



Controller's Review

Mayor's Proposed Budget for FY 2025-26 and FY 2026-27



Office of the Controller
Budget and Analysis Division

June 11, 2025

Overview

Charter Section 9.102 requires the Controller to comment on the reasonableness of economic assumptions and revenue estimates in the Mayor's proposed budget.

We find revenue assumptions to be reasonable, but caution they are highly dependent on conditions in the greater economy as well as administrative and legislative changes at the state and federal levels. The proposed budget makes meaningful progress toward closing the structural deficit and grows reserves. However, there are continuing challenges ahead. The budget will require frequent monitoring and is subject to updates as conditions change.

Key Findings: Revenue

Tax Revenue. General Fund tax revenue grows by \$138.8 million (or 3.1%) in FY 2025-26 compared to the FY 2024-25 Nine Month Report and \$291.3 million (or 6.4%) in FY 2026-27.

- Business tax reflects overall strength in the technology and professional services sectors, as well as administrative changes related to November 2024 Proposition M.
- Pace of the City's commercial real estate "reset" accelerates, resulting in transfer tax growth and property tax declines.
- Sales and hotel taxes are projected to grow during the coming two years but remain below pre-pandemic levels.

Public Health Revenue. The budget significantly increases public health -related revenues, growing by \$259.1 million in FY 2025-26 and \$313.9 million in FY 2026-27.

- Changes in state funding formulas
- Increases in service volume and patient census
- Revenue improvement initiatives

Key Findings: One-time and Ongoing Solutions

Ongoing solutions. The proposed budget makes meaningful progress toward the structural deficit, with approximately \$250 to \$300 million in ongoing savings; however, hard choices remain.

- The March 2025 Five Year Plan Update forecasted a structural gap of \$959 million in FY 2027-28. After solutions in Mayor's budget, shortfall is likely to be approximately \$650 to \$700 million in FY 2027-28, growing in subsequent years.
- Roughly half of the ongoing solutions are comprised of increased tax and public health revenue while the remaining are driven by reductions to grants to community-based organizations (CBOs), reductions in citywide personnel costs, and other initiatives.

One-time solutions. \$571.5 million of General Fund one-time sources

- Draw down of \$377.5 million in prior year fund balance, \$105.3 million of reserves, and \$88.7 million of Federal Emergency Management Agency (FEMA) reimbursements.
- Maintains \$139.9 million of fund balance designated for FY 2027-28 and other future year budgets.
- Complies with the City's nonrecurring revenue policy in Administrative Code Section 10.61, which requires that one-time sources be spent on one-time uses.

Key Findings: Legislative Requirements and Proposals

The Mayor's proposed budget adheres to voter-adopted spending mandates, provided modifications are adopted by the Board.

- Voter-adopted spending mandates and dedications of funding include spending for transit, libraries, schools, early childhood education, homelessness housing and services, arts, recreation & parks, street trees, and other programs.
- With the adoption of budget trailing legislation to temporarily amend the Early Care and Education baseline and Our City, Our Home spending categories, nearly all voter-adopted spending requirements would be met, or exceeded at a direct General Fund cost of at least \$1.2 billion in each of the two fiscal years.
- The Transitional Aged Youth (TAY) baseline is underfunded by \$150,000 in FY 2026-27; all other programs are funded at or very slightly above required levels.
- Funds the new Affordable Housing Opportunity Fund adopted in November 2024 (Proposition G).
- The March 2025 Update to the Five-Year Financial Plan forecasted a FY 2025-26 deficit of \$272.3 million, resulting in the suspension of growth in the Student Success Fund, Early Care and Education, Street Tree Maintenance Fund, and Dignity Fund baselines in FY 2025-26.

Key Findings: Risks (1 of 2)

- **Structural gap.** The structural deficit remains very large and growing. Policymakers will need to consider additional difficult options for constraining cost growth in future budgets.
- **Federal revenue risk.**
 - **FEMA.** \$80 million of COVID-19 reimbursements are assumed in FY 2025-26 budget. In late May, San Francisco received emails from FEMA indicating disallowance of 97% of the \$415.0 million in COVID-19 non-congregate shelter (i.e., Shelter-in-Place hotel) costs submitted for reimbursement, for which the City has already received \$148.0 million. The City plans to appeal such determinations; however, the timing and outcome are currently unknown.
 - **No assumptions related to 2025 federal budget, which could be significant.** The House of Representative's budget reconciliation bill includes the biggest cuts to Medicaid since inception and could result in thousands of San Francisco residents disenrolling from the Medi-Cal program and reducing funding for the Department of Public Health.
 - Among many other things, the House of Representative's budget reconciliation bill seeks to cut Medicaid spending through work requirements; lowered matching rates for states that use their own funds to provide coverage to certain immigrants; and shortened enrollment periods and more frequent eligibility determinations.

Key Findings: Risks (2 of 2)

- **Economic risk**

- Locally, unemployment rates are stable and office attendance is up though job losses in hospitality and tech heavy industries have continued in 2025, and job postings continue to decline.
- Nationally, the inflationary effects of shifts in immigration and trade policy will keep interest rates high, curtailing business investment, job growth, and consumer spending, resulting in GDP growth estimates barely above zero and heightened levels of economic and policy uncertainty.
- Key factors to monitor include interest rates, office attendance, trends in convention and international travelers, and federal fiscal and economic policy changes.

- **State budget revenue risk**

- Not assumed in SF budget, Governor's budget proposes changes to Medi-Cal that would increase the amount of uncompensated care provided by the Department of Public Health to undocumented individuals, including a freeze on new enrollment and elimination of long-term care benefits effective January 1, 2026 and new \$100 monthly premiums effective January 1, 2027.
- Governor's proposal to not fund a seventh round of Homeless Housing, Assistance, and Prevention (HHAP) grant funding is reflected in the Mayor's proposed budget, which assumes \$39.9 million of HHAP 6 funding in FY 2025-26 and none in FY 2026-27.

Key Findings: Other

The final adopted budget will require active monitoring and given economic and financial risks.

These risks include the possibility of a slowing local economic recovery or a recession, as well as risks associated with both state and federal revenue streams. Additionally, close management and monitoring of personnel spending will be required for departments to stay within budgets as the budget deletes many vacant positions while maintaining or increasing expected attrition savings.

Mayor's Proposed Budget

General Fund

	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed
Fund Balance	\$ 226.7	\$ 157.2	\$ 220.3
Use of Reserves	75.2	34.4	70.9
Regular Revenues	6,350.6	6,574.0	6,808.3
Transfers In to the General Fund	206.5	259.3	279.8
Total GF Sources	\$ 6,858.9	\$ 7,024.9	\$ 7,379.3
Change from Prior Year		\$ 165.9	\$ 354.4
Percentage Change		2.4%	5.0%

All Funds

	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed
Fund Balance	\$ 1,098.9	\$ 472.8	\$ 444.1
Use of Reserves	85.3	45.6	70.9
Regular Revenues	14,733.7	15,429.1	15,760.8
Total All-Funds Sources	\$ 15,917.9	\$ 15,947.5	\$ 16,275.8
Change from Prior Year		\$ 29.6	\$ 328.3
Percentage Change		0.2%	2.1%

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

Selected General Fund Taxes (\$ millions)

	Actual	Actual	Actual	Actual	Actual	Actual	9M	Proposed	Proposed	% Change Since
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY2024-25	FY 2025-26	FY 2026-27	FY 2018-19
Property Tax	2,246.3	2,071.9	2,344.0	2,337.2	2,466.9	2,539.4	2,435.6	2,437.0	2,422.2	
Property tax % change		-7.8%	13.1%	-0.3%	5.5%	2.9%	-4.1%	0.1%	-0.6%	7.8%
Business Tax	917.8	822.2	722.6	861.2	1,056.6	993.4	1,069.2	1,139.6	1,371.5	
Business tax % change		-10.4%	-12.1%	19.2%	22.7%	-6.0%	7.6%	6.6%	20.3%	49.4%
Hotel Tax	392.3	252.2	33.2	158.2	252.9	251.2	246.9	265.2	277.4	
Hotel tax % change		-35.7%	-86.8%	376.7%	59.9%	-0.7%	-1.7%	7.4%	4.6%	-29.3%
Sales Tax	213.6	180.2	146.9	188.3	197.9	190.5	182.8	189.5	195.3	
Sales tax % change		-15.7%	-18.5%	28.2%	5.1%	-3.7%	-4.1%	3.7%	3.0%	-8.6%
Real Property Transfer Tax	364.0	334.5	344.7	520.3	186.2	177.7	229.6	267.6	316.3	
Transfer tax % change		-8.1%	3.0%	51.0%	-64.2%	-4.6%	29.2%	16.5%	18.2%	-13.1%
Total	4,134.1	3,660.9	3,591.3	4,065.2	4,160.5	4,152.1	4,164.1	4,298.9	4,582.5	

General Fund Taxes: Property Tax

- Taxable **property valuations remain in flux** for properties recently built or sold due to elevated vacancy rates and a significant increase in interest rates compared to the recent historic average.
 - **Office transactions are increasing** and interest among institutional investors has begun to return, as reflected in the positive outlook for the City's transfer tax.
 - However, the **average reduction in sale values versus currently assessed values points to both property tax refunds** for those properties with open appeals for prior years' assessments awaiting decisions from the Assessment Appeals Board (AAB) and high levels of appeals for years going forward for those that do not transact.
 - These sale values will also result in a downward reset in assessed values that will limit roll growth for the medium term.
- Assume refunds of \$129.1 million in FY 2025-26 and \$188.5 million in FY 2026-27, to be paid when the Assessment Appeals Board determines reductions. Additional refunds of \$14.0 million assumed annually for secured roll corrections.

General Fund Taxes: Business Tax

- Increases in budgeted business tax revenue are driven by **significant growth in taxpayers' gross receipts**. Tax filings show that for taxpayers that filed in both 2023 and 2024, payments increased approximately 14%. The increase is predominately due to increases in worldwide gross receipts that are allocated to San Francisco rather than an increase in economic activity in the City itself.
- Forecast includes **effects of November 2024 Proposition M**, which intended to reduce the City's reliance on a few large taxpayers and to promote equity across business categories and sizes. The measure:
 - Reduced overpaid executive tax by 90% but increased gross receipts taxes overall through rate increases in 2027 and 2028. Raised small business exemption to \$5 million.
 - Increased importance of sales in San Francisco over payroll in San Francisco, simplified business categories.
 - Administrative changes moved tax filing extensions from April 30 to November 30; rules about the remittance of estimated payments shift payments into later fiscal years
- **Litigation** is another factor in the forecast. In FY 2024-25, City experienced increases in business tax - related litigation for total expected gross receipts tax liability of ~\$415 million.

Voter-Adopted Baselines, Set-Asides, Special Taxes, and Other Mandates (1 of 2)

	FY2024-25 Original Budget	FY2025-26 Proposed Budget	FY2026-27 Proposed Budget	
<i>General Fund Aggregate Discretionary Revenue (ADR)</i>	4,532.2	4,660.0	4,935.2	
1 MUNICIPAL TRANSPORTATION AGENCY				
Municipal Railway Baseline - 7.0675% ADR - GF Transfer	320.3	329.4	348.8	a
Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	113.6	116.8	123.7	a
Population Adjustment - GF Transfer	74.5	90.5	92.4	a
Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	69.5	71.0	72.5	a
Traffic Congestion Mitigation Fund - Special Tax (50%)	8.4	9.9	9.9	c
Subtotal Municipal Transportation Agency	577.9	607.7	637.4	
2 LIBRARY PRESERVATION FUND				
Library Preservation Fund Baseline - 2.2858% ADR - GF Transfer	103.6	106.5	112.8	a
Library Preservation Fund Property Tax - \$0.025 per \$100 NAV	79.3	79.3	78.4	c
Subtotal Library	182.9	185.9	191.2	
3 RECREATION & PARKS				
Open Space Property Tax - \$0.025 per \$100 NAV	79.3	79.3	78.4	c
<i>Recreation & Parks Baseline MOE Required GF Support</i>	85.2	88.2	93.2	
Recreation & Support GF Support Budgeted	87.2	91.0	96.1	a
Subtotal Recreation and Park	166.6	170.4	174.5	
CHILDREN'S SERVICES				
4 Children & Youth Fund				
Property Tax - \$0.4 per \$100 NAV	126.9	126.9	125.4	c
<i>Children's Services Baseline Requirement - 4.8296% ADR</i>	218.9	225.1	238.4	
Children's Services Baseline Expenditures Budgeted	220.4	245.4	241.8	b
<i>Transitional Aged Youth Baseline Requirement - 0.5800% ADR</i>	26.3	27.0	28.6	
Transitional Aged Youth Baseline Expenditures Budgeted	37.9	28.1	28.5	b
5 Babies & Families First Fund				
Commercial Rents Tax (85%)	159.2	156.7	157.1	c
<i>Early Care and Education Baseline Requirement</i>	76.6	76.9	82.4	
Early Care and Education Expenditures Budgeted	77.3	78.0	83.0	b

Voter-Adopted Baselines, Set-Asides, Special Taxes, and Other Mandates (2 of 2)

	FY2024-25 Original Budget	FY2025-26 Proposed Budget	FY2026-27 Proposed Budget	
General Fund Aggregate Discretionary Revenue (ADR)	4,532.2	4,660.0	4,935.2	
6 Public Education Enrichment Fund - 3.0567% ADR				
Public Education Enrichment Fund Total - GF Transfer	138.5	142.5	150.9	a
1/3 Annual Contribution to Preschool for All	46.2	47.5	50.3	
2/3 Annual Contribution to SFUSD	92.4	95.0	100.6	
Public Education Services Baseline - 0.2898% ADR - GF (50%) and CYF (50%) Transfer	13.1	13.5	14.3	a
7 Student Success Fund (SFUSD) - GF Transfer	35.0	35.0	45.0	a
8 Fair Wages for Educators Fund (SFUSD) - Parcel Tax	53.0	54.0	54.0	c
Subtotal Children and Youth Services	861.3	880.2	899.9	
HOMELESSNESS & HOUSING				
9 Our City, Our Home Fund				
Homelessness Gross Receipts Tax	274.1	335.9	359.9	c
<i>Our City, Our Home Baseline Requirement</i>	215.0	215.0	215.0	
Our City, Our Home Baseline Expenditures Budgeted	422.6	366.0	382.2	b
10 Housing Trust Fund - GF Transfer	47.3	48.8	51.9	a
11 Affordable Housing Opportunity Fund - GF Transfer	-	-	8.3	a
12 Housing Activation Fund - Empty Homes Tax	-	-	-	c
Subtotal Homelessness and Housing	743.9	750.7	802.3	
ARTS				
13 Hotel Tax for Arts Fund - Hotel Tax	35.8	33.0	34.5	c
14 Property Tax - Municipal Symphony - \$0.00125 per \$100 NAV	4.4	4.5	4.6	c
Subtotal Arts	40.2	37.5	39.1	
OTHER				
15 Small Business Assistance Fund - Commercial Vacancy Tax	1.0	2.0	2.0	c
16 Dignity Fund - GF Transfer	59.1	59.1	62.1	a
17 Street Tree Maintenance Fund - GF Transfer	23.0	23.0	24.4	a
18 City Services Auditor - 0.2% of Citywide Budget - Work Order	26.8	26.3	26.6	b
Subtotal Other	109.9	110.4	115.1	
Total Baselines, Set Asides and Special Taxes	2,682.8	2,742.8	2,859.4	

^a General Fund Supported Spending Mandate 1,084.8 1,127.2 1,203.1

^b Expenditure Requirement 784.9 743.9 762.1

^c Special Tax or Tax Dedication 821.4 881.6 904.0

Reserve Status

	FY 2024-25	FY 2025-26			FY 2026-27			
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Note
General Reserve	\$ 136.8	\$ 27.6	-	\$ 164.3	\$ 22.9	-	\$ 187.2	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	275.2	-	-	275.2	30.0	-	305.2	3
Economic Stabilization Reserves	389.7	-	-	389.7	30.0	-	419.7	
Percent of General Fund Revenues	6.1%			5.9%			6.2%	
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	(54.8)	-	3
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Federal and State Emergency Grant Disallowance Reserve	2.1	-	(1.1)	1.1	-	(1.1)	-	4
Fiscal Cliff Reserve	40.0	-	(25.0)	15.0	-	(15.0)	-	5
Federal and State Revenue Risk Reserve	183.4	225.0	-	408.4	-	-	408.4	6
Public Health Revenue Management Reserve	148.9	-	-	148.9	-	-	148.9	7
Free City College Reserve	0.1	8.6	(8.4)	0.3	-	-	0.3	8
Student Success Fund Reserve	1.5	-	-	1.5	-	-	1.5	9
Other Reserves	431.9	233.6	(34.4)	631.1	-	(70.9)	560.2	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	10
Technical Adjustment Reserve	-	2.5	(2.5)	-	2.5	(2.5)	-	11
Salary and Benefits Reserve	0.0	20.8	(20.8)	0.0	21.3	(21.3)	0.0	12
Annual Operating Reserves	0.0	34.3	(34.3)	0.0	34.8	(34.8)	0.0	
TOTAL, General Fund Reserves	958.4	295.5	(68.7)	1,185.1	87.7	(105.8)	1,167.1	