



March Update to the Five-Year Financial Plan



Budget & Appropriations Committee

April 23, 2025

March Update to the Five-Year Financial Plan

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

March Update – Five-Year Forecast

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

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

March Update – Net Change from Prior Forecast

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

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

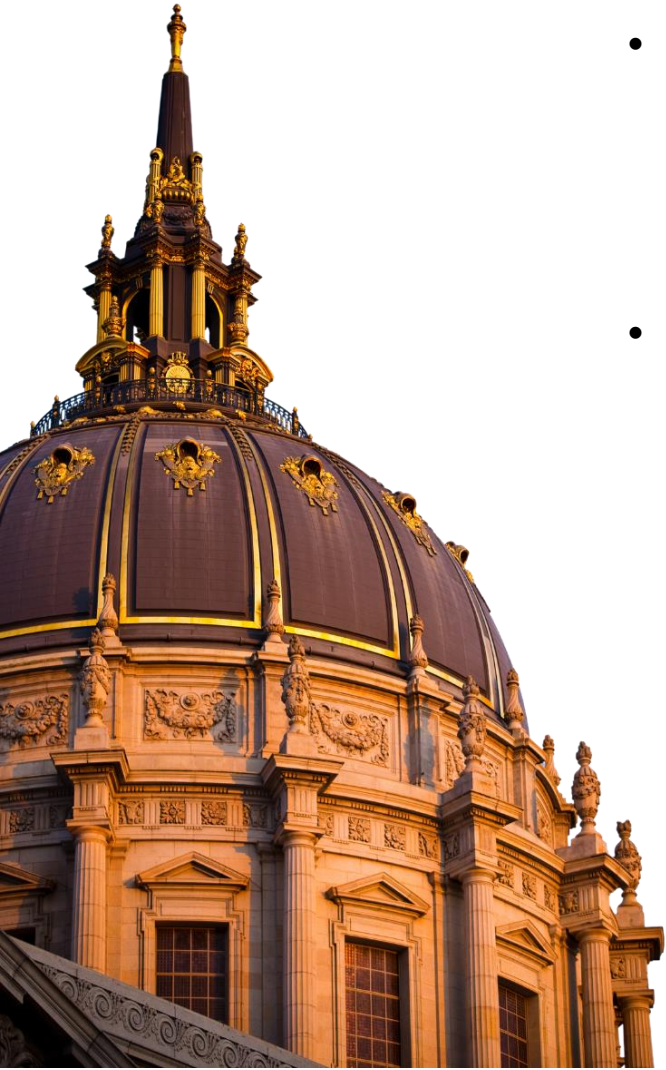
Revenue Changes – Local Taxes

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



Revenue Changes – Other Revenue

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



Reserves

	FY 2023-24	FY 2024-25			FY 2025-26			FY 2026-27			FY 2027-28			FY 2028-29			FY 2029-30		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	\$ 128.1	\$ 14.6	(5.8)	\$ 136.9	\$ 24.3	-	\$ 161.2	\$ 21.4	-	\$ 182.6	\$ 19.0	-	\$ 201.6	\$ 6.3	-	\$ 208.0	\$ 4.3	-	\$ 212.3
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	275.2	-	-	275.2	-	-	275.2	30.0	-	305.2	97.1	-	402.3	85.3	-	487.6	54.2	-	541.8
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	30.0	-	419.7	97.1	-	516.8	85.3	-	602.1	54.2	-	656.4
Percent of General Fund Revenues	6.1%			6.1%			6.0%			6.3%			7.7%			8.7%			9.3%
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	(54.8)	-	-	-	-	-	-	-	-	-	-	-	-	-
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Federal and State Emergency Grant Disallowance Reserve	81.3	-	(38.2)	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1	-	-	43.1
Fiscal Cliff Reserve	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4	-	-	182.4
Business Tax Stabilization Reserve	29.5	-	(29.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Revenue Management Reserve	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9	-	-	148.9
Free City College Reserve	7.6	-	(7.5)	0.1	6.2	(6.2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Success Fund Reserve	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5	-	-	1.5
Other Reserves	507.1	-	(75.2)	431.9	6.2	(61.1)	377.0	-	-	377.0	-	-	377.0	-	-	377.0	-	-	377.0
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Salary and Benefits Reserve	1.8	20.2	(22.0)	0.0	20.8	(20.8)	0.0	21.3	(21.3)	0.0	21.9	(21.9)	0.0	22.4	(22.4)	0.0	23.0	(23.0)	0.0
Annual Operating Reserves	1.8	31.2	(33.0)	0.0	34.3	(34.3)	0.0	34.8	(34.8)	0.0	35.4	(35.4)	0.0	35.9	(35.9)	0.0	36.5	(36.5)	0.0
TOTAL, General Fund Reserves	1,026.7	45.8	(114.0)	958.5	64.8	(95.4)	927.9	86.3	(34.8)	979.3	151.5	(35.4)	1,095.4	127.6	(35.9)	1,187.1	95.1	(36.5)	1,245.7

Risks and Uncertainties

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

