	30.7	30.7	-	-
5	Use of Fund Balance	(370.3)	(0.1)	-	-	-
6	Federal Stimulus Revenue	318.0	-	(318.0)	-	-
7	Use of Reserves	31.4	(187.9)	-	-	-
8	Public Health - One-time revenues	(29.0)	(21.8)	-	-	-
9	Public Health- Operating Revenues	39.4	4.3	18.4	18.1	18.8
10	Other General Fund Support	(38.3)	27.2	9.4	11.0	7.2
	TOTAL CHANGES TO SOURCES	**255.8**	**210.2**	**111.5**	**303.2**	**219.9**
	USES Decrease / (Increase)					
	Baselines & Reserves					
11	Contributions to Baselines	(40.5)	(106.3)	(117.6)	(71.6)	(44.8)
12	Contributions to Reserves	(18.3)	2.8	(69.1)	3.5	(32.6)
	Subtotal Baselines & Reserves	**(58.9)**	**(103.6)**	**(186.6)**	**(68.1)**	**(77.4)**
	Salaries & Benefits					
13	Previously Negotiated Closed Labor Agreements	(138.8)	(35.5)	(8.8)	-	-
14	Projected Costs of Open Labor Agreements	-	(63.5)	(104.8)	(98.4)	(97.7)
15	Health & Dental Benefits - Current & Retired Employees	(19.6)	(24.6)	(27.3)	(28.9)	(30.7)
16	Retirement Benefits - Employer Contribution Rates	43.9	33.9	27.1	27.9	12.6
17	Other Salaries and Benefits Savings / (Costs)	4.2	(9.2)	15.1	(7.6)	3.6
	Subtotal Salaries & Benefits	**(110.3)**	**(98.8)**	**(98.8)**	**(107.0)**	**(112.2)**
	Citywide Operating Budget Costs					
18	Capital, Equipment, & Technology	11.1	(11.7)	(11.4)	(61.1)	(15.6)
19	Inflation on non-personnel costs and non-profit grants	12.0	(39.4)	(41.2)	(39.8)	(39.0)
20	Debt Service & Real Estate	(39.5)	(29.8)	(18.8)	(10.6)	(15.3)
21	Sewer, Water, and Power Rates	(3.3)	(3.2)	(2.5)	(2.6)	(2.7)
22	COVID-19 Citywide Expenditures	24.4	71.9	-	-	-
23	Other Citywide Costs	(2.1)	(2.7)	(20.0)	(16.4)	(23.4)
	Subtotal Citywide Operating Budget Costs	**2.5**	**(14.9)**	**(93.9)**	**(130.4)**	**(96.0)**
	Departmental Costs					
24	City Administrator's Office - Convention Facilities Subsidy	(23.2)	12.2	1.3	0.7	3.5
25	Elections - Number of Scheduled Elections	(1.6)	(0.6)	(0.4)	(0.7)	(1.3)
26	Ethics Commission - Public Financing of Elections	-	(0.5)	(6.8)	7.3	(1.6)
27	Mission Bay Transportation Improvement Fund	(0.3)	(1.2)	(0.3)	(3.6)	(0.3)
28	Affordable & Permanent Supportive Housing Project Costs	(15.7)	(11.5)	(6.1)	(5.7)	(7.1)
29	Human Services Agency - IHSS and Other Benefit Costs	(10.5)	(20.7)	(8.4)	(10.1)	(9.8)
30	Public Health - Operating Costs	(29.0)	(17.8)	(22.3)	(23.8)	(25.4)
31	Proposition B - November 2020 (Department of Sanitation and Streets)	-	(6.0)	(0.2)	(0.2)	(0.2)
32	Proposition D - November 2020 (Sheriff Oversight)	(2.9)	(0.1)	(0.1)	(0.1)	(0.1)
33	All Other Departmental Savings / (Costs)	9.7	(1.3)	(1.1)	(1.2)	(0.9)
	Subtotal Departmental Costs	**(73.4)**	**(47.4)**	**(44.3)**	**(37.3)**	**(43.2)**
	TOTAL CHANGES TO USES	**(240.0)**	**(264.7)**	**(423.6)**	**(342.8)**	**(328.8)**
	Projected Surplus (Shortfall) vs. Prior Year	**15.8**	**(54.4)**	**(312.0)**	**(39.6)**	**(108.9)**
	Cumulative Projected Surplus (Shortfall)	**15.8**	**(38.7)**	**(350.7)**	**(390.3)**	**(499.3)**
	Two-Year Surplus (Shortfall)	**(22.9)**				

Appendix B: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2022-26 – CUMULATIVE CHANGE ($ in millions)

This appendix provides an updated version of Table 4 from the January Five-Year Financial Plan.

Line	SOURCES Increase / (Decrease)	2021-22	2022-23	2023-24	2024-25	2025-26
1	General Fund Taxes, Revenues and Transfers net of items below	193.7	644.5	995.1	1,249.2	1,443.0
2	Proposition F - November 2020 (Business Tax, General Fund Repayments)	28.0	(125.0)	(124.6)	(124.6)	(124.6)
3	Proposition L - November 2020 (Executive Pay)	-	60.0	80.0	100.0	100.0
4	Proposition I - November 2020 (Transfer Tax)	82.9	113.6	144.3	144.3	144.3
5	Use of Fund Balance	(370.3)	(370.4)	(370.4)	(370.4)	(370.4)
6	Federal Stimulus Revenue	318.0	318.0	-	-	-
7	Use of Reserves	31.4	(156.5)	(156.5)	(156.5)	(156.5)
8	Public Health - One-time revenues	(29.0)	(50.8)	(50.8)	(50.8)	(50.8)
9	Public Health- Operating Revenues	39.4	43.7	62.1	80.3	99.0
10	Other General Fund Support	(38.3)	(11.1)	(1.7)	9.4	16.6
	TOTAL CHANGES TO SOURCES	**255.8**	**466.0**	**577.5**	**880.8**	**1,100.7**
	USES Decrease / (Increase)					
	Baselines & Reserves					
11	Contributions to Baselines	(40.5)	(146.9)	(264.4)	(336.0)	(380.8)
12	Contributions to Reserves	(18.3)	(15.6)	(84.7)	(81.2)	(113.8)
	Subtotal Baselines & Reserves	**(58.9)**	**(162.4)**	**(349.1)**	**(417.2)**	**(494.6)**
	Salaries & Benefits					
13	Previously Negotiated Closed Labor Agreements	(138.8)	(174.3)	(183.1)	(183.1)	(183.1)
14	Projected Costs of Open Labor Agreements	-	(63.5)	(168.3)	(266.7)	(364.4)
15	Health & Dental Benefits - Current & Retired Employees	(19.6)	(44.2)	(71.5)	(100.4)	(131.1)
16	Retirement Benefits - Employer Contribution Rates	43.9	77.9	104.9	132.8	145.4
17	Other Salaries and Benefits Savings / (Costs)	4.2	(5.0)	10.1	2.5	6.1
	Subtotal Salaries & Benefits	**(110.3)**	**(209.1)**	**(307.9)**	**(414.9)**	**(527.1)**
	Citywide Operating Budget Costs					
18	Capital, Equipment, & Technology	11.1	(0.7)	(12.1)	(73.2)	(88.8)
19	Inflation on non-personnel costs and non-profit grants	12.0	(27.4)	(68.5)	(108.4)	(147.4)
20	Debt Service & Real Estate	(39.5)	(69.3)	(88.1)	(98.6)	(114.0)
21	Sewer, Water, and Power Rates	(3.3)	(6.5)	(9.0)	(11.6)	(14.3)
22	COVID-19 Citywide Expenditures	24.4	96.3	96.3	96.3	96.3
23	Other Citywide Costs	(2.1)	(4.8)	(24.8)	(41.2)	(64.5)
	Subtotal Citywide Operating Budget Costs	**2.5**	**(12.3)**	**(106.2)**	**(236.7)**	**(332.7)**
	Departmental Costs					
24	City Administrator's Office - Convention Facilities Subsidy	(23.2)	(10.9)	(9.6)	(8.9)	(5.4)
25	Elections - Number of Scheduled Elections	(1.6)	(2.1)	(2.5)	(3.2)	(4.5)
26	Ethics Commission - Public Financing of Elections	-	(0.5)	(7.3)	-	(1.6)
27	Mission Bay Transportation Improvement Fund	(0.3)	(1.5)	(1.8)	(5.3)	(5.6)
28	Affordable & Permanent Supportive Housing Project Costs	(15.7)	(27.1)	(33.2)	(38.9)	(46.1)
29	Human Services Agency - IHSS and Other Benefit Costs	(10.5)	(31.3)	(39.7)	(49.8)	(59.5)
30	Public Health - Operating Costs	(29.0)	(46.9)	(69.1)	(92.9)	(118.3)
31	Proposition B - November 2020 (Department of Sanitation and Streets)	-	(6.0)	(6.2)	(6.4)	(6.6)
32	Proposition D - November 2020 (Sheriff Oversight)	(2.9)	(3.0)	(3.1)	(3.2)	(3.3)
33	All Other Departmental Savings / (Costs)	9.7	8.5	7.4	6.2	5.3
	Subtotal Departmental Costs	**(73.4)**	**(120.8)**	**(165.1)**	**(202.4)**	**(245.6)**
	TOTAL CHANGES TO USES	**(240.0)**	**(504.7)**	**(928.3)**	**(1,271.1)**	**(1,599.9)**
	Projected Surplus (Shortfall)	**15.8**	**(38.7)**	**(350.7)**	**(390.3)**	**(499.3)**
	Two-Year Surplus (Shortfall)	**(22.9)**				

Appendix C: Updated Summary of General Fund-Supported Operating Revenues and Transfers in Sources & Uses FY 2022-26 ($ in millions)

This appendix provides an updated version of Table 6 from the January Five-Year Financial Plan.

	FY 2019-20	FY 2020-21		FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Year-End	Original Budget	6 Mo	Projection	Projection	Projection	Projection	Projection
Property Taxes	$ 2,071.9	$ 2,019.6	$ 2,215.2	$ 2,067.3	$ 2,168.8	$ 2,301.5	$ 2,458.9	$ 2,569.1
Business Taxes	822.2	826.4	668.1	957.1	1,065.4	1,107.6	1,134.9	1,152.4
Sales Tax	180.2	183.7	140.2	156.1	184.2	198.4	209.9	219.4
Hotel Room Tax	252.2	126.2	27.9	78.5	235.3	332.8	366.5	400.9
Utility Users Tax	94.2	81.1	74.2	77.7	83.7	87.0	90.4	93.9
Parking Tax	69.5	59.4	41.5	51.0	63.7	67.7	70.3	73.1
Real Property Transfer Tax	334.5	138.0	253.8	265.9	331.8	397.7	397.7	397.7
Sugar Sweetened Beverage Tax	13.2	14.0	10.5	12.2	14.0	13.7	13.4	13.2
Stadium Admission Tax	2.8	2.5	-	2.8	5.5	10.8	10.8	10.8
Access Line Tax	49.7	48.9	50.3	51.7	53.3	55.1	56.8	58.5
Cannabis Tax	-	4.3	-	4.4	8.8	8.8	8.8	8.8
Executive Pay	-	-	-	-	60.0	80.0	100.0	100.0
Local Tax Revenues	**3,890.3**	**3,504.0**	**3,481.6**	**3,724.7**	**4,274.6**	**4,661.1**	**4,918.6**	**5,097.8**
Licenses, Fines, Interest, Rent	**117.3**	**59.9**	**60.8**	**73.9**	**75.5**	**77.1**	**79.3**	**81.7**
Federal Subventions	**424.1**	**616.7**	**646.6**	**609.6**	**293.6**	**293.6**	**293.6**	**293.6**
State Subventions	**809.9**	**761.1**	**796.0**	**767.3**	**759.0**	**771.8**	**786.0**	**798.0**
Charges for Services	**220.8**	**235.5**	**206.3**	**223.8**	**223.8**	**223.8**	**223.8**	**223.8**
Recovery of General Gov't Costs	12.9	21.8	21.8	23.6	23.6	23.6	23.6	23.6
Other Revenues	51.5	28.1	52.5	28.3	28.3	28.3	28.3	28.3
TOTAL REVENUES	**5,526.8**	**5,227.2**	**5,265.5**	**5,451.1**	**5,678.4**	**6,079.4**	**6,353.2**	**6,546.8**
Transfers in to General Fund								
Airport	33.5	25.1	12.3	23.0	35.0	40.0	47.5	51.2
Other Transfers	157.1	422.0	423.4	136.5	136.5	136.5	136.5	136.5
Total Transfers-In	**190.6**	**447.1**	**435.7**	**159.5**	**171.5**	**176.5**	**184.0**	**187.7**
TOTAL GF Revenues and Transfers-	**5,717.5**	**5,674.3**	**5,701.2**	**5,610.5**	**5,849.9**	**6,255.9**	**6,537.2**	**6,734.5**

Appendix D: Updated Summary of Projected Reserve Balances FY 2020-26 ($ in millions)

This appendix provides an updated version of Table 9 from the January Five-Year Financial Plan.

	FY 2019-20	FY 2020-21			FY 2021-22			FY 2022-23			FY 2023-24			FY 2024-25			FY 2025-26		
	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	**$ 78.5**	**-**	**(0.2)**	**$ 78.3**	**3.4**	**-**	**$ 81.8**	**$ 3.4**	**-**	**$ 85.2**	**$ 21.2**	**-**	**$ 106.4**	**$ 20.7**	**-**	**$ 127.1**	**$ 20.2**	**-**	**$ 147.3**
Rainy Day Economic Stabilization City Reserve	229.1	-	(114.5)	114.5	-	(57.3)	57.3	-	-	57.3	25.2	-	**82.4**	-	-	**82.4**	-	-	**82.4**
Budget Stabilization Reserve	307.8	-	(42.0)	265.8	-	(130.6)	135.2	-	-	135.2	0.2	-	**135.4**	46.8	-	**182.1**	79.1	-	**261.2**
Economic Stabilization Reserves	**536.8**	**-**	**(156.5)**	**380.3**	**-**	**(187.9)**	**192.4**	**-**	**-**	**192.4**	**25.4**	**-**	**217.8**	**46.8**	**-**	**264.6**	**79.1**	**-**	**343.6**
Percent of General Fund Revenues	***10.0%***			***6.9%***			***3.5%***			***3.4%***			***3.6%***			***4.2%***			***5.2%***
COVID Response and Economic Loss Reserve	507.4	-	(1.9)	505.5	-	-	505.5	-	-	505.5	-	-	505.5	-	-	505.5	-	-	505.5
Budget Stabilization Reserve - One Time Reserve	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8
Business Tax Stabilization Reserve	-	149.0	-	149.0	-	(149.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Management Reserve	111.1	-	(51.7)	59.5	-	-	59.5	-	-	59.5	-	-	59.5	-	-	59.5	-	-	59.5
Rainy Day Economic Stabilization SFUSD Reserve	34.5	-	(33.5)	1.0	-	-	1.0	-	-	1.0	8.4	-	9.4	-	-	9.4	-	-	9.4
Rainy Day Reserve - One Time	-	-	-	-	-	-	-	-	-	-	16.8	-	16.8	-	-	16.8	-	-	16.8
Recreation & Parks Savings Incentive Reserve	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8	-	-	0.8
Free City College Reserve	2.0	-	-	2.0	-	-	2.0	-	-	2.0	-	-	2.0	-	-	2.0	-	-	2.0
Mission Bay Transportation Improvement Fund - Overlapping Event Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Urgent Needs Reserve*	-	6.5	-	6.5	-	-	6.5	-	-	6.5	-	-	6.5	-	-	6.5	-	-	6.5
Other Reserves	**711.7**	**155.5**	**(87.1)**	**780.2**	**-**	**(149.0)**	**631.2**	**-**	**-**	**631.2**	**25.2**	**-**	**656.3**	**-**	**-**	**656.3**	**-**	**-**	**656.3**
Litigation Reserve	49.2	11.0	(60.2)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	25.4	23.5	(48.8)	-	35.5	(35.5)	-	32.7	(32.7)	-	33.5	(33.5)	-	34.3	(34.3)	-	35.1	(35.1)	-
Annual Operating Reserves	**74.6**	**34.5**	**(109.0)**	**-**	**46.5**	**(46.5)**	**-**	**43.7**	**(43.7)**	**-**	**44.5**	**(44.5)**	**-**	**45.3**	**(45.3)**	**-**	**46.1**	**(46.1)**	**-**
TOTAL, All Reserves	**1,323.1**	**190.0**	**(352.6)**	**1,160.5**	**46.5**	**(383.4)**	**823.6**	**43.7**	**(43.7)**	**823.6**	**95.0**	**(44.5)**	**874.1**	**92.1**	**(45.3)**	**920.9**	**125.1**	**(46.1)**	**999.9**

* This reserve is proposed as part of the $125 million supplemental ordinance (File 210177) pending final approval from the Mayor and Board of Supervisors.

From:	Peacock, Rebecca (MYR)
To:	BOS Legislation, (BOS)
Cc:	Kittler, Sophia (MYR); Groffenberger, Ashley (MYR); Allersma, Michelle (CON); Patil, Lillian (MYR)
Subject:	Mayor -- [Resolution] -- [Adopting the Five-Year Financial Plan – FYs 2021-2022 through 2025-2026]]
Date:	Tuesday, April 6, 2021 5:01:53 PM
Attachments:	(3) Reso_MYR_5 year Financial Plan.zip

Attached for introduction to the Board of Supervisors is a **resolution adopting the City's Five-Year Financial Plan for Fiscal Years 2021-2022 through 2025-2026 pursuant to Charter Section 9.119.**

Please let me know if you have any questions.

Rebecca Peacock (they/them)
(415) 554-6982 | Rebecca.Peacock@sfgov.org
Office of Mayor London N. Breed
City & County of San Francisco