

FY 2026-27 and FY 2027-28 Revenue Letter

Controller's Discussion of the Mayor's Proposed Budget



Prepared by

**OFFICE OF THE CONTROLLER
BUDGET AND ANALYSIS DIVISION**

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About the Controller's Office

The Controller is the chief financial officer and auditor for the City and County of San Francisco. We produce regular reports on the City's financial condition, economic condition, and the performance of City government. We are also responsible for key aspects of the City's financial operations — from processing payroll for City employees to processing and monitoring the City's budget.

Our team includes financial, tech, accounting, analytical and other professionals who work hard to secure the City's financial integrity and promote efficient, effective, and accountable government. We strive to be a model for good government and to make the City a better place to live and work.

About Budget & Analysis Division

The Budget and Analysis Division (BAD) manages the technical development of the City's annual budget, including forecasting tax revenues, costing and budgeting labor and benefit costs, and assisting the Mayor and Board of Supervisors with costing and budgeting of policy initiatives. The group manages the City's adherence to voter-approved spending requirements and financial policies and produces a variety of reports, including quarterly budget status updates and various fee-related reports. Additionally, the division manages property tax apportionment, rate setting, and reporting to the state, places special assessments on property tax bills, and processes the Assessor's changes to prior and current year property tax rolls.

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Executive Summary

The Charter and other local laws require the Controller to comment on the reasonableness of the revenues assumed in the Mayor's proposed budget, as well as whether various other financial requirements are met. **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 local, state and federal levels. The proposed budget makes important progress toward closing the structural deficit with approximately \$300 million in ongoing savings, makes prudent use of reserves to address known risks, and establishes reserves to address anticipated risks in funding for programs affecting housing and people experiencing homelessness.

However, significant risks to the adopted budget and longer-term financial forecast remain. The outcome of several potential measures proposed for the November 2026 ballot could result in the loss of hundreds of millions of dollars assumed as sources in the proposed budget and Five-Year Financial Plan, affecting service levels and adding significantly to the structural deficit. In addition, the second year of the proposed budget relies on an assumption of nearly \$80 million in unspecified position reductions that will need to be identified in the coming months, and it assumes that \$51.7 million in funding for new staffing to mitigate the impacts of H.R. 1 federal reductions will be required for only two years. Despite progress toward reducing the structural deficit, the proposed budget also relies on the use of one-time sources, particularly in FY 2027-28, when use of General Fund balance increases to \$462.5 million from \$42.4 million in FY 2026-27. Finally, the budget is subject to heightened uncertainty in its health department revenues and proposed state and local revenue measures. For all of these reasons, the budget will require active monitoring and potential corrective actions by the Mayor and Board of Supervisors as conditions change.

Findings

Key financial and economic highlights in the Mayor's proposed budget:

- **Tax revenue.** General Fund tax revenue grows by \$143.0 million (or 2.9%) in FY 2026-27 compared to the FY 2025-26 Nine Month Report and declines by \$50.4 million (or 1.0%) in FY 2027-28. Business tax revenue grows in the first year of the budget because of strength in technology and professional services as well as administrative changes related to Proposition M (2024) that shifted revenue that previously would have been received in FY 2025-26 into FY 2026-27. The forecast assumes the City's commercial real estate "reset" continues, resulting in sustained transfer tax revenue and a deposit to the Budget Stabilization Reserve. However, with commercial market values often below assessed values, property transactions may restrain growth in property tax revenue. The volume of commercial assessment appeals decisions and related refunds is expected to continue growing, putting downward pressure on revenues. Modest growth is expected for other economically sensitive taxes, such as sales and hotel taxes, which remain below pre-pandemic levels.
- **Public health revenue.** The Department of Public Health's (DPH) revenues are projected to grow by \$66.8 million in FY 2026-27 and decline by \$26.8 million in FY 2027-28. H.R. 1, the July 2025 federal budget reconciliation bill, and state Medi-Cal cuts are expected to reduce revenues by \$61.6 million and \$165.0 million in the budget years, as detailed below. Absent these federal and state cuts, revenues would have grown by \$128.4 million in FY 2026-27 and \$76.6 million in FY 2027-28. Strength in public

health revenue is primarily in Zuckerberg San Francisco General Hospital (ZSFG), Behavioral Health, Primary Care, and Jail Health. At ZSFG and the San Francisco Health Network, growth is largely due to increases in Medi-Cal managed care supplemental funding, Medi-Cal Graduate Medical Education (GME), and Medicaid Disproportionate Share Hospital (DSH) payments. In Behavioral Health, revenue growth aligns with current year trends and is driven by sustained growth in behavioral health patient services and continued implementation of CalAIM revenue programs. Primary Care revenue growth is supported by improving timely access to care, increasing capacity, and increasing the percentage of visits paid. With the launch of the CalAIM Justice-Involved Initiative, Jail Health began billing Medi-Cal for eligible services. Its revenue increase is driven by better than anticipated Medi-Cal reimbursements for in-custody health services and discharge pharmacy programs.

- H.R. 1 impact.** The public-health related revenue changes above include estimated revenue losses of \$61.6 million in FY 2026-27 and \$165.0 million in FY 2027-28 due to federal and state policy changes related to H.R. 1. The March 2026 Update to the Five-Year Financial Plan assumed revenue losses at DPH and the Human Services Agency (HSA) from H.R. 1 and related state policy changes of \$84.5 million in FY 2026-27 and \$221.8 million in FY 2027-28. Effective January 2027, over 100,000 HSA clients currently enrolled in Medi-Cal will be required to undergo semiannual, rather than annual, eligibility review, including income verification, work requirements, and documentation updates. The proposed budget includes one-time spending of \$22.5 million in FY 2026-27 and \$29.2 million in FY 2027-28 for HSA staffing, non-personnel, and grants to address this significant increase in workload, with the goal of maintaining eligibility for as many Medi-Cal and CalFresh clients as possible. The proposed budget assumes this new spending will maintain enrollment for 70 percent of affected clients, which will improve public health revenue by \$34.2 million over the two budget years compared to the March 2026 deficit assumptions, which did not assume any new spending to maintain eligibility.

Exhibit A. Impact of H.R. 1 and Related State Budget Changes

	March Deficit		Mayor's Budget	
	FY 2026-27	FY 2027-28	FY 2026-27	FY 2027-28
1. DPH - State MediCal Payments	(4.8)	(9.7)	-	(9.7)
2. DPH - Supplemental Payment Programs	(60.2)	(128.3)	(80.4)	(158.2)
3. DPH - MediCal Disenrollment	-	(57.8)	(16.9)	(98.4)
4. DPH - Uncompensated Care Claiming	-	-	35.6	101.2
5. HSA - CalFresh Administrative Cost Sharing	(19.5)	(26.0)	(5.1)	(6.7)
6. HSA - H.R.1 Implementation Initiative	-	-	(22.5)	(29.2)
Total of H.R.1 and Related State Budget Changes	(84.5)	(221.8)	(89.2)	(200.9)

Taking into account new spending in the proposed budget, the estimated revenue impact of federal H.R. 1 and state policy changes is \$66.7 million in FY 2026-27 and \$171.7 million in FY 2027-28, which is an improvement of \$67.9 million over the two years compared to the March 2026 financial forecast. The proposed budget assumes no impact in FY 2026-27 from State Medi-Cal payment reductions but reduces revenue by \$9.7 million in FY 2027-28. Supplemental payment program revenue losses of \$80.4 million in FY 2026-27 and \$158.2 million in FY 2027-28 represent the single largest contributor to the total revenue loss. Medi-Cal disenrollment adds a further loss of \$16.9 million in FY 2026-27 and \$98.4 million in FY 2027-28, reflecting reduced reimbursement as current Medi-Cal clients lose coverage. These losses are partially offset by uncompensated care claiming, a federal Disproportionate Share Hospital (DSH) reimbursement DPH can claim for care provided to uninsured individuals, which

provides estimated offsetting revenue of \$35.6 million in FY 2026-27 and \$101.2 million in FY 2027-28. Uncompensated care claiming is subject to a cap, which limits the extent to which costs for uncompensated care can be recovered. Higher levels of Medi-Cal disenrollment will increase unreimbursed uncompensated care costs. Additionally, H.R. 1 reduces the federal share of CalFresh administrative costs, which are shared across federal, state, and county governments, from 50 percent to 25 percent. The Governor's proposed budget partially backfills this shift, resulting in estimated revenue losses of \$5.1 million in FY 2026-27 and \$6.7 million in FY 2027-28, a \$33.7 million improvement from the March 2026 deficit assumption.

Revenue projections in the budget are subject to significant implementation risk. The budget assumes increased eligibility workers and employment services staffing in HSA will maintain benefits for 70 percent of affected clients enrolled, but the actual impact will depend on H.R. 1 implementation, which remains uncertain. Further, the budget does not assume increased costs in other parts of the healthcare system, such as higher emergency services utilization by individuals who lose Medi-Cal coverage. The net fiscal impact could be greater than assumed in the proposed budget and will require ongoing reporting and adjustments.

- **Ongoing solutions. The proposed budget makes progress toward closing the structural deficit, with approximately \$300 million in ongoing savings.** The March 2026 Five Year Plan Update forecasted a gap of \$741.7 million in FY 2028-29. Our preliminary review of proposed ongoing and one-time solutions indicates the shortfall is likely to be approximately \$450 million in FY 2028-29, 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 in citywide personnel costs and other initiatives. Continued improvement in the structural deficit will require additional revenue increases or expenditure reductions in future years.
- **Position shifts.** Citywide, the Mayor's proposed budget reduces authorized and funded positions by 32 full-time equivalents (FTE) in FY 2026-27 and 249 FTE in FY 2027-28. Within General Fund-supported operations, however, funded positions increase by 129 FTE in FY 2026-27 then decrease by 324 FTE in FY 2027-28. FY 2026-27 increases include staffing at the newly expanded psychiatric emergency ward at Zuckerberg San Francisco General hospital and DPH behavioral health facilities and a (cost neutral) shift of staff from the Department of Building Inspection to the Planning Department. In addition, the budget includes project-funded positions in HSA (114 FTE in FY 2026-27 and an additional 34 FTE in FY 2027-28) to perform H.R. 1-related eligibility work. The decrease in funded positions in FY 2027-28 is driven primarily by attrition savings equal to 378 FTE positions across 22 departments. These unspecified position cuts include 113 FTE at DPH and 48 FTE at HSA, with the remainder spread among 22 other departments.

Despite position cuts, salary and fringe benefit costs are growing due to negotiated wage increases and health and retirement benefit obligations. Labor agreements with miscellaneous employees include a raise of 4.5% in FY 2026-27, including 2.5% effective June 30, 2027, the last day of the agreement. FY 2027-28 is an open contract year for which the budget assumes a 0.6% increase, though costs may change pending negotiations. Public safety employee raises are 3% in FY 2026-27 and 3% in FY 2027-28. Budgeted health rates increase by 9.5% in FY 2026-27 and 9.5% in FY 2027-28 and employer contributions to retirement grow from 16.5% in the current year to 16.7% in FY 2026-27 and 17.5% in FY 2027-28.

- **One-time solutions. The proposed budget assumes the use of \$696.1 million of General Fund one-time sources over the two budget years, \$175.6 million more than assumed in the March 2026 Update to the Five-Year Financial Plan.** These sources include the draw down of \$505.0 million in prior year fund balance and \$191.1 million of reserves. Consistent with the March 2026 Update to the Five-Year Financial Plan, the budget designates \$261.4 million of unappropriated fund balance for balancing future budget shortfalls in FY 2028-29 and after. **We find the budgeted use of reserves to be prudent and commensurate with known financial risks. The increase in the use of fund balance in the second year of the budget, from \$42.4 million in FY 2026-27 to \$462.5 million in FY 2027-28, represents a temporary budget solution that will need to be replaced by recurring revenue increases or expenditure reductions in future years.** Reserve uses include:

Federal & State Revenue Risk Reserve. The projected starting balance of this reserve to address funding shocks from federal and state policy making, including H.R. 1, is \$433.3 million. The budget proposes spending approximately 10% of this reserve in each budget year (\$41.4 million in FY 2026-27 and \$43.5 million in FY 2027-28), leaving \$350.7 million balance. Uses of the reserve include \$34 million to fund off-budget project-based positions (82 FTE in FY 2026-27 and an additional 44 FTE in FY 2027-28) and other costs at the Human Services Agency to help maintain Medi-Cal and CalFresh eligibility. Although budgeted as one-time cost, positions supporting core eligibility work are likely an ongoing expense. Policymakers will need to make choices about level of service going forward as the reserve is drawn down.

Business Tax Stabilization Reserve. The Mayor's proposed budget uses the \$29.5 million balance of the Business Tax Stabilization Reserve in FY 2027-28 to partially offset a business tax revenue timing shift related to Proposition M (2024) administrative changes.

In addition to withdrawals from the Federal and State Revenue Risk Reserve, the budget also continues to appropriate \$70.9 million of reserves in FY 2026-27 that were previously appropriated in the prior budget cycle. This budget 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 such as capital, equipment, H.R. 1 investments, and information technology. Proposed spending in capital and equipment exceeds the amounts assumed in the March Update to the Five Year Financial Plan.

- **We find the proposed establishment of a Homelessness Gross Receipts Tax Reserve to be prudent and commensurate with known financial risks.** The FY 2025-26 Nine-Month Budget Status Report projected Homelessness Gross Receipts Tax revenue of \$434.0 million, nearly \$100 million above budget. The proposed budget assumes revenues of \$465.2 million in FY 2026-27 and \$444.9 million in FY 2027-28. Section 32.3 of the administrative provisions of the Mayor's proposed budget assigns \$98.0 million of unappropriated fund balance from FY 2025-26 to the Homelessness Gross Receipts Tax Revenue Reserve, a contingency reserve to manage revenue risks related to potential reductions in federal and state funding. The proposed budget also appropriates \$8.25 million in both budget years from the Our City, Our Home fund to the new Affordable Housing Opportunity Fund set aside approved by voters in November 2024 (Proposition G).

- **The final adopted budget will require active monitoring and management by departments, the Mayor, and the Board of Supervisors, given economic and financial risks.** These include significant H.R. 1 related implementation risk, the possibility of a slowing local economic recovery or recession, and the unusually high potential financial impact of measures on the November 2026 ballot. Additionally, close monitoring and management of personnel spending will be required for departments to stay within budgets.

Other key local requirements and legislative proposals:

- **Reserve deposits.** The proposed budget makes required deposits of \$163.1 million to the Budget Stabilization and General Reserves. Budget Stabilization Reserve deposits in FY 2026-27 of \$35.9 million and in FY 2027-28 of \$68.8 million are triggered by the expectation that transfer tax will exceed the prior five-year average. The proposed budget also makes required General Reserve deposits of \$41.5 million and \$16.9 million in FY 2026-27 and FY 2027-28, respectively. These deposits are required by Financial Policies previously adopted by the Mayor and Board of Supervisors. The City is not eligible to withdraw from Economic Stabilization Reserves as General Fund revenues are rising.
- **The Mayor's proposed budget adheres to all voter-adopted spending mandates.** All voter-adopted spending requirements are met or exceeded at a direct General Fund cost of at least \$1.2 billion in each of the two fiscal years. The baselines include mandated spending on transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. The budget also funds the new Affordable Housing Opportunity Fund adopted in November 2024 (Proposition G).
- **Minimum Compensation Ordinance.** The Minimum Compensation Ordinance (MCO), Article 111 of the Labor and Employment Code, sets a minimum compensation rate for employees at public entities and nonprofit organizations that have contracts with the City. The Code specifies that, if fully funded in the budget, the MCO rate for nonprofit organizations increases with the annual change in the Consumer Price Index for the San Francisco metropolitan area. Beginning July 1, 2026, the rate would be \$23.50. For public entities, the rate is legislatively set at \$25.00 on September 1, 2026 and \$25.50 on January 1, 2027. The Mayor's budget appropriates \$10.3 million and \$13.4 million in FY 2026-27 and FY 2027-28, respectively, to support the MCO, which exceeds the amount required to fully fund the direct wage impacts of the minimum compensation increases. The Mayor's Office intends to introduce a technical adjustment to increase the FY 2026-27 nonprofit contractor Cost of Doing Business and use FY 2027-28 savings to partially offset the loss of excess ERAF revenue due to the State budget.

Key risks to the budget

While the revenue assumptions in the Mayor's proposed budget are reasonable, the City faces financial risks in coming fiscal years, including the projected structural budget gap following depletion of one-time funds; state and local measures before the City and State legislatures and voters that could increase or decrease revenue and increase costs; federal budget risk and potential disallowance of claims for reimbursement of emergency response costs; state budget revenue risk; and wider economic risks that could derail revenue forecasts.

- State and Local Legislative Proposals** San Franciscans and Californians will vote on various proposals that would change local and state revenue streams in the November 2026 elections. Additionally, the City and state legislature are considering proposals that would change local tax revenue. The only revenue proposals assumed in this budget are the local parcel tax and regional sales tax measures on the November 2026 ballot that would generate operating funds for the MTA. The table and notes below lay out the various proposals and their associated fiscal impact to the City's General Fund. Note that the various proposals changing Real Property Transfer Tax would impact the same revenue stream. The table below shows the maximum possible impact to Transfer Tax revenue flowing to the General Fund in each year for illustrative purposes.

Exhibit B. Fiscal Impact of Selected November 2026 Proposals

Proposed Legislation (Nov 2026)	Ballot	Tax Impacted	Passage Assumed in Budget	Risk			
				FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
MTA Parcel Tax	San Francisco	Parcel Tax	Yes	-	166.0	166.0	166.0
Connect Bay Area: Regional Sales Tax	Bay Area Counties	Sales Tax	Yes	17.0	155.0	155.0	155.0
Housing Trust Fund	San Francisco	N/A - General Fund Allocation	No	-	-	6.1	13.6
Risk - Subtotal				17.0	321.0	327.1	334.6
Transfer Tax Proposals							
BUILD Act	San Francisco	Real Property Transfer Tax	No	93.8	96.4	98.8	101.2
Affordable Housing Guarantee Act	San Francisco	Real Property Transfer Tax	No	114.1	117.3	120.4	123.6
Local Taxpayer Protection Act to Save Proposition 13	State	Real Property Transfer Tax	No	-	-	349.2	357.6
Maximum Transfer Tax Impact Per Year				114.1	117.3	349.2	357.6
Total Risk				131.1	438.3	676.3	692.2

June 2, 2026 Business Tax Measures

The budget does not assume the passage of either business tax measures on the local June 2 ballot, neither of which appears to have passed. These measures include Proposition C, which would reduce business tax revenue by \$30 million to \$40 million per year, and Proposition D, which would increase the overpaid executive tax revenue by approximately \$250 million to \$300 million annually beginning in FY 2028-29.

Transit Tax Measures

The proposed budget does assume that two revenue measures on the November 2026 ballot supporting the Municipal Transportation Agency (MTA) will pass. The budget includes \$166.0 million in local parcel tax revenue in FY 2027-28 and revenue from a regional sales tax measure of \$17.0 in FY 2026-27 and \$155.0 million in FY 2027-28. Should these measures fail, there will be significant pressure to use the General Fund to backfill some portion of the resulting \$338 million shortfall to avoid drastic

service cuts. The FY 2026-27 MTA budget assumes \$200 million in state loan proceeds from a total of \$590 million approved for Bay Area transit systems in SB117. Additional state funding beyond this loan appears unlikely.

Deep transit service cuts would significantly impact San Francisco, especially the downtown core that drives the City's economy. The City historically achieved its economic vitality by connecting skilled labor across the Bay Area to businesses concentrated in the City's central business district via mass transit. Full occupancy of this area is not possible without the Bay Area's network of light and heavy rail trains, buses, and streetcars. Potential reductions in transit operations could weaken the city's access to regional talent, pushing existing businesses to relocate and prospective businesses to expand in other cities instead of San Francisco. Combined, these factors could drive down office attendance and economic activity and reduce the tax revenues that depend on them, including sales, commercial rent, gross receipts, transfer, and other taxes.

Housing Trust Fund

The proposed budget does not assume a proposed Charter amendment to extend and increase the annual contribution to the Housing Trust Fund from approximately \$50.0 million in FY 2026-27 to \$125.0 million over the next ten fiscal years. The additional funding would support the creation, acquisition, and rehabilitation of affordable rental and ownership housing and other housing stabilization activities outlined in Charter Section 16.110. Should voters adopt the measure in November 2026, the General Fund impact would be \$6.1 million in FY 2028-29, \$13.6 million in FY 2029-30, and thereafter grow by an additional \$9.0 million each year until reaching nearly \$60 million by FY 20234-35, assuming no temporary freezes or reductions.

Real Property Transfer Tax Proposals

The proposed budget does not assume any changes to the City's real property transfer tax. Currently proposed measures that could potentially be adopted or submitted to voters include a local ordinance, Real Property Transfer Tax Rates and Penalties (File 260178), a statewide ballot initiative, the Local Taxpayer Protection Act to Save Proposition 13, and a local ballot initiative, the Affordable Housing Guarantee Act. Taken individually (not contemplating interaction effects if multiple measures are approved), we estimate the impact as follows.

- [Real Property Transfer Tax Rates and Penalties \(File 260178\)](#) (also known as the BUILD Act) – The budget does not assume approval of this ordinance, which is currently pending at the Board of Supervisors and would decrease revenue by an estimated \$93.8 million in FY 2026-27, \$96.4 million in FY 2027-28, \$98.8 million in FY 2028-29, and \$101.2 million in FY 2029-30. The budget also does not assume any changes to the way the City taxes trustee deeds and deeds in lieu of foreclosure transactions, although we are aware that a proposal may be put forward to voters on the November 2026 ballot to tax these transactions.
- [Affordable Housing Guarantee Act](#) – The current text of this potential November 2026 ballot initiative would not reduce total City revenue, but it would redirect the entirety of the revenue generated by the rate increases approved in November 2020 Proposition I from the General Fund to a special revenue fund for affordable housing, reducing fiscal flexibility and increasing the General Fund deficit. Revenue generated by Proposition I, which doubled the tax rate on transactions over \$10 million, is estimated to be \$114.1 million in FY 2026-27 and \$117.3 million in FY 2027-28.

- [Local Taxpayer Protection Act to Save Proposition 13](#) – The current text of this statewide ballot initiative, impacting local transfer taxes two years after enactment, would decrease revenue by an estimated \$349.2 million in FY 2028-29 and \$357.6 million in FY 2029-30, as described below.
- **State Constitutional Amendment** A state constitutional amendment, titled the California Two-Thirds Vote Requirement for Special Taxes and Charter City Real Estate Transfer Tax Prohibition Initiative, has qualified for the statewide November 3, 2026 ballot. The measure would amend the California Constitution to increase the vote requirement to pass citizen-initiated local special taxes from a simple majority (50%+1) to a two-thirds (66.67%) vote; prohibit charter cities from imposing their own real estate transfer taxes above the existing statutory rate; and invalidate any property-related special taxes previously adopted with an approval rate below two-thirds or real estate transfer taxes in charter cities. This would effectively eliminate the City's real property transfer tax revenue, worth over \$350 million annually. Additionally, it could also invalidate several other citizen-initiated measures on the November 2026 ballot if they do not secure two-thirds approval, including both transit measures, effective December 31, 2028. Proponents of this measure have until June 25 to withdraw it from the state ballot.
- **Federal Funding Risk** In addition to increased costs and reduced revenues resulting from H.R. 1, the City faces continued risks to funding for a wide variety of programs, for example, recent proposals to reduce funding for permanent and supportive housing programs such as Continuum of Care, Emergency Housing Vouchers, and Housing Choice Vouchers. While the budget assumes no revenue from the reimbursement of disaster response cost claims made to the Federal Emergency Management Agency (FEMA), the Agency has disallowed over \$400 million of costs for shelter during the COVID-19 pandemic, of which \$148.0 million were already reimbursed in prior years. The City has filed appeals of some disallowed costs and is proceeding with an arbitration process to protect this funding. Going forward, the FEMA Review Council's Final Report issued in May 2026 recommends reducing the federal Public Assistance cost share from 75% to 50%, with the remaining 50% split among state and local governments, representing a significant increase in local costs for disaster response.

Overall, federal agencies have terminated, frozen, or conditioned grants and funding that City departments rely on for ongoing programming. While the City and other plaintiffs have filed litigation challenging these actions and have successfully obtained court orders blocking many of them, the federal government is appealing court losses and implementing new funding cuts and conditions, resulting in ongoing revenue risk.

- **State Budget Risk** The May Revised Budget funding increases for K-12 education would reduce the City's excess ERAF revenue by approximately \$30 million annually. These changes are not assumed in the Mayor's proposed budget. First, a 34% increase in special education funding, from \$999 to \$1,341 per unit of average daily attendance in FY 2026-27, adjusted by an inflator thereafter, would result in an annual reduction of excess ERAF revenue of \$14 million. Special education funding, or SELPA, which totals approximately \$42.6 million in FY 2025-26, is deducted from excess ERAF, with the remainder flowing to the City. Second, the May Revised Budget includes a statutory cost of living adjustment to the Local Control Funding Formula (LCFF) of 2.87% and a discretionary "super COLA" that results in a total COLA of 4.31% to help offset funding reductions related to declining enrollment. The Mayor's proposed budget assumes 2% annual growth in the LCFF. As educational entities' revenue limit increases, their draws from ERAF increase, reducing the amount of excess available to return to the

City's General Fund by approximately \$15 million annually. The State's budget must be finalized by June 15.

- **Economic Assumptions and Risks** Tax revenues in the budget assume relatively strong national and international economic growth, modest local growth, and stable interest rates. Some of the biggest revenue drivers in this budget come from growth in taxes more exposed to national and international trends. The City anticipates the portion of gross receipts business tax revenue coming from worldwide sales to stay strong after it grew 30% in 2025. Real property transfer tax revenue is similarly expected to benefit from large institutional investors re-entering San Francisco's commercial real estate market given low prices.

The revenue forecast is set amidst San Francisco's slowly improving economy. Office vacancy rates decreased from 35.4 percent in the first quarter of 2025 to 32.6 percent in the first quarter of 2026, though still well above the average 2019 vacancy rate of 5.4 percent. From April 2025 to April 2026, average weekday MUNI train boardings increased 13 percent to reach 74 percent of April 2019 ridership, and exits at downtown BART stations increased 12 percent to achieve a post-pandemic high of 43 percent of April 2019 levels. Employee foot traffic in downtown San Francisco increased 12 percent to 57 percent of pre-pandemic levels, while visitor foot traffic remained even at 65 percent.

Nationally, the inflationary effects of federal immigration, trade policy, and the war with Iran, among other forces, will continue to create risk of interest rates increases, reducing capital and business investments. Additionally, much of the bullish sentiment and returns in equity markets is concentrated in Artificial Intelligence (AI). Setbacks to the AI industry— semiconductor chip shortages, insufficient power and water supply, opposition to building new data centers, etc. —could lead to a correction in values, with large fiscal effects for state and local government, particularly state income taxes.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines, Set-Asides, Special Taxes and Other Requirements

Appendix 1. General Fund Sources

The Mayor's proposed budget for FY 2026-27 includes \$7.6 billion in General Fund sources and \$16.9 billion in All Funds sources, representing an increase from the FY 2025-26 original budget of 8.2 percent in the General Fund and 5.4 percent in All Funds. The Mayor's proposed budget for FY 2027-28 includes \$7.9 billion in General Fund sources and \$17.2 billion in All Funds sources, representing an increase from the FY 2026-27 proposed budget of 4.1 percent in the General Fund and 2.3 percent in All Funds.

Exhibit 1-1. Overview of Budget Sources (\$ million)

General Fund

	FY 2025-26 Budget	FY 2026-27 Proposed	FY 2027-28 Proposed
Fund Balance	\$ 152.7	\$ 42.4	\$ 462.5
Use of Reserves	34.4	117.6	73.5
Regular Revenues	6,575.4	7,140.4	7,109.6
Transfers into the General Fund	258.5	297.2	266.6
Total GF Sources	\$ 7,021.0	\$ 7,597.6	\$ 7,912.2
Change from Prior Year		\$ 576.6	\$ 314.6
Percentage Change		8.2%	4.1%

All Funds

	FY 2025-26 Budget	FY 2026-27 Proposed	FY 2027-28 Proposed
Fund Balance	\$ 515.7	\$ 616.3	\$ 816.4
Use of Reserves	46.4	120.4	75.9
Regular Revenues	15,428.8	16,115.4	16,346.5
Total All-Funds Sources	\$ 15,990.9	\$ 16,852.2	\$ 17,238.8
Change from Prior Year		\$ 861.3	\$ 386.6
Percentage Change		5.4%	2.3%

Exhibit 1-1 provides a summary of the General Fund sources in the Mayor's proposed budget.

Sources of Funds	FY 2025-26 Budget	FY 2026-27 Proposed	FY 2027-28 Proposed	Note
FUND BALANCE & RESERVES				
Prior Year Fund Balance	\$ 152.7	\$ 42.4	\$ 462.5	1
Use of Reserves	34.4	117.6	73.5	2
Subtotal	187.2	160.1	536.1	
REGULAR REVENUES				
Property Taxes	2,437.0	2,407.0	2,427.0	
Traditional Property Tax	2,164.0	2,105.0	2,135.0	3
Excess ERAF	273.0	302.0	292.0	3
Business Taxes	1,139.6	1,572.2	1,477.7	4
Sales Tax (Bradley Burns 1%)	189.6	201.8	207.8	5
Hotel Room Tax	265.2	289.4	291.6	6
Utility Users Tax	116.4	124.1	128.0	7
Parking Tax	88.8	83.5	83.5	8
Real Property Transfer Tax	267.6	358.8	370.4	9
Stadium Admissions Tax	8.6	9.9	9.9	10
Cannabis Tax	-	-	-	11
Sugar Sweetened Beverage Tax	11.6	11.4	11.4	12
Access Line Tax	54.5	60.7	61.1	13
Licenses, Permits & Franchises	23.1	24.1	24.5	14
Fines and Forfeitures	6.0	3.6	3.6	15
Interest & Investment Income	151.9	164.8	153.5	16
Rents & Concessions	18.5	25.9	33.4	17
Intergovernmental - Federal	459.1	373.4	395.4	
Federal Emergency Management Agency	87.0	-	-	18
Other	372.1	373.4	395.4	18
Intergovernmental - State	910.3	921.2	949.3	
Public Safety Sales Tax	97.2	101.2	104.2	19
Health & Welfare Realignment (1991)	272.8	243.8	253.3	20
Public Safety Realignment (2011)	53.5	54.6	56.2	21
Other	486.8	521.6	535.4	22
Intergovernmental Revenues - Other	3.4	4.2	4.3	
Charges for Services	382.9	459.8	432.6	23
Recovery of General Government Costs	22.3	27.2	27.2	
Other Revenues	18.9	17.3	17.6	24
Subtotal Regular Revenues	\$ 6,575.4	\$ 7,140.4	\$ 7,109.6	
Transfers In to the General Fund	258.5	297.2	266.6	25
TOTAL SOURCES	\$ 7,021.0	\$ 7,597.6	\$ 7,912.2	

NOTES

1. Prior Year Fund Balance

As shown in Exhibit 1-2 below, a total of \$766.4 million of fund balance is available for appropriation. In May 2026, the Controller’s Nine-Month Report projected fund balance of \$728.2 million, \$53.9 million more than reported in the March 2026 Five-Year Financial Plan Update. In total, the proposed budget appropriates \$505.0 million of the \$766.4 million in available unassigned General Fund balance to support spending in the budget years. The remaining unappropriated fund balance of \$261.4 million is designated for balancing future budgets, as specified in section 32.1 of the administrative provisions of the Annual Appropriations Ordinance.

Exhibit 1-2. General Fund Use of Prior Year Fund Balance (\$ millions)

Projected Fund Balance, May 2026 Nine Month Report	728.2
(+) Additional Current Year De-Appropriations ("Project Closeouts")	38.1
Fund Balance Available for Appropriation	766.3
Fund Balance Appropriated in Budget	505.0
Fund Balance Designated for Future Budgets	261.3

A total of \$38.2 million of General Fund de-appropriations are assumed to support the FY 2026-27 and FY 2027-28 budget. Details of the de-appropriations are shown in Exhibit 1-3 below.

Exhibit 1-3. FY 2025-26 General Fund De-Appropriations

Dept	Authority Title	Project Title	Total	Dept	Authority Title	Project Title	Total
ADM	11 So Van Ness Hvac Improvemen	Red-Capital Improvements	19,599	ECN	Carnavale	EW 22-23 Board Addbacks	300,000
ADM	2017-Family Support - Lactatio	WA Fy 2016-2017	21,938	ECN	Carnavale	EW 22-23 Board Addbacks	60,001
ADM	950 Bryant Roof Replacement	ADFM Fleet Capital Improveme	28,664	ECN	Carnavale	EW 23-24 Board Addbacks	424,030
ADM	Animal Care Shelter Project	ADAC Animal Shelter Project	193,253	ECN	Carnavale	Non-Profit Sustainability	2,000,000
ADM	City Hall Interior Finishes	ADRE Capital Improvements	12,487	ECN	Dream Keeper Initiatives	Reinvestment Initiatives	2,400,000
ADM	Cultural Museums	Cultural Museums	2,246	ECN	OFA Operations	Opportunities for All	500,000
ADM	Debt Service	Crit Repair Recovry Stim COPs	7,100	FAM	Legion Chillers	Legion Chillers	10,095
ADM	DPW repair service	RP 11th Street And Natoma Parl	4,067	FAM	LH Boiler Refurbish	LH Boiler Refurbish	202
ADM	DSN Regulatory	PW 3rd St Bridge Struct Rpr	32,909	FIR	Nert Participatory Budget D10	FD NERT Participatory Budget	32,325
ADM	Elevator Refurbishment	AD Elevator Modernization Proj	6,365	GEN	Cultural Museums	Cultural Museums	80,000
ADM	Emergency Protective Measures	CoVid OPS Feeding	344	HOM	Emergency Protective Measures	CoVid HOM Response	44,477
ADM	E-Procurement	ADCA E-Procurement	29,710	HOM	HOM Global Payment Program	HOM Global Payment Program	5,000,000
ADM	IT System Replacement	ADCC IT System Replacement	40	HOM	HOM Trans Homelessness	HOM Trans Homelessness	1,000,000
ADM	Markets	ADRE Real Estate Operations	227,417	HOM	Programmatic Services	HO Shelter And Navigation Cent	1,200,000
ADM	Non-COP Funded Costs	ADRE 49SVN Project	23,033	HOM	Programmatic Services	Interim Housing Expansion	7,398,691
ADM	Non-COP Funded Costs	ADRE 49SVN Project	1,873,520	HOM	Programmatic Services	HO Homelessness Outreach and P	840,000
ADM	Non-COP Funded Costs	ADRE 49SVN Project	10,393	HRC	Dream Keeper Initiatives	Reinvestment Initiatives	1,800,000
ADM	Ocmc Case Management - Lims 2	Medical Examiner Project	877	HRC	Violence Prevention Pgm - Spa	HRC Add-backs FY24	36,513
ADM	Sewer Line Replacements	ADRE Capital Improvements	1,888,480	HRD	Dream Keeper Initiatives	Reinvestment Initiatives	370,300
ADM	Sewer Line Replacements	Red-Capital Improvements	10	HRD	Dream Keeper Initiatives	Reinvestment Initiatives	29,700
ADM	Visitor Management System	ADRE COIT Projects	43,007	HSA	Emergency Protective Measures	CoVid Congregate Shelters	11,946
ADP	Dream Keeper Initiatives	Reinvestment Initiatives	203,444	HSA	IHSS EVV 979/980 Split	HS AG IHSS EVV	153,448
ADP	Emergency Protective Measures	Drug Overdoses in Tenderloin	60,000	JUV	Culvert/Road Replace LCR	Fy13-14 Culvert/Road Replace A	42,491
ART	Art Move To Veterans Building	AR Art Move To Veterans Buildi	4,975	JUV	Security System Upgrade	PW LCR Roof Replace	1,286
ART	CEG General	Culture Equity Grants - Admin	2,717	MYR	ADIT Dig Equity Pilot Pgr	ADIT Digital Equity Pilot	(450)
CHF	BOS Children Citywide	Bos Allocations	619,854	MYR	BOS Children D10	Bos Allocations	1,544
CHF	BOS Children D10	Bos Allocations	381,425	MYR	Carnavale	EW 21-22 Board Addbacks	19,982
CHF	BOS Children D5	Bos Allocations	94,776	MYR	D8 Affordability Plan	CO Administration	1,500
CHF	BOS Children D5	Bos Allocations	1	MYR	FY22 GF Rent Relief	FY22 GF Rent Relief	541,041
CHF	BOS TAY D6	Bos Allocations	36,157	MYR	FY25 MOHCD Board Enhancements	Board Enhancements	1,177,868
CHF	BOS USD Children Citywide	Bos Allocations	772,094	MYR	HOM Trans Homelessness	HOM Housing	208
CHF	BOS USD Children D4	Bos Allocations	1	MYR	Rent Resolution and Relief Fun	Rent Resolution & Relief Fund	2,395
CHF	Children's Baseline Eligible	Bos Allocations	6,274	MYR	So Sunset Rec Ctr Clubhouse Ex	RP South Sunset Rec Center	840
CHF	TAY Baseline Eligible	CH Early College Initiative	45,686	MYR	Trans rental sub-not OCOH	GF Rent Subsidies	70,333
DAT	DA 54% Alloc Real Estate Rec	Dist Atty 54% Alloc Real Estat	1,700,000	REC	1291P-Proj Managment	RP 1291P-Ggp Senior Center	10,590
DAT	Peace Officer Std & Testing 01	DA Peace Officer Std & Testing	150,000	REC	1296p-project Management	RP Alvord Lake Security Camera	3,335
DAT	Phase II-Replacemen	Replacement Case Managemen	13	REC	1631J-W/A To Rec Park	WI 1631j-vl Guardrail Upgrade	10
DEC	Dream Keeper Initiatives	Reinvestment Initiatives	295,436	REC	Alta Plaza Retaining Wall-Rp P	PW GGP Bowling Greens Reno	4,447
DEC	Non-Capital Expenditure	HS CH CC IT	50,790	REC	Buenavista Park-Division Suppo	RP Open Space Urban Forestry	405
DEC	State Childcare Reserve Accoun	HS CH State Childcare Reserve	777,705	REC	Controlco	RP Randall Flood Prevention	29,225
DEM	Active Directory Migration	Active Directory Migration	1,155	REC	Erosion Control & Retaining Wa	RP Erosion Cntrl/Rtaining Wall	4,464
DEM	DEM Auto Fire Sta	DEM Automated Fire Station Di	32,374	REC	Field Rehabilitation-Budget	RP Field Rehabilitation	5,273
DEM	EM DEM Coordinated St Response	EM DEM Coordinated St Respor	600,000	REC	Gateways/Borders/Bollars/Fenci	RP Gateways/Borders/Bollards	3,120
DPW	0105G-Granite Rock	Yard Bulk Item Purchases	4,768	REC	Irrigation Systems	RP Irrigation Systems	750
DPW	0255F-Buf N.Labor	PW AB Sunset Blvd Median Mai	2,505	REC	J&J Southwest Contruction, Inc	RP Franklin Sq Par Course Equip	2,567
DPW	1456J-Construction	WI 1456j-cj1:cj2 Hvac Upgrade	9,274	REC	Lafayette Park-Construction Co	PW GGP Bowling Greens Reno	79
DPW	2050R-Bbr Labor	PW D2 AB Fillmore Bench Tree	7,159	REC	Mclaren Lodge Annex Renovation	RP McLaren Lodge Annex Renov	6,762
DPW	7235A-Boa Labor	WB Eser-awss System	656	REC	Movie Nights In The Park-Distr	RP Movie Nights In The Park	3,867
DPW	7235A-Boa Labor	PW Justice Fac Impr	26,227	REC	Paving	RP Paving	2,529
DPW	7235A-Boa Labor	PW Justice Fac Plan Update	583	REC	Paving	RP Paving	1,700
DPW	Asbestos Abatement Various Fy0	WR Asbestos Abatement Variou	80	REC	Project Management	RP CC Plaza Pavement Maint.Ph2	32,524
DPW	CON Work	PW AB Dist4 Cleaning	8,269	REC	Project Reserve	RP Rec Park Capital Projects	991
DPW	CON Work	PW AB Judah St Greening	10,933	REC	Project Reserve	RP Rec Park Capital Projects	902
DPW	CON Work	PW BUF D2 Tree Maintenance	157	REC	Project Reserve	RP Rec Park Capital Projects	285
DPW	District 10 Mendell Plaza Ligh	WR District 10 Mendell Plaza L	750	REC	RP2208 D8 Christopher Pk plant	RP Christopher Park plantings	1,172
DPW	PLN Work - General	PW Mid Market Impr Near Term	212	REC	RP2208 D8 Christopher Pk plant	RP Christopher Pk bench & tabl	1,045
DPW	PLN Work - General	PW HOJ Emerg Gen Replace	19,280	REC	RP2208 D8 Christopher Pk plant	RP Upper Noe music & rec renov	3,567
DPW	Reserves-Project	PW AB D02 Lombard St Improv	1,574	REC	Shared Schoolyards Projects	RP Shared Schoolyards Projects	1,731
DPW	Street Tree Establishment	PW Capital Budget FY19 & FY20	2,226	REC	Signage & Information System	RP Signage & Information Sys	8,123
ECN	Carnavale	City Economic Development Prc	1,500,000	REC	Signage & Information System	RP Signage & Information Sys	37
ECN	Carnavale	EW 20-21 Board Addbacks	235,113	REC	Signage & Information System	RP Signage & Information Sys	2,584
ECN	Carnavale	EW 20-21 Board Addbacks	60,000	TIS	Dig Once Implementation	Dig Once Implementation	19,062
ECN	Carnavale	EW 20-21 Board Addbacks	10,000	TIS	Front Gate/deputy Station	SH Front Gate/deputy Station	4
ECN	Carnavale	EW 21-22 Board Addbacks	217,998	TIS	Va Radio Request	Va Radio Request	50,938
Total General Fund De-Appropriations			38,130,951				

2. Use of Reserves

The Mayor's budget proposes uses of \$191.1 million in prior year reserves. See Appendix 2 for more details.

Exhibit 1-4. General Fund Use of Prior Year Reserves (\$ millions)

	FY 2026-27 Proposed Budget	FY 2027-28 Proposed Budget
General Fund - Use of Prior Year Reserves		
Budget Stabilization One Time Reserve	54.8	-
Federal and State Emergency Grant Disallowance Reserve	1.1	-
Fiscal Cliff Reserve	15.0	-
Federal and State Revenue Risk Reserve	41.4	43.5
Business Tax Stabilization Reserve	-	29.5
Children's Baseline True-Up	5.3	0.6
Total Use of Prior Year Reserves	117.6	73.5

3. Property Tax

Commercial property valuations continue to fluctuate, driven by high vacancy rates in middle-tier office properties and interest costs that remain well above recent norms. While office transaction volumes are improving and institutional investors are re-engaging—supporting real property transfer-tax revenue—recent sale prices still tend to fall below existing assessed values. This trend signals potential tax refunds for properties with open assessment appeals and suggests continued high appeal activity in future years. Lower sale prices will also reset assessed values downward, limiting near-term growth in the commercial property tax base. The FY 2026-27 General Fund share of property tax revenue is budgeted at \$2,407.0 million, which is \$30.0 million, or 1.2 percent, less than the FY 2025-26 budget. The FY 2027-28 General Fund share of property tax revenue is budgeted at \$2,427.0 million, which is \$20.0 million, or 0.8 percent, more than the proposed FY 2026-27 budget.

The budget assumes secured roll growth of 2% in FY 2026-27 and 2% in FY 2027-28, representing the 2% inflation allowed under the state constitution, and unsecured values are projected to remain at current levels. Approximately \$118.3 million is assumed diverted from the General Fund to tax increment financing districts in FY 2026-27, increasing to \$157.5 million in FY 2027-28. Of these totals, approximately \$18.3 million per year is diverted to tax increment financing districts such as the Treasure Island and Mission Rock projects, and the remainder to projects of the former redevelopment agency.

The budget assumes \$2.5 billion of reductions in current year local assessment values in each of the two budget years, which translates to approximately \$14.0 million in General Fund property tax revenues refunded annually. Additionally, the budget assumes reserve deposits for future refunds of \$215.0 million in General Fund revenue from appeals of assessed values filed in FY 2026-27 and \$191.0 million from appeals filed in FY 2027-28, which will be paid at such time as the Assessment Appeals Board determines reductions.

Supplemental assessments capture changes in value for the portion of the tax year remaining after an assessable event—a change in ownership or new construction—results in a change in the base year assessed value of a property. Supplemental property taxes are estimated to be \$12.0 million in each of FY 2026-27 and FY 2027-28. Escape assessments capture a full year’s increase in assessed value up to four years after the event trigger date and are estimated to generate \$25.0 million in FY 2026-27 and \$25.0 million in FY 2027-28.

Excess Educational Revenue Augmentation Fund (ERAF) revenue represents the amount of property tax revenues initially diverted from the City to help the state meet its funding obligations for K-14 education. The amount that exceeds these entities’ revenue limits is returned to the City. Excess ERAF revenues are budgeted at \$302.0 million in FY 2026-27 and \$292.0 million in FY 2027-28, based on current state law.

4. Business Tax

The FY 2026-27 budget projects General Fund business tax revenue to reach \$1,572.2 million, representing an increase of \$432.6 million, or 38.0 percent, from the FY 2025-26 budget. The FY 2027-28 budget anticipates a decrease of \$94.4 million, or 6.0 percent, in business tax revenue, bringing the projected total to \$1,477.7 million. General Fund business tax revenue is comprised of business registration fees, administrative office tax, gross receipts tax, and the overpaid executive tax.

Proposition M (2024) restructured business taxes by increasing the small business gross receipts tax exemption, reducing the overpaid executive tax by 80 percent, and generally increasing gross receipts tax rates. Because Proposition M took effect in tax year 2025, its actual impact on business tax revenue becomes apparent as taxpayers file their annual tax returns by the March 2, 2026 deadline, or by November 30, 2026 for those that received an extension.

Gross receipts taxes are largely based on a combination of sales in San Francisco and sales worldwide that are apportioned to San Francisco, generally by the share of a company’s total payroll located in San Francisco. Both San Francisco sales and worldwide sales have increased significantly for many taxpayers. Between 2024 and 2025, for those companies that have filed their 2025 tax returns, aggregate San Francisco sales increased more than 10 percent and aggregate worldwide sales increased more than 30 percent, leading to a proportionate increase in tax revenue. This growth in sales is the primary driver of the increase in budgeted revenue from FY 2025-26 to FY 2026-27.

Administrative factors are also important for budgeted revenue. Proposition M moved the extended deadline from April 30 to November 30 of the following fiscal year, so the revenue from the filings is now split across two fiscal years rather than falling within one. This has the effect of reducing the amount of tax year 2025 revenue received in FY 2025-26 and shifting it to FY 2026-27, creating a one-time revenue increase in FY 2026-27. The one-time nature of this increase is reflected in the decline in budgeted revenue in FY 2027-28.

Litigation continues to factor into budgeted business tax revenue. Although several large cases settled in FY 2025-26, including General Motors, Airbnb, and Microsoft, the City continues to receive new gross receipts tax claims, and taxpayers in ongoing matters have expanded their claims to include additional tax years. The City currently holds \$389 million in reserve for General Fund business tax claims, down from \$414 million at the end of FY 2025-26. The available revenue from the decrease in reserve was recognized in FY 2025-26. The FY 2026-27 and FY 2027-28 budgets assume approximately \$75 million in anticipation of new and expanded claims.

5. Sales Tax

In FY 2026-27, the City budgeted local sales tax revenue at \$201.8 million, which is \$12.3 million (6.5 percent) higher than what was budgeted in FY 2025-26. FY 2027-28 local sales tax revenue is budgeted at \$207.8 million, which is \$6.0 million (2.9 percent) higher than the proposed FY 2026-27 budget.

Sales tax revenue dropped significantly during the COVID-19 public health emergency closures. With the ongoing “re-opening” of the City, revenue rebounded through FY 2022-23, slid in both FY 2023-24 and FY 2024-25, and FY 2025-26 collections to date are on track to start growing again. The budget assumes sales tax revenues will remain even with the current year in FY 2026-27 and then grow modestly in FY 2027-28, finally reaching pre-pandemic levels in FY 2028-29. However, economic headwinds of the pandemic era continue to impact local sales tax recovery: current population is still below the pre-pandemic population; office vacancy rates remain above 30% with fewer employees going into the offices that are occupied; and tourism and business travel have not yet recovered. These factors are expected to improve over the coming years. Exhibit 1-5 below shows actual and projected rates of change in the budget.

Exhibit 1-5. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2000-01 to FY 2026-27



6. Hotel Tax

The FY 2026-27 General Fund share of hotel tax revenue is budgeted at \$289.4 million, which is \$24.2 million, or 9.1 percent, more than what was budgeted in FY 2025-26. FY 2027-28 revenue is budgeted at \$291.6 million, an increase of \$2.2 million, or 0.8 percent, from the proposed FY 2026-27 budget. Hotel tax revenues are projected to improve year over year but will not reach pre-pandemic levels until after FY 2029-30.

The \$24.2 million increase in budgeted General Fund hotel tax revenue for FY 2026-27 over FY 2025-26 reflects the recent rebound in Moscone Center event attendance and optimism about domestic tourism trends. Strong Moscone Center event attendance drives tax revenue up through compression pricing, and the return of major conferences to San Francisco, in addition to World Cup games held near the first week of FY 2026-27, is expected to boost hotel tax performance. The second budget year assumes more modest growth to reflect a weaker Moscone Center event calendar and uncertainty about trends in international tourism.

November 2018 Proposition E allocated 1.5 percentage points of the 14 percent hotel tax rate (or approximately 10.7 percent of the total hotel tax revenue) to arts programs outside of the General Fund. These allocations are budgeted at \$36.0 million in FY 2026-27 and \$36.3 million in FY 2027-28, meeting Proposition E requirements. See Appendix 4 for more detail.

Hotel tax is highly correlated with the hotel industry indicator revenue per available room (RevPAR), which is the combined effect of occupancy and average daily room rates. RevPAR in the first three quarters of FY 2025-26 averaged \$183.86, an increase of 25.7 percent versus the same period in FY 2024-25. This bump reflects strong Moscone Center event attendance, including Super Bowl LX events that drew over 100,000 attendees to Moscone Center events during the first week of February 2026. RevPAR is projected to grow modestly in FY 2026-27 and FY 2027-28, up to 5 percent. This is slower than FY 2025-26 growth, reflecting the drop in large one-time events like the Super Bowl and less certainty in future Moscone Center event calendars.

7. Utility Users Tax

Utility user tax revenue is budgeted at \$124.1 million in FY 2026-27, which is \$7.7 million (6.6 percent) higher than what was budgeted in FY 2025-26. The increase is due to higher overall utility tax collections in the current year. FY 2027-28 revenue is budgeted at \$128.0 million, which is \$3.9 million (3.1 percent) higher than the proposed FY 2026-27 budget.

8. Parking Tax

The proposed budget projects parking tax revenue in both FY 2026-27 and FY 2027-28 at \$83.5 million, \$5.3 million (6.0 percent) less than the FY 2025-26 approved budget. Although there are fewer commuters coming into the City now than before the pandemic, a higher percentage of them travel by car rather than public transportation, and projected revenue is approaching pre-pandemic levels. According to American Community Survey data, the percentage of workers still coming into an office or worksite who drove to work rose from 37.8% in 2019 to 46.2% in 2024, or approximately 265,000 cars in 2019 and 247,000 cars in 2024. The budgeted amount for FY 2026-27 is just below pre-pandemic levels. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the Municipal Transportation Agency for public transit as mandated by Charter Section 8A.105.

9. Real Property Transfer Tax

The City budgeted real property transfer tax (RPTT) revenue at \$358.8 million in FY 2026-27, \$91.2 million (34.1 percent) higher than FY 2025-26. This growth continues in FY 2027-28 where the revenue budget rises by another \$11.6 million (3.2 percent) to \$370.4 million. The effect of November 2020 Proposition I, which doubled the tax rate on transactions over \$10 million, is estimated to be \$114.1 million and \$117.3 million in FY 2026-27 and FY 2027-28, respectively.

Growth is driven by a combination of factors. The rise of remote and hybrid work arrangements in San Francisco brought on by the pandemic caused demand for office space in the City to fall, office vacancies to soar, and building sales to slow. This paradigm drove revenue down in FY 2022-23 (\$186.2 million) and FY 2023-24 (\$177.7 million) to levels not seen since the recessionary lows of FY 2003-04 and FY 2009-10, even without adjusting for rate increases. From this low base, revenues roared back with a “reset” in the City’s real estate market. The Federal Reserve lowered the Federal Funds Effective Rate from 5.33% in August 2024 to 3.64% in January 2026, making it cheaper to borrow to acquire buildings. Additionally, building owners, landlords, and their creditors have increasingly accepted the post-pandemic reality that with office vacancy rates stubbornly exceeding 30%, many commercial buildings are not worth what they paid for them in the 2010’s. This combination helped bring many properties, including lucrative high-value properties, back to the market, albeit sometimes at significant discounts.

Not all of this revenue increase is available to policy makers. Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. The strong growth projected over the next few years, combined with low revenue in FY 2022-23 and FY 2023-24, triggers required deposits of \$35.9 million in FY 2026-27 and \$68.8 million in FY 2027-28. For more detail on the Budget Stabilization Reserve, see Appendix 2.

Exhibit 1-6 shows revenue collections not adjusted for rate changes, beginning in FY 1997-98. As the City’s most volatile revenue source, collections can see large year-over-year changes that have exceeded 60 percent. The volatility is seen with month-to-month revenue as well: in the past ten years, the lowest monthly revenue total was in January 2024 (\$5.4 million) and the highest was in September 2021 (\$95.7 million). The main factors creating volatility are sales of high-value properties, availability and cost of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track well with economic cycles. Voter-approved rate changes, which occurred in 2008, 2010, 2016 and 2020, have also resulted in fluctuations.

**Exhibit 1-6. Historical Real Property Transfer Tax Revenue
FY 1997-98 through FY 2027-28, (\$ millions)**

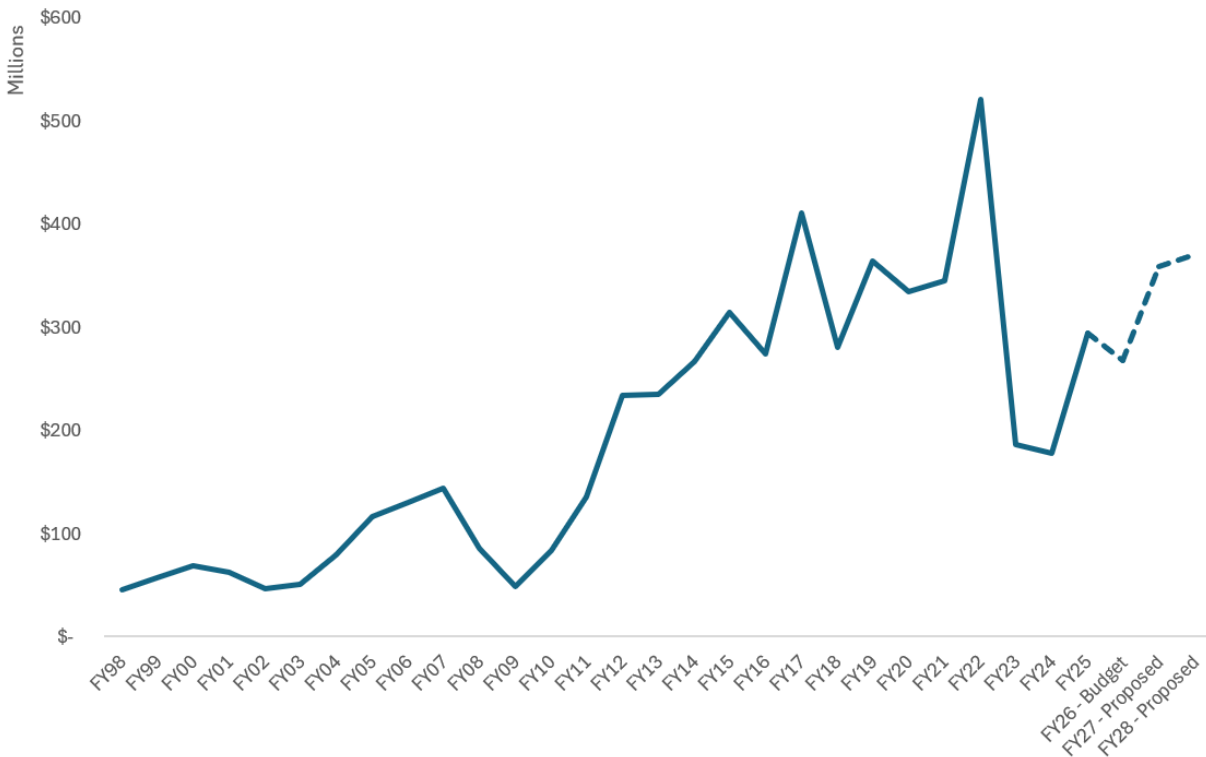
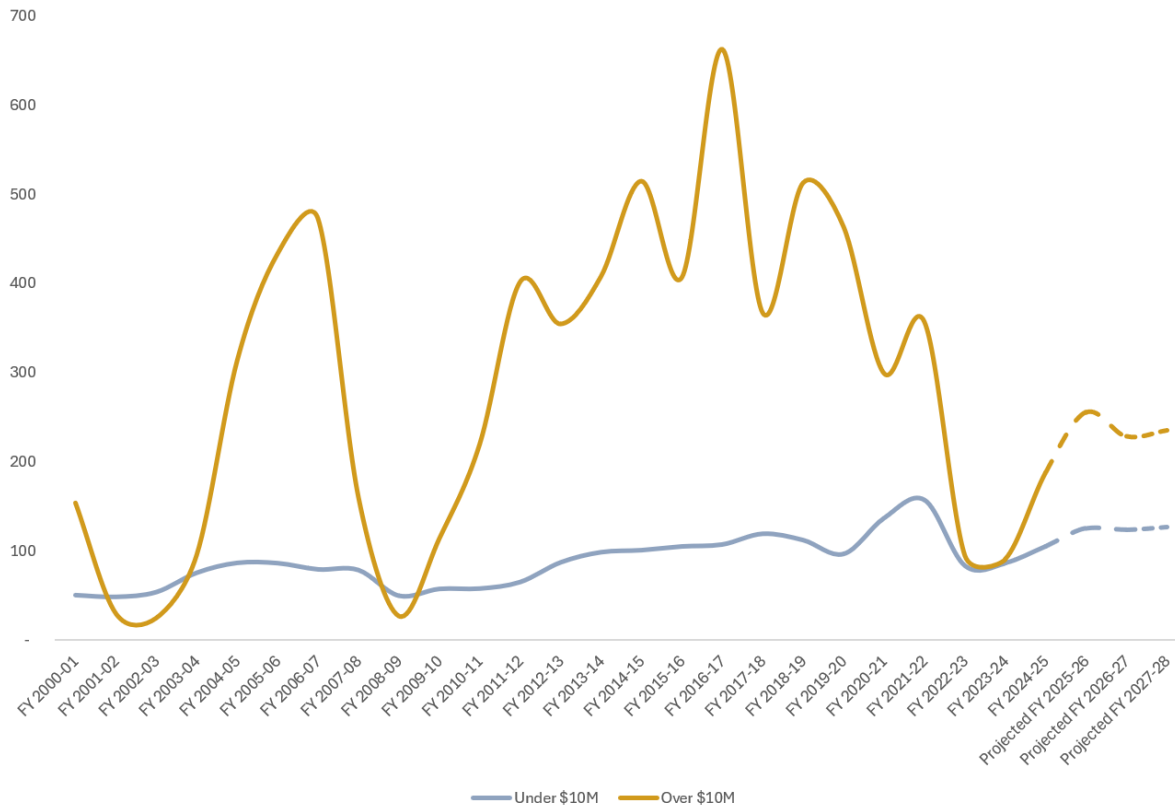


Exhibit 1-7 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Proposition I (November 2020), Proposition W (November 2016), Proposition N (November 2010), and Proposition N (November 2008), and illustrates how this revenue is driven by the sale of high-value (largely commercial) properties over \$10 million. The drastic revenue reduction in FY 2022-23 and FY 2023-24 was driven by high interest rates and the lack of large transactions. In the past 18 months, with somewhat lowered interest rates and high-value commercial properties like the Transamerica Pyramid re-entering the market, the number of high value transfers has increased, leading to improved revenue over the past two fiscal years.

**Exhibit 1-7. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size,
FY 2000-01 through FY 2027-28 Projected (\$ millions)**



Finally, the proposed budget assumes current tax rates remain in effect, including the 5.5 percent and 6 percent rates on Tiers 5 and 6. It does not assume that the proposed local ordinance [Real Property Transfer Tax Rates and Penalties \(File 260178\)](#), the statewide ballot initiative [Local Taxpayer Protection Act to Save Proposition 13](#), the local ballot initiative [Affordable Housing Guarantee Act](#), or any other changes to the City's transfer tax rate or structure will go into effect.

10. Stadium Admissions Tax

The City budgeted stadium admissions tax revenue at \$9.9 million in both FY 2026-27 and FY 2027-28, \$1.3 million (15.3 percent) more than the FY 2025-26 budget. The increase is due to strong attendance at Warriors, Giants, and now Valkyries games, which are a newer inclusion to the City's forecast for this tax revenue. The budget assumes that event attendance and revenue will remain stable across both budget years. Under Proposition M, businesses are given a credit toward their gross receipts taxes worth 50% of their stadium admissions tax.

11. Cannabis Tax

The local Cannabis Business Tax, approved by voters in 2018 via Proposition D, continues to be suspended. The tax was originally scheduled to take effect in 2019, but was postponed several times, first to the end of 2021 and then again to the end of 2022. In December 2022, the Mayor and Board of Supervisors extended the suspension of the tax to January 1, 2026. In December 2025, the Mayor and Board of Supervisors extended the suspension of the local cannabis excise tax another 10 years, through December 31, 2035.

12. Sugar Sweetened Beverage Tax

Sugar Sweetened Beverage Tax revenue is budgeted at \$11.4 million in each fiscal year, FY 2026-27 and FY 2027-28, \$0.2 million (2.2 percent) less than FY 2025-26 budget. The City's one cent per ounce tax on sugar sweetened beverages became effective January 1, 2018. After reduced collections during the pandemic when restaurants had restricted operations, revenue increased through FY 2022-23, though not to pre-pandemic levels. The City expects the source to plateau in the current and future years.

13. Access Line Tax

FY 2026-27 access line tax revenue is budgeted at \$60.7 million, or \$6.2 million (11.4 percent) more than the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$61.1 million, or \$0.4 million (0.7 percent) higher than the proposed FY 2026-27 budget. Budgets in both years incorporate anticipated settlement payments from an access line tax liability dispute with several major payers and projected CPI increases to the access line tax rate as described in Business and Tax Regulations Code Section 784.

14. Licenses, Permits and Franchises

License, permit, and franchise fee revenue for FY 2026-27 is budgeted at \$24.1 million, an increase of \$0.9 million (4.1 percent) from the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$24.5 million, or \$0.4 million (1.6 percent) higher than the proposed FY 2026-27 budget.

15. Fines, Forfeitures, and Penalties

The City budgeted fines, forfeiture, and penalty revenue for FY 2026-27 and FY 2027-28 at \$3.6 million, a \$2.4 million (40.2 percent) decrease from the FY 2025-26 budget. The change is related to one-time escheatment revenue of \$2.4 million from unclaimed payments at Zuckerberg San Francisco General Hospital, San Francisco International Airport, Public Utilities Commissions, and other city departments in FY 2025-26. With no additional escheatment revenue projected, the City expects this revenue source to return to a steady state.

16. Interest & Investment Income

Interest and investment income for FY 2026-27 is budgeted at \$164.8 million, an increase of \$12.9 million (8.5 percent) from the FY 2025-26 budget. For FY 2027-28, revenue is projected at \$153.5 million, or \$11.4 million (6.9 percent) lower than the proposed FY 2026-27 budget. The budget assumes earned income yields of 3.86 and 3.78 percent in the two budget years. The budget also assumes additional interest earnings of \$3.8 million in each of the two budget years from the allocation of projected negative interest earnings from the General Fund to other funds related to the General Fund's annual prepayment of citywide employee retirement contribution costs.

17. Rents and Concessions

FY 2026-27 rent and concession revenue is budgeted at \$25.9 million, or \$7.4 million (39.9 percent) more than the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$33.4 million, or \$7.5 million (29.0 percent) higher than the proposed FY 2026-27 budget. Changes in rents and concessions are primarily driven by parking revenue in Golden Gate Park.

Effective January 1, 2027, Resolution No. 327-25 authorizes SFMTA to set parking rates in Golden Gate Park. The Mayor's proposed budget assumes \$6.8 million for paid Golden Gate Park street parking revenue in FY 2026-27 and \$13.7 million in FY 2027-28.

18. Intergovernmental – Federal

Federal support in the General Fund is budgeted at \$373.4 million for FY 2026-27, which represents a decrease of \$85.7 million (18.7 percent) from the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$395.4 million, which is \$21.9 million (5.9 percent) less than the proposed FY 2026-27 budget. The FY 2026-27 reduction is driven by the loss of \$87.0 of Federal Emergency Management Agency (FEMA) reimbursements for COVID-19 and 2023 winter storm emergency response costs, as the City expects no further recoveries.

19. Intergovernmental – State – Public Safety Sales Tax

The City budgeted public safety sales tax revenue at \$101.2 million in FY 2026-27, a \$4.0 million (4.1 percent) increase over the FY 2025-26 budget, and FY 2026-27 revenue at \$104.2 million, a \$3.0 million (3.0 percent) increase over the proposed FY 2026-27 budget. Public safety sales tax revenue is based on two factors: statewide public-safety sales tax revenue and the County's portion of that statewide public-safety sales tax in the most recent calendar year. San Francisco's county allocation factor is anticipated to increase by 2.8% in FY 2026-27 and then stay flat in FY 2027-28. Additionally, statewide public-safety sales tax revenue is projected to grow by 2.3% and 3.0% in FY 2026-27 and FY 2027-28, respectively. Although San Francisco County public-safety sales tax revenue has stabilized, and even started to recover, the City and County still make up a significantly reduced proportion of statewide taxes compared to pre-pandemic levels.

20. Intergovernmental – State – 1991 Health & Welfare Realignment

In prior years, 1991 Health and Welfare Realignment payments were distributed between the General Fund and Hospital Fund based on historical allocations to public health, mental health, and social service programs within the Department of Public Health and the Human Services Agency. The budget adopts a more streamlined allocation method that means a greater share of realignment payments is budgeted in the Zuckerberg General Hospital (ZSFG) Fund, with a corresponding reduction in the General Fund. Because the Department of Public Health receives substantial General Fund support, this shift has no net effect on the General Fund or the types of programs that are funded.

Across all funds, revenue is budgeted at \$348.7 million in FY 2026-27, which is \$11.5 million (3.4 percent) more than the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$359.7 million, which is \$11.0 million (3.2 percent) more than the proposed FY 2026-27 budget. The changes follow anticipated growth in statewide sales tax.

In the General Fund, FY 2026-27 revenue is budgeted at \$243.8 million, or \$29.0 million (10.6 percent) less than the FY 2025-26 budget. FY 2027-28 revenue is budgeted at \$253.3 million, which is \$9.6 million (3.9 percent) more than the proposed FY 2026-27 budget.

21. Intergovernmental – State – Public Safety Realignment

Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. This revenue is budgeted at \$54.6 million in FY 2026-27, a \$1.1 million (2.0 percent) increase from the FY 2025-26 budget. The FY 2027-28 proposed budget is \$56.2 million, a \$1.7 million (3.1 percent) increase from the proposed FY 2026-27 budget. Similar to 1991 Health and Welfare Realignment, changes follow anticipated growth in statewide sales tax

22. Intergovernmental – State – Other

Other state intergovernmental revenue is budgeted at \$921.2 million in FY 2026-27, a \$10.8 million (1.2 percent) increase from the FY 2025-26 budget. The FY 2027-28 proposed budget is \$949.3 million, a \$28.1 million (3.0

percent) increase from the proposed FY 2026-27 budget. Mayor's budget includes \$14.4 million in FY 2026-27 and \$19.3 million in FY 2027-28 related to the State of California's support of CalFresh Administration to backfill anticipated losses of federal funding due to H.R. 1.

23. Charges for Services

Revenue from charges for services is budgeted at \$487.1 million in FY 2026-27, an increase of \$81.8 million (20.2 percent) from the FY 2025-26 budget. In FY 2027-28, charges for services revenue is budgeted at \$459.9 million, a decrease of \$27.2 million (5.6 percent) from the FY 2026-27 budget. The increase in FY 2026-27 is primarily due to increases in behavioral and jail health revenue within the Department of Public Health (DPH).

Additionally, many fee budgets are authorized to be adjusted for inflation without further approval by the Board of Supervisors, or 2.18 percent in FY 2026-27 based on information published by the U.S. Bureau of Labor Statistics in January 2026. There are also several new and modified fees that have been introduced this fiscal year or that are assumed in the budget, with trailing legislation where required.

24. Other Revenues

Other revenues are budgeted at \$17.3 million in FY 2026-27, a decrease of \$1.6 million (8.3 percent) from the FY 2025-26 budget. FY 2027-28 revenues are budgeted at \$17.6 million, an increase of \$0.2 million (1.2 percent). The decrease in FY 2026-27 is largely driven by a reduction in the Fire Department's non-operating revenue from FY 2025-26 levels.

25. Operating Transfers Ins

Transfers into the General Fund are budgeted at \$297.2 million in FY 2026-27, which is \$38.7 million, or 15.0 percent, more than what was budgeted in FY 2025-26. In FY 2027-28, transfers-in are budgeted at \$266.6 million, which is \$30.6 million, or 10.3 percent, less than the proposed FY 2026-27 budget. These transfers include a portion of Airport concessions revenue, 15.0 percent of commercial rent tax collections authorized by June 2018 Proposition C, and transfers from the General Hospital Fund to support increased General Fund-backed intergovernmental payments required to draw down increased state and federal funding.

Appendix 2. Reserve Uses and Deposits

The City maintains reserves to help manage various types of risks, including **Economic Stabilization Reserves** to help to bridge multi-year budget losses resulting from recessions, the **General Reserve** to address current year issues not anticipated in the budget, **One-Time Reserves** for one-time needs, and other reserves mitigate specific risks identified by the Mayor and the Board.

The Mayor's proposed budget includes the use of \$117.6 million and \$73.5 million from non-operating reserves in FY 2026-27 and FY 2027-28, respectively, as well as \$5.3 million and \$0.6 million, respectively, in Children's Baseline True-Up funds from FY 2024-25. Budgeted reserve deposits include \$41.5 million and \$16.9 million deposits to the General Reserve and \$35.9 million and \$68.8 million to the Budget Stabilization Reserve.

Exhibit 2-1. Proposed Reserve Uses and Deposits (\$ millions)

	FY 2025-26	FY 2026-27			FY 2027-28			Note
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	
General Reserve	\$ 154.9	\$ 41.5	-	\$ 196.4	\$ 16.9	-	\$ 213.3	1
Economic Stabilization Reserves								
City Rainy Day Economic Stabilization Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	429.0	35.9	-	464.8	68.8	-	533.7	3
Economic Stabilization Reserves - Total	543.5	35.9	-	579.4	68.8	-	648.2	
Percent of General Fund Revenues	7.7%			8.1%			9.1%	
Reserves for One-Time Uses and Specific Risks								
Budget Stabilization One Time Reserve	54.8	-	(54.8)	-	-	-	-	3
SFUSD Rainy Day Economic Stabilization Reserve	1.0	-	-	1.0	-	-	1.0	2
Federal and State Emergency Grant Disallowance Reserve	1.1	-	(1.1)	-	-	-	-	4
Fiscal Cliff Reserve	15.0	-	(15.0)	-	-	-	-	5
Federal and State Revenue Risk Reserve	433.3	2.2	(41.4)	394.2	-	(43.5)	350.7	6
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	(29.5)	-	7
Public Health Revenue Management Reserve	174.2	-	-	174.2	-	-	174.2	8
Free City College Reserve	-	-	-	-	-	-	-	9
Children's Baseline True-Up	7.9	-	(5.3)	2.6	-	(0.6)	2.0	10
One-Time and Specific Risks - Total	716.8	2.2	(117.6)	601.4	-	(73.5)	527.9	
Additional Appropriated Reserves								
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	11
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	12
Salary and Benefits Reserve	13.1	25.8	(38.9)	-	26.6	(26.6)	-	13
Appropriated Reserves - Total	13.1	36.8	(49.9)	-	37.6	(37.6)	-	
TOTAL, General Fund Reserves*	1,428.3	116.4	(167.5)	1,377.2	123.3	(111.1)	1,389.4	
Selected Non-General Fund Reserves								
Student Success Fund Reserve	18.1	-	-	18.1	-	-	18.1	14
Our City, Our Home Fund Reserve*	98.0	-	-	98.0	-	-	98.0	15

NOTES

1. General Reserve

- **Purpose** – Address revenue and expenditure issues not anticipated during budget development.
- **Withdrawals** – The City can make a supplemental appropriation to spend the General Reserve on any purpose. However, any appropriation will need to be fully offset in the subsequent budget to meet reserve requirements. No withdrawal assumed in the budget.
- **Deposits** – The Administrative Code requires the City to keep the General Reserve at 3.0 percent of General Fund revenue in any given year. However, in any given year where the City withdraws from the Rainy Day Reserve, as it did in FY 2020-21 and FY 2021-22, the required balance of the General Reserve is reset to 1.5 percent of General Fund revenue, growing to 3.0 percent of General Fund revenues in 0.25 percent annual increments thereafter. In FY 2026-27, the General Reserve required funding level is 2.75 percent of General Fund revenue, growing to the full 3.0 percent in FY 2027-28.
- **Changes in the Proposed Budget** – To meet the requirements above, the budget proposes depositing \$41.5 million and \$16.9 million for FY 2026-27 and FY 2027-28, respectively. These deposits add to \$154.9 million in projected ending balance in FY 2025-26.
- **Authority** – Administrative Code Section 10.60

2. Rainy Day Reserves

- **Purpose** – Capture above-average revenue growth to smooth shortfalls during economic downturns. The Rainy Day Reserves consist of three separate reserves:
 1. City Rainy Day Economic Stabilization Reserve
 2. SFUSD Rainy Day Economic Stabilization Reserve
 3. City's Rainy Day One-Time Reserve
- **Withdrawals** – The City can withdraw from its Rainy Day Economic Stabilization Reserve when General Fund revenues are projected to fall versus prior year. During such a recession or shock, the maximum allowable withdrawal is 50 percent of the balance in each year. This cap allows the reserve to be used over the duration of a typical recession. No withdrawal assumed in the budget.
- **Deposits** – The Charter requires the City to deposit to the Rainy Day Reserves when total General Fund revenue grows by 5% or more versus the prior year.
- **Changes in the Proposed Budget** – Because revenue is growing modestly (by less than 5 percent), the City is not required to make deposits to and is also ineligible to make withdrawals from the Rainy Day Reserves in either budget year. As a result, the proposed budget maintains balances in the City Rainy Day Economic Stabilization Reserve of \$114.5 million, \$0 in the City Rainy Day One-Time Reserve, and \$1.0 million in the SFUSD's Rainy Day Economic Stabilization Reserve.
- **Authority** – Charter Section 9.113.5

3. Budget Stabilization Reserve

- **Purpose** – Augment the Rainy Day Reserves and help further mitigate effects of significant economic downturns.
- **Withdrawals** – The City can withdraw from the Budget Stabilization Reserve when General Fund revenues are projected to fall versus prior year, up to the amount of the shortfall in those revenues. The City can only draw upon the Budget Stabilization Reserve after withdrawing the maximum allowable amount from the Rainy Day Reserves. No withdrawal assumed in the budget.

When the combined balance of the Budget Stabilization Reserve and Rainy Day Reserve exceeds 10 percent of General Fund revenues as it did in FY 2018-19, the excess is deposited in the Budget Stabilization One-Time Reserve. The City may withdraw from the one-time reserve for to support one-time expenses. This budget proposes spending the entire \$54.8 million balance of this reserve in FY 2026-27.

- **Deposits** – For certain volatile or one-time General Fund sources, the City deposits and amount equal to 75% of the following:
 1. Real property transfer tax revenue above the prior five-year average,
 2. Ending unassigned fund balance above what was assumed in the budget, and
 3. The proceeds from the sale of certain City-owned assets.
- **Changes in the Proposed Budget** – Because of strong real property transfer tax revenue (above the five year average), the City must make deposits of \$35.9 million and \$68.8 million in FY 2026-27 and FY 2027-28, respectively. As a result, the proposed budget grows this reserve's balance to \$464.8 million in FY 2026-27 and then \$533.7 million in FY 2027-28.
- **Authority** – Administrative Code Section 10.60(c)

4. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the FY 2021-22 Annual Appropriation Ordinance established a Federal and State Emergency Grant Disallowance Reserve for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies.

The FY 2024-25 budget spent \$38.2 million of this reserve and moved \$40.1 million into the new Federal and State Revenue Risk Reserve authorized by Section 32.3 of the administrative provisions of the FY 2025-26 Annual Appropriations Ordinance, as described in note 6 below. The Mayor's budget proposes spending the final \$1.1 million of this reserve in FY 2026-27, as approved in the previous budget cycle.

5. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the FY 2021-22 Annual Appropriation Ordinance established a Fiscal Cliff Reserve for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. The Mayor's FY 2024-25 and FY 2025-26 proposed budget amended this reserve to include managing business tax revenue shortfalls as an additional eligible use. The City moved \$142.4 million of this reserve into a newly created Federal and State Revenue Risk Reserve. This budget proposes spending the final \$15.0 million of this reserve in FY 2026-27, as approved in the previous budget cycle.

6. Federal and State Revenue Risk Reserve

Section 32.3 of the administrative provisions of the FY 2025-26 Annual Appropriation Ordinance established the Federal and State Revenue Risk Reserve for the purpose of managing revenue shortfalls related to changes in federal and state funding. This reserve is funded by combining \$40.1 million from the Federal and State Emergency Grant Disallowance Reserve, \$142.4 million from the Fiscal Cliff Reserve, and revenue escheated to the General Fund from City Option Medical Reimbursement Accounts, which is estimated to be \$220.8 million.

The budget proposes reserve uses of \$41.4 million in FY 2026-27 and \$43.5 million in FY 2027-28, including \$22.5 million in FY 2026-27 and \$29.2 million in FY 2027-28 for HSA staffing, non-personnel, and grants to maintain eligibility for as many Medi-Cal and CalFresh clients as possible, and the remainder for capital and equipment. This use is slightly offset by a \$2.2 million deposit budgeted in FY 2026-27 from unspent FY 2025-26 funds that were appropriated to provide supplemental food benefits during the federal government shutdown in the fall of 2025.

7. Business Tax Stabilization Reserve

Section 35 of the administrative provisions of the FY 2020-21 Annual Appropriations Ordinance created the Business Tax Stabilization Reserve to equalize the benefit of large one-time advance repayments associated with Commercial Rent Tax (June 2018 Proposition C) and Homeless Gross Receipts Tax (November 2018 Proposition C). The proposed budget spends the \$29.5 million balance of the reserve in FY 2027-28 to smooth revenue between the two budget years.

8. Public Health Revenue Management Reserve

Authorized under Section 12.6 of the administrative provisions of the FY 2013-14 Annual Appropriation Ordinance, the Public Health Management Reserve allows the Controller to defer surplus transfer payments, indigent health revenues, and realignment funding to offset future reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors after the passage of the Affordable Care Act to smooth volatile state and federal revenues.

In July 2022, the Department of Public Health established a methodology to set targeted reserve levels at 10% of budgeted net patient revenue in each two-year budget, as well as specific deposit and withdrawal rules. The FY 2025-26 ending balance of the reserve is projected to be the maximum allowable level of \$174.2 million. There are no anticipated deposits to or withdrawals from this reserve assumed in the budget.

9. Free City College Reserve

The Free City College Reserve was authorized by Administrative Code Section 10.100-288 in November 2016 to provide a degree of funding stability to the Free City College Program. An initial deposit of \$1.0 million was made in FY 2017-18. By the end of FY 2018-19, the ending balance of this reserve was \$2.0 million. In September 2019, Ordinance 175-19 revised the funding mechanism for this reserve. From FY 2019-20 to FY 2022-23, any unspent funds for the Free City College Program for that year shall be deposited in the reserve. From FY 2023-24 to FY 2028-29, 50 percent of unspent funds shall be deposited in the reserve. As reported in the Controller's Office FY 2025-26 Nine-Month Report, the reserve is anticipated to be fully drawn down in FY 2025-26. This budget does not anticipate any withdrawals or deposits to this reserve over the next two years.

10. Children's Baseline True-Up

Charter Section 16.108 requires the City to make a minimum level of appropriations in each fiscal year towards the Children's Baseline (discussed further in Appendix 4) tracking growth in the City's aggregate discretionary revenue (ADR).

The City exceeded its initial FY 2024-25 Children's Baseline obligation of \$218.9 million by budgeting \$220.4 million of eligible expenditures as of the publication of the June 2024 Revenue Letter (for the Mayor's Proposed FY 2024-25 and FY 2025-26 budget). By August 2025, the City's FY 2024-25 General Fund revenue closed

higher than budgeted in June 2024, resulting in higher aggregate discretionary revenue. The final FY 2024-25 Children's Baseline obligation was \$228.3 million, resulting in a \$7.9 million appropriations gap from the \$220.4 million originally budgeted. To ensure the City complied with the FY 2024-25 appropriations requirement, the City deposited \$7.9 million into a reserve for the purpose of supporting Children's Baseline-eligible spending in future years. This budget withdraws \$5.3 million in FY 2026-27 and another \$0.6 million in FY 2027-28 to support Children's Baseline eligible expenditures above the annual FY 2026-27 and FY 2027-28 Children's Baseline requirements.

11. Reserve for Technical Adjustments

Reserves of \$5.0 million in each budget year allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments and any balance that may be available for other uses.

12. Litigation Reserve

The Mayor's proposed budget includes \$11.0 million for the litigation reserve in each budget year. The reserve provides funding for judgments and claims paid out during the budget period based on historical experience and consistent with the level adopted in the Five-Year Financial Plan. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City.

13. Salary & Benefits Reserve

The Mayor's proposed budget includes \$25.8 million and \$26.6 million in FY 2026-27 and FY 2027-28, respectively, to cover costs of adopted MOUs with labor organizations not directly tied to job class rates in departmental budgets, as well as other salaries and benefits-related costs not budgeted elsewhere.

14. Student Success Fund Reserve

Charter Section 16.131 requires deposits to the Student Success Fund reserve for any monies appropriated to the Student Success Fund but not committed. The City deposited \$1.5 million in FY 2023-24 and \$16.6 million in FY 2024-25. The Mayor's proposed budget makes no withdrawals or deposits.

15. Our City, Our Home Fund Reserve

Section 32.2 of the Administrative Provisions of the FY 2026-27 and FY 2027-28 AAO authorizes the deposit of up to \$98.0 million of unappropriated Homelessness Gross Receipts Tax revenue into a newly created contingency reserve to manage federal and state funding volatility. Deposits will depend on the actual surplus of Homelessness Gross Receipts Tax revenue and expenditures within the Our City, Our Home Fund.

Appendix 3. Nonrecurring Revenue Policy

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund use of prior year-end unassigned fund balance is budgeted at \$42.4 million for FY 2026-27 and \$462.5 million for FY 2027-28 for a total of \$505.0 million in the two budget years. This amount is \$80.6 million above the prior five-year (FY 2020-21 through FY 2024-25) average of year-end fund balance of \$424.4 million. As shown in Exhibit 3-1, the budget contains \$271.8 million of budgeted nonrecurring sources and at least \$360.0 million in nonrecurring, capital, information technology, equipment, and H.R. 1 backfill expenditures. The Controller's Office certifies compliance with the policy, with one caution. Costs for increased eligibility work at the Human Services Agency have been budgeted as a one-time expense and funded by a use of reserve, however, this core eligibility work is likely ongoing.

Exhibit 3-1. General Fund Nonrecurring Sources & Uses (\$ millions)

	FY 2026-27 Proposed	FY 2027-28 Proposed	Total
One-Time Sources			
General Fund PY Unassigned Fund Balance in Excess of Five Year Average	-	80.6	80.6
Use of Prior Year Reserves			
Budget Stabilization One Time Reserve	54.8	-	54.8
Federal and State Emergency Disallowance Reserve	1.1	-	1.1
Fiscal Cliff Reserve	15.0	-	15.0
Federal and State Revenue Risk Reserve	41.4	43.5	84.9
Business Tax Stabilization Reserve	-	29.5	29.5
Children's Baseline True-Up	5.3	0.6	5.9
Total One-Time Sources	117.6	154.2	271.8
One-Time Uses			
Capital	129.3	133.5	262.8
Information Technology	17.2	12.5	29.7
HR 1 Investment in Human Services Agency	22.5	29.2	51.7
Equipment	15.8	-	15.8
Total One-Time Uses	\$ 184.8	\$ 175.2	\$ 360.0

Appendix 4. Baselines, Set-Asides, Special Taxes, and Other Mandates

Voter-approved levels of funding for baselines, set-asides, special taxes and other spending mandates are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines, Set-Asides, Special Taxes, and Other Mandated Funding Requirements (\$ millions)

	FY 2025-26	FY 2026-27	FY 2027-28	
	Original Budget	Proposed Budget	Proposed Budget	
General Fund Aggregate Discretionary Revenue (ADR)	4,660.0	5,280.6	5,230.3	
1 MUNICIPAL TRANSPORTATION AGENCY (SFMTA)				
Municipal Railway Baseline - 7.0675% ADR - GF Transfer	329.4	373.2	369.7	a
Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	116.8	132.4	131.1	a
Population Adjustment - GF Transfer	90.5	89.8	90.2	a
Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	71.0	66.8	66.8	a
Traffic Congestion Mitigation Fund - Special Tax (50%)	9.9	9.9	9.9	c
Subtotal Municipal Transportation Agency	617.6	672.1	667.6	
2 LIBRARY PRESERVATION FUND				
Library Preservation Fund Baseline - 2.2858% ADR - GF Transfer	106.5	120.7	119.6	a
Library Preservation Fund Property Tax - \$0.025 per \$100 NAV	79.3	76.6	77.6	c
Subtotal Library	185.9	197.3	197.1	
3 RECREATION & PARKS				
Open Space Property Tax - \$0.025 per \$100 NAV	79.3	76.6	77.6	c
Recreation & Parks Baseline MOE - Budgeted Amount	90.1	91.5	89.8	a
<i>(Recreation & Parks Baseline MOE - Required GF Support)</i>	<i>88.2</i>	<i>90.6</i>	<i>89.3</i>	
Subtotal Recreation and Parks	169.4	168.1	167.4	
CHILDREN'S SERVICES				
4 Children & Youth Fund				
Children and Youth Fund Property Tax Set-Aside: \$0.4 per \$100 NAV	126.9	122.5	124.1	c
Children's Services Baseline - Budgeted Amount	275.2	293.6	299.2	b
<i>(Children's Services Baseline - Requirement: 4.830% ADR)</i>	<i>225.1</i>	<i>260.4</i>	<i>253.2</i>	
Transitional Aged Youth Baseline - Budgeted Amount	52.5	60.3	66.0	b
<i>(Transitional Aged Youth Baseline - Requirement: 0.580% ADR)</i>	<i>27.0</i>	<i>30.6</i>	<i>30.3</i>	
5 Babies & Families First Fund				
Commercial Rents Tax (85%)	156.7	147.5	143.3	c
Early Care and Education Baseline - Budgeted Amount	77.5	87.0	86.8	b
<i>(Early Care and Education Baseline - Requirement: 2.212% ADR)</i>	<i>76.9</i>	<i>79.5</i>	<i>78.8</i>	
6 Public Education Enrichment Fund - 3.0567% ADR				
Public Education Enrichment Fund Total - GF Transfer	142.5	161.4	159.9	a
1/3 Annual Contribution to Preschool for All	47.5	53.8	53.3	
2/3 Annual Contribution to SF Unified School District	95.0	107.6	106.6	
Public Education Enrichment Fund Baseline: 0.290% ADR (50% GF, 50% CYF)	13.5	15.3	15.2	a
7 Student Success Fund (SFUSD) - GF Transfer	35.0	45.0	60.0	a
8 Fair Wages for Educators Fund (SFUSD) - Parcel Tax	54.0	57.3	59.0	c
Subtotal Childrens Services (Required)	933.8	989.9	1,013.5	

	FY 2025-26	FY 2026-27	FY 2027-28	
	Original Budget	Proposed Budget	Proposed Budget	
HOMELESSNESS & HOUSING				
9 Our City, Our Home Fund				
Homelessness Gross Receipts Tax	335.9	465.2	444.9	c
Our City, Our Home Baseline - Budgeted Amount	365.4	374.6	397.7	b
(Our City, Our Home Baseline Requirement)	200.8	200.8	200.8	
10 Housing Trust Fund - GF Transfer (net of loan repayment)	48.8	53.8	53.3	a
11 Affordable Housing Opportunity Fund	-	8.3	8.3	c
12 Housing Activation Fund - Empty Homes Tax	-	-	-	c
Subtotal Homelessness and Housing	750.1	901.9	904.1	
ARTS				
13 Hotel Tax for Arts Fund - Hotel Tax	33.0	36.0	36.3	c
14 Property Tax - Municipal Symphony - \$0.00125 per \$100 NAV	4.5	4.6	4.6	c
Subtotal Arts	37.5	40.6	40.9	
OTHER				
15 Small Business Assistance Fund - Commercial Vacancy Tax	2.0	1.4	1.4	c
16 Dignity Fund - GF Transfer	59.1	62.1	61.5	a
17 Street Tree Maintenance Fund - GF Transfer	23.0	23.6	23.4	a
18 City Services Auditor: 0.2% of Citywide Budget	27.6	28.8	29.2	b
Subtotal Other	111.6	116.0	115.5	
Total Baselines, Set Asides and Special Taxes	2,806.0	3,085.8	3,106.1	
^a General Fund Supported Spending Mandate	1,126.2	1,235.7	1,240.3	
^b Expenditure Requirement	798.2	844.3	878.9	
^c Special Tax or Tax Dedication	881.6	1,005.8	986.9	

NOTES

1. Municipal Transportation Agency (MTA)

The Mayor's proposed budget includes funding for MTA baselines and special purpose taxes at the required levels of \$672.1 million in FY 2026-27 and \$667.6 million in FY 2027-28.

Municipal Railway Baseline. In 1999, voters adopted Proposition E, which created the Municipal Transportation Agency (MTA), combining the Municipal Railway (Muni) and the Department of Parking and Traffic. Charter section 8A.105 establishes a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. In FY 2000-01, a base amount of funding was established, known as the "Municipal Railway Baseline." Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). The City is also required to adjust the baseline for significant service increases. Beginning in FY 2021-22, the City adjusted the Municipal Railway Baseline due to the opening of the Central Subway, increasing the baseline from 6.6856% to 7.0675% of ADR.

Parking & Traffic Baseline. For FY 2002-03 and beyond, this Charter section also establishes a minimum level of funding equivalent to 2.5070% of ADR, for the Parking and Traffic Commission based upon FY 2001-02 appropriations, known as the "Parking & Traffic Baseline."

Population Adjustment to Baselines. November 2014 Proposition B requires that in addition to adjusting annually for the change in ADR, the Municipal Railway and Parking & Traffic baselines' amounts increase to account for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter.

The budgeted amount for FY 2025-26 of \$90.5 million was based on a population growth estimate of 0.35 percent. However, when data for 2024 became available in the fall of 2025, the actual daytime population growth was 0.13 percent. The lower population growth rate decreased the transfer in FY 2025-26 to \$89.4 million, a decrease of \$1.1 million. The budgeted baseline amounts assume negligible population growth of 0.07 percent in FY 2026-27 and 0.06 percent in FY 2027-28.

Parking Tax In-Lieu. November 2007 Proposition A, amended Charter section 8A.105(f) to require 80 percent of parking tax revenue to be allocated to the MTA, an increase from the prior 40 percent established in 1999 Proposition E.

Traffic Congestion Mitigation Fund and Tax. In November 2019, voters adopted Proposition D, a traffic congestion mitigation tax on rides facilitated by commercial ride-share companies, autonomous vehicles, or private transit services to support spending on transit and infrastructure improvements. Proceeds are deposited in the Traffic Congestion Mitigation Fund and allocated primarily between MTA and the San Francisco County Transportation Authority (SFCTA). A lower tax rate for electric vehicles expired on January 1, 2025, leading to increases in the forecasts that stabilize in future fiscal years. The Traffic Congestion Mitigation Tax is expected to be \$20.0 million in FY 2026-27 and FY 2027-28.

Exhibit 4-2. Traffic Congestion Mitigation Fund Sources and Uses (\$ millions)

	FY 2025-26	FY 2026-27	FY 2027-28
	Budget	Proposed	Proposed
Traffic Congestion Mitigation Tax	\$ 20.0	\$ 20.0	\$ 20.0
USES			
County Transportation Agency	9.9	9.9	9.9
Municipal Transportation Agency	9.9	9.9	9.9
Interdepartmental Services	0.3	0.3	0.3
Total Uses	20.0	20.0	20.0

2. Library Preservation Fund

The Mayor’s proposed budget includes funding for the Library Preservation Fund baseline and property tax set aside at the required levels of \$197.3 million in FY 2026-27 and \$197.1 million in FY 2027-28.

Library Baseline. Charter Section 16.109 establishes a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. In FY 2006-07, a base amount of funding was established, equivalent to 2.2858% of ADR. The City adjusts the funding amount for the Library Preservation Fund baseline annually by the percent increase or decrease in ADR. The Library Preservation Fund was renewed by voters in November 2022. The City may suspend growth in baseline funding when it forecasts a budget exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2026-27, which is lower than the threshold of \$357.4 million for FY 2026-27, resulting in no pause to growth in baseline funding.

Property Tax Set-Aside. Charter Section 16.109 dedicates property tax of \$0.025 for each \$100 valuation of taxable property to the Library Preservation Fund.

3. Recreation and Parks

The Mayor's proposed budget includes funding to the Recreation and Park Department for the Open Space Fund property tax set aside and the General Fund Baseline Maintenance of Effort at the level of \$168.1 million in FY 2026-27 and \$167.4 million in FY 2027-28.

Property Tax Set-Aside. Charter Section 16.107 dedicates property tax of \$0.025 for each \$100 valuation of taxable property to the Park, Recreation, and Open Space Fund.

General Fund Baseline Maintenance of Effort. June 2016 Proposition B amends Charter Section 16.107 to require baseline levels of General Fund support to the Recreation and Park Department, increasing by \$3.0 million per year from FY 2015-16 through FY 2025-26 and adjusting by changes in ADR thereafter. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2026-27, which is lower than the threshold of \$313.2 million for that year, resulting in no pause to growth in baseline funding. The baseline requirement is \$90.6 million and \$89.3 million in FY 2026-27 and FY 2027-28, respectively. The Mayor's proposed budget includes General Fund appropriations of \$91.5 million and \$89.8 million in FY 2026-27 and FY 2027-28, respectively, exceeding the minimum requirement in each fiscal year. Note that the baseline requirement in FY 2027-28 is reduced by \$0.4 million to account for a half year of the [San Francisco Zoo's loan repayment to the department](#). In FY 2028-29 and the next nine years thereafter, the offsetting amount for a full year of debt service will be \$0.8 million.

CHILDREN'S SERVICES

4. Children and Youth Fund

Charter Section 16.108 governs the Children and Youth Fund and dedicates \$0.04 for each \$100 valuation of taxable property to this fund. The Mayor's proposed budget includes funding at the required level of \$122.5 million in FY 2026-27 and \$124.1 million in FY 2027-28.

In addition to the Children and Youth Fund, Charter Section 16.108 also governs the Children and Transitional Aged Youth (TAY) baselines. These are minimum appropriation requirements that ensure the Children and Youth Fund (property tax set-aside) supplements – instead of supplants – previously existing funding for children and TAY.

Children's Baseline. November 2000 Proposition D set FY 2000-01 as the base year and budget as the minimum floor for appropriations on children's services. This base budget is adjusted annually by the percentage increase or decrease in ADR. November 2014 Proposition C amended the Charter to exclude medical health services as an eligible service and established the Disconnected Transitional-Aged Youth Baseline. The Controller recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate of 4.8296% of ADR.

The required Children's Baseline amounts for FY 2026-27 and FY 2027-28 are \$255.0 million and \$252.6 million, respectively. Including the appropriation of the Children's Baseline True-Up Reserve of \$5.3 million in FY 2026-27 and \$0.6 million in FY 2027-28 (described in Appendix 2 above), the total Children's Baseline requirement is \$260.4 million in FY 2026-27 and \$253.2 million in FY2027-28. The Mayor's proposed budget includes Children's Baseline appropriations of \$293.6 million and \$299.2 million, exceeding the minimum requirement.

Transitional Aged Youth Baseline. November 2014 Proposition C amended Charter Section 16.108 to increase the Children’s Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. While the Charter combines the TAY and Children’s baselines, the City tracks them separately for reporting purposes. The TAY Baseline was established in FY 2013-14 as 0.5800% of ADR. Like the Children’s Baseline, the amount is adjusted annually by the percent increase or decrease in ADR. The required amounts for FY 2026-27 and FY 2027-28 are \$30.6 million and \$30.3 million, respectively. The Mayor’s proposed budget includes TAY eligible baseline appropriations of \$60.3 million and \$66.0 million, exceeding the minimum requirement in both years.

5. Babies and Families First Fund

June 2018 Proposition C established the Babies and Families First Fund. The ordinance imposes a special purpose tax on businesses leasing commercial space in the City, the commercial rents tax. The tax rate is one percent on the amounts a business receives from the lease or sublease of warehouse space and 3.5 percent on amounts a business receives from the lease or sublease of other commercial spaces. Uses of these funds are restricted to early care and education for children under six years old.

The proposed budget includes tax proceeds of \$173.6 million and \$168.6 million in FY 2026-27 and FY 2027-28, respectively. Eighty-five percent of tax proceeds, or \$147.5 million and \$143.3 million in FY 2026-27 and FY 2027-28, respectively, are dedicated to the Babies and Families First Fund. Fifteen percent is transferred to the General Fund. Office vacancies in San Francisco are expected to remain high. As more and more long-term commercial leases turn over and renew at lower rent levels or become vacant, the City expects revenue to fall slowly over the next several years.

Early Care and Education Baseline. In addition to a new funding source, June 2018 Proposition C established a requirement to maintain prior appropriation levels on early childhood care and education at FY 2017-18 budgeted levels, adjusted annually by the percent increase or decrease in ADR. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2026-27, which is lower than the threshold of \$239.5 million for FY 2026-27. Therefore, this baseline will continue to grow. Additionally, an ordinance submitted as part of trailing legislation to modify the baseline funding requirements for early care and education programs in FY 2026-27 and FY 2027-28 enables the City to temporarily use interest earned from the Babies and Families First Fund as credit toward the baseline amount. The credited amount is \$16.9 million in FY 2026-27 and \$16.7 million in FY 2027-28, resulting in an adjusted baseline requirement of \$79.5 million in FY 2026-27 and \$78.8 million in FY 2027-28. The proposed budget appropriates \$87.0 million in FY 2026-27 and \$86.8 million in FY 2027-28 of baseline-eligible spending, exceeding the minimum requirement, assuming passage of trailing legislation.

Exhibit 4-3. Adjustments to Early Care and Education Baseline Requirements (\$ millions)

	FY2026-27	FY2027-28
	Proposed Budget	Proposed Budget
Baseline Requirement	96.4	95.4
(-) Credit Against Requirement From Interest	(16.9)	(16.7)
Final Baseline Requirement Amount	79.5	78.8

6. Public Education Enrichment Fund

Charter Section 16.123-2 created the Public Education Enrichment Fund (PEEF), which requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes \$161.4 million and \$159.9 million for the PEEF Annual Contribution in FY 2026-27 and FY 2027-28, respectively. One-third of the contribution supports the Preschool for All program at the Department of Early Childhood and two-thirds of the contribution supports programming at the San Francisco Unified School District (SFUSD).

Public Education Services Baseline. In addition to an annual dedication of funding, Charter Section 16.123-2 establishes a baseline to ensure that prior funding for SFUSD is not displaced by new funding to SFUSD. In FY 2001-02, a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required \$15.3 million in FY 2026-27 and \$15.2 million in FY 2027-28 for this baseline.

7. Student Success Fund

November 2022 Proposition G added Charter Section 16.131, which established a Student Success Fund to provide grants to the San Francisco Unified School District (SFUSD) and schools in the District to implement programs that improve academic achievement and social/emotional wellness. The measure requires an annual appropriation in a designated amount to the Fund for 15 years. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2025-26, which is lower than the threshold of \$220.0 million for FY 2025-26, resulting in no pause of growth in baseline funding. The required contribution amounts of \$45.0 million in FY 2026-27 and \$60.0 million in FY 2027-28 are appropriated in the proposed budget.

8. Fair Wages for Educators Fund

In November 2020, voters adopted a City parcel tax to support the San Francisco Unified School District (SFUSD). Although there are two other parcel taxes supporting SFUSD, they are levied under the District's taxing authority. This tax is reported in the Revenue Letter as it uses the City and County of San Francisco's taxing authority and requires appropriation by the Mayor and Board of Supervisors. The proposed budget appropriates \$57.3 million in FY 2026-27 and \$59.0 million in FY 2027-28.

HOMELESSNESS & HOUSING

9. Our City, Our Home Fund

In November 2018, voters adopted Proposition C, which created the Our City, Our Home Fund (OCOH). The ordinance imposes a special purpose tax of varying rates by industry, on businesses with gross receipts of more than \$25.0 million. Uses of these funds are restricted by formula to four major categories: permanent housing, mental health, homelessness prevention, and shelter and hygiene. The allocation methodology among the permanent housing, prevention, and shelter categories was temporarily altered in the prior two budgets by ordinance. Additional budget trailing legislation allows expenditures on short-term rental subsidies to exceed the 12 percent limit specified in the Business and Tax regulations Code.

The City budgeted \$465.2 million in FY 2026-27 for homelessness gross receipts tax revenue, which is \$129.3 million (38.5 percent) more than the FY 2025-26 budget. The FY 2025-26 Nine-Month Report forecast of homelessness gross receipts tax is \$434.0, which is \$98.1 million more than budget, resulting in an estimated \$98 million of fund balance available for appropriation. As discussed in Appendix 2 above, up to \$98 million is

authorized to be deposited to an Our City, Our Home revenue contingency reserve. The City budgeted \$444.9 million in FY 2027-28 for homelessness gross receipts tax revenue, which is \$20.3 million (4.4 percent) less than the proposed FY 2026-27 budget.

The original homelessness gross receipts tax was highly progressive and only applied to gross receipts above \$50 million. This structure resulted in highly volatile revenue dependent on a few large payers. In 2024, the top ten payers accounted for 46.7% of total revenue. Furthermore, unlike the General Fund, the OCOH Fund's primary revenue source is homelessness gross receipts tax, making it highly susceptible to revenue volatility. To address this, Proposition M (2024) reduced the exemption from \$50 million to \$25 million and restructured tax rates to lower the degree of concentration. Overall, Proposition M was expected to be revenue neutral for the homelessness gross receipts tax. The homelessness gross receipts tax forecast largely shares the same underlying economic assumptions as the General Fund business tax forecast discussed in Appendix 1.

Our City, Our Home Baseline. In addition to imposing the homelessness gross receipts tax, November 2018 Proposition C also established a requirement to maintain homelessness spending at FY 2017-18 budgeted levels to ensure that the new homelessness gross receipts tax did not displace existing funding for homelessness services. The base amount of funding is calculated to be \$200.8 million, including expenditures in the General Fund and other funds. The proposed budget appropriates \$374.6 million in FY 2026-27 and \$397.7 million in FY 2027-28 of baseline-eligible spending, exceeding the requirement.

10. Housing Trust Fund

Charter section 16.110 establishes the Housing Trust Fund, which required an annual contribution from the General Fund of \$20.0 million beginning in FY 2013-14, increasing annually by \$2.8 million through FY 2024-25, and changing with ADR in FY 2025-26 and thereafter. In FY 2021-22, the City transferred \$60.0 million to the Housing Trust Fund, \$17.6 million more than the required amount. FY 2021-22 Administrative provision Section 11.25 of the Annual Appropriations Ordinance directs the Controller to credit the \$17.6 million as an advance against required appropriations of the Housing Trust Fund, with a required annual repayment to the General Fund of \$3.52 million beginning in FY 2023-24 for five years. This has the effect of lowering the required funding amount by \$3.52 million in each year, from FY 2023-24 through FY 2027-28. The Mayor's proposed budget meets required funding levels, net of the annual repayment, of \$53.8 million and \$53.3 million in FY 2026-27 and FY 2027-28, respectively.

11. Affordable Housing Opportunity Fund

In November 2024, voters adopted Proposition G, which created the Affordable Housing Opportunity Fund. The proposed budget makes the required deposit of \$8.25 million in FY 2026-27. Thereafter, the City's annual deposits to the fund will be no less than the prior year's appropriation and increase by the annual percentage change in ADR or 3.0%, whichever is smaller. The City may temporarily suspend increases in any year in which a General Fund deficit of \$250 million is forecasted. The proposed budget appropriates \$8.25 million in both FY 2026-27 and FY 2027-28.

12. Housing Activation Fund

In November 2022, voters adopted Proposition M, which imposed a tax on vacant homes. The tax was scheduled to take effect in tax year 2024, with revenues first impacting FY 2024-25. The City budgeted \$20.0 million of tax revenue in FY 2024-25, balanced with \$20.0 million of housing-related expenditures. However, a lawsuit filed in 2023 challenged the validity of the tax on the grounds that it violates state law and the federal and state constitutions. In late 2024, a trial court struck down the tax in its entirety and prohibited the City

from collecting it. The City has appealed the trial court’s ruling. Ordinance 41-25 was passed by the Board of Supervisors in March 2025 and signed by the Mayor in April 2025 to suspend the tax until the year after a final court ruling in the City’s favor, should it occur. Consistent with the legal status and policy direction, no appropriations of this source are in the Mayor’s proposed budget.

ARTS

13. Hotel Room Tax Fund

In November 2018, voters adopted an ordinance to dedicate a portion of hotel tax to support arts organizations. Revenue is deposited in the Culture and Recreation Hotel Tax Fund and allocated to the Arts and Culture department and the Mayor’s Office of Housing and Community Development. In previous budgets, Grants for the Arts was budgeted under the City Administrator’s Office. In the Mayor’s proposed budget, Grants for the Arts is now budgeted under Arts Commission. This updated allocation reflects the consolidation of the Grants for the Arts and the Film Commission with the Arts Commission in the proposed budget.

Exhibit 4-4. Hotel Tax Dedication to Arts (\$ millions)

Dept	Allocation	FY 2026-27	FY 2027-28
ART	Grants For the Arts	18.3	18.5
	Arts Impact Endowment	2.8	2.8
	Cultural Centers	4.3	4.3
	Cultural Equity Endowment	7.2	7.3
MYR	Cultural Districts	3.4	3.4
Total, Hotel Tax for Arts		36.0	36.3

14. Municipal Symphony Baseline

Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. The required funding for the Municipal Symphony Baseline is \$4.6 million in FY 2026-27 and \$4.6 million in FY 2027-28.

OTHER

15. Small Business Assistance Fund

In March 2020, voters adopted a tax on keeping certain commercial spaces vacant for more than 182 days in a calendar year. Proceeds from the commercial vacancy tax are deposited in the Small Business Assistance Fund and allocated primarily to the Office of Economic and Workforce Development. The tax took effect in tax year 2022. Commercial vacancy tax is budgeted at \$1.4 million in each of FY 2026-27 and FY 2027-28.

16. Dignity Fund

In November 2016, voters approved Proposition I, establishing the Dignity Fund to support programming for seniors and adults with disabilities. Charter section 16.128-3 establishes a baseline contribution from the General Fund to the Dignity Fund of \$38.1 million beginning in FY 2016-17, increasing by \$6.0 million in FY 2017-18 and by \$3.0 million per year from FY 2018-19 through FY 2026-27. In FY 2027-28 and beyond, the

baseline is adjusted by the percentage increase or decrease in ADR. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2026-27, which is lower than the threshold of \$278.9 million for FY 2026-27, resulting in no pause in baseline funding increases. The Mayor's proposed budget includes the required General Fund appropriations of \$62.1 million and \$61.5 million in FY 2026-27 and FY 2027-28, respectively.

17. Street Tree Maintenance Fund

In November 2016, voters approved Proposition E, establishing the Street Tree Maintenance Fund to maintain the City's street trees. Charter section 16.129 establishes a baseline contribution from the General Fund to the Street Tree Maintenance Fund of \$19.0 million in FY 2017-18 and adjusted by the percentage increase or decrease in ADR every year thereafter. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2026 Update to the Five-Year Financial Plan forecasted a deficit of \$168.5 million in FY 2026-27, which is lower than the threshold of \$230.8 million for FY 2026-27, resulting in no pause in street tree baseline funding increases. The Mayor's proposed budget includes the required General Fund appropriations of \$23.6 million and \$23.4 million in FY 2026-27 and FY 2027-28, respectively.

18. City Services Auditor Baseline

Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget to fund audits of City services. The Mayor's proposed budget includes the required \$28.8 million in FY 2026-27 and \$29.2 million in FY 2027-28 for the City Services Auditor baseline.