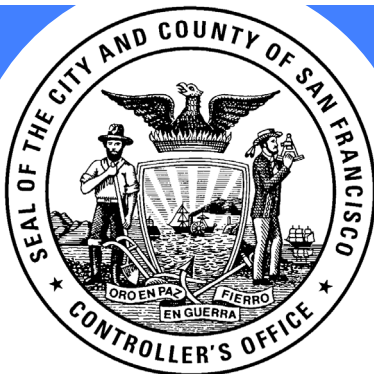


Controller's Review

Mayor's Proposed Budget for
FY 2022-23 and FY 2023-24



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

6.15.2022

Summary

The proposed balanced budget relies on reasonable but uncertain estimates of tax revenues and other sources that correspond to an overall assumption that San Francisco's economy will recover from the public health emergency over several years, with the help of recently adopted new sources of revenue.

Uncertainty remains regarding the pace of economic recovery, status of Laguna Honda Hospital, and state and federal revenue risk. This risk is heightened by the budget's reliance on one-time sources, including federal disaster relief, fund balance, and reserves.

We will report regularly on the status of the budget in the fiscal year ahead. The Mayor and Board of Supervisors should plan to actively manage the budget, including work to develop contingency plans in the event that mid-year adjustments will be required.

Findings...

- **Tax revenue assumptions are reasonable** and based on the expectation that San Francisco's economy will recover from the public health emergency over several years, with the help of recently adopted new sources of revenue.
- **Budget assumes nearly \$1 billion of General Fund one-time sources** comprised of federal disaster relief, fund balance and reserves. The budget includes \$407.5 million of FEMA reimbursements for COVID-19 emergency response costs through June 30, 2022, given current estimated timelines for FEMA to obligate and remit funds. The budget also uses \$364.0 million of current year fund balance and \$177.8 million of reserves.
- **By 2023-24, the City will have used more than \$500 million (or about 40%) of its \$1.4 billion of pre-pandemic reserve balances**, much of it for on-going operations. If the City's tax revenues do not grow significantly faster than our latest projections, the City's projected structural deficit will increase as a result.

...Findings

- Budget complies with various requirements:
 - **Voter-adopted spending requirements are met, or exceeded, at a total cost of \$2+ billion, annually:** The financial baselines include mandated spending for transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. Several programs are funded above the required levels, including the Children’s Services baseline, Transitional Aged Youth baseline, Recreation and Parks baseline, the Our City, Our Home Baseline (November 2018 Prop C), and the Early Care and Education baseline (June 2018 Prop C).
 - **Nonrecurring Revenue Policy.** The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. As defined by this policy, the FY 2022-23 and FY 2023-24 budget relies on \$177.8 million of one-time sources (use of reserves) to support \$357.8 million of one-time expenditures.

Risks

- **Economic risk.** Tax revenue is subject to significant uncertainty, whether actuals track to assumptions about overall favorable conditions in the City, return to office, and recovery of hospitality and convention industry. Recession risks are rising.
- **Laguna Honda Hospital.** Potential termination of eligibility of Centers for Medicare and Medicaid Services (CMS) eligibility could result in loss of \$16 million per month.
- **State budget revenue risk.** Proposals to adjust K-12 Local Control Funding Formula (LCFF) could result in lower excess ERAF allocations to the City. Controller's Office continuing to assess impact of the State budget.
- **Federal revenue risk.** City anticipates \$629.5 million of reimbursements from Federal Emergency Management Agency (FEMA) but FEMA has only obligated \$222.0 million of claims and City has been paid \$219.0 million. The reimbursement and auditing process is a risk to revenues.
- **Structural budget challenges in future fiscal years.** Budget is balanced heavily balanced with one-time revenues, leaving a structural budget challenge projected to be significantly higher than previous estimates of \$44.2 million in FY 2024-25 and \$156.2 million in FY 2025-26.

General Fund Tax Revenues (\$ millions)

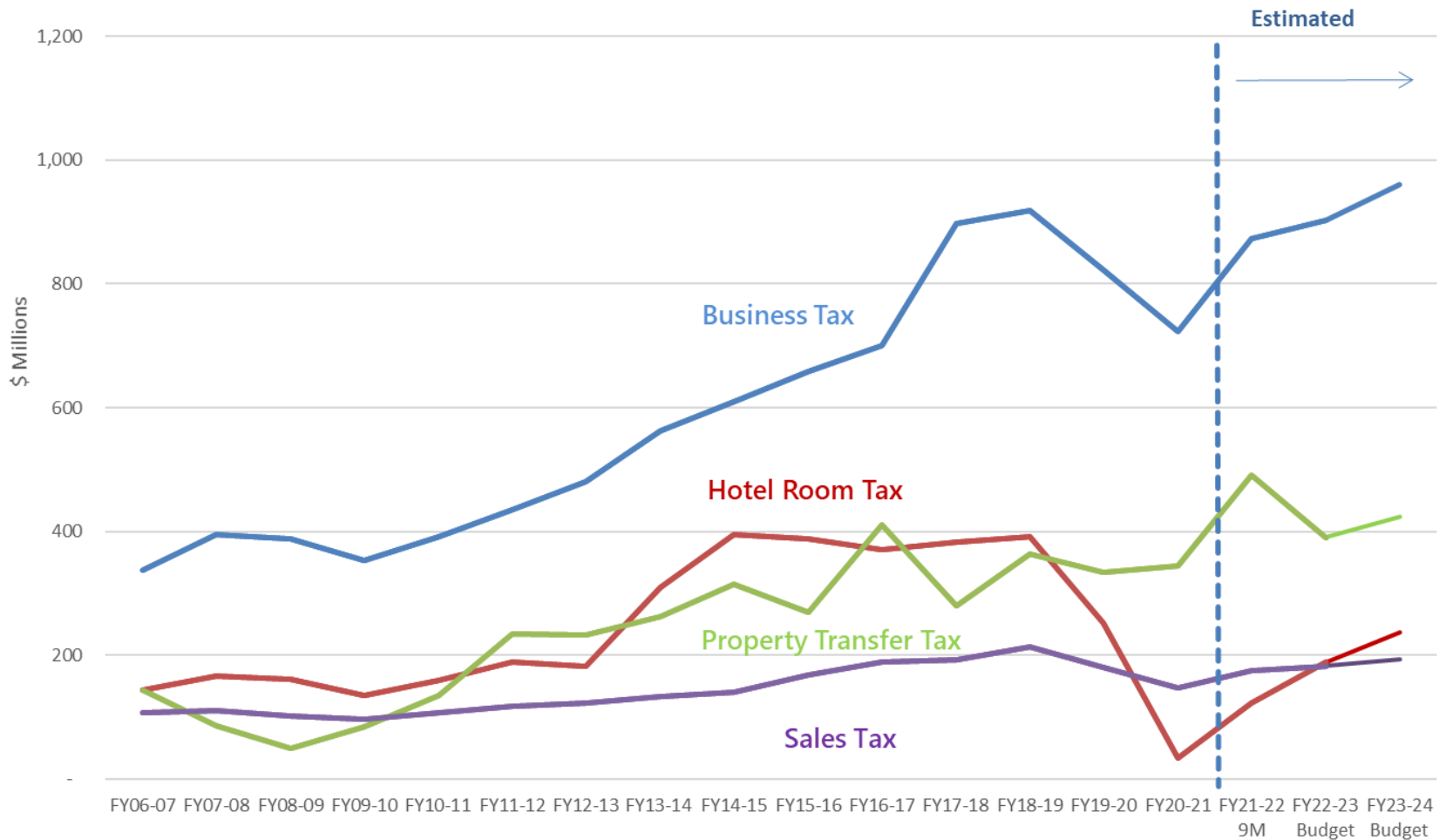
Selected General Fund Taxes	Actual FY 2018-19	Actual FY 2019-20	Actual FY 2020-21	Nine-Month FY 2021-22	Proposed FY 2022-23	Proposed FY 2023-24
Property Tax (No Excess ERAF)	1,698.3	1,833.6	1,974.0	1,951.0	2,051.0	2,142.0
Business Tax	917.8	822.2	722.6	878.4	902.3	960.2 *
Hotel Tax	392.3	252.2	33.2	123.1	188.9	237.5
Sales Tax	213.6	180.2	146.9	174.8	182.9	193.1
Real Property Transfer Tax	364.0	334.5	344.7	491.7	390.5	423.3 *
Executive Compensation	-	-	-	-	60.0	80.0 *
Total	3,586.1	3,422.6	3,221.4	3,618.9	3,775.5	4,036.2
					5-Yr Growth	12.6%

General Fund Tax Revenues (\$ millions)

	Actual	Actual	Actual	Nine-Month	Proposed	Proposed
Recently Adopted Tax Measures	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Business Tax - 2020 Prop F			4.0	23.0	58.0	82.0
Transfer Tax - 2020 Prop I			62.8	165.3	141.0	150.4
Executive Compensation - 2020 Prop L			-	-	60.0	80.0
Total	-	-	66.8	188.3	259.0	312.4
Total Without New Revenue	3,586.1	3,422.6	3,154.6	3,430.6	3,516.5	3,723.8
					5-Yr Growth	3.8%

Values shown are before Charter-mandated baseline spending requirements.

General Fund Tax Revenue (\$ millions)



General Fund Taxes, Detail

- **Property Tax**

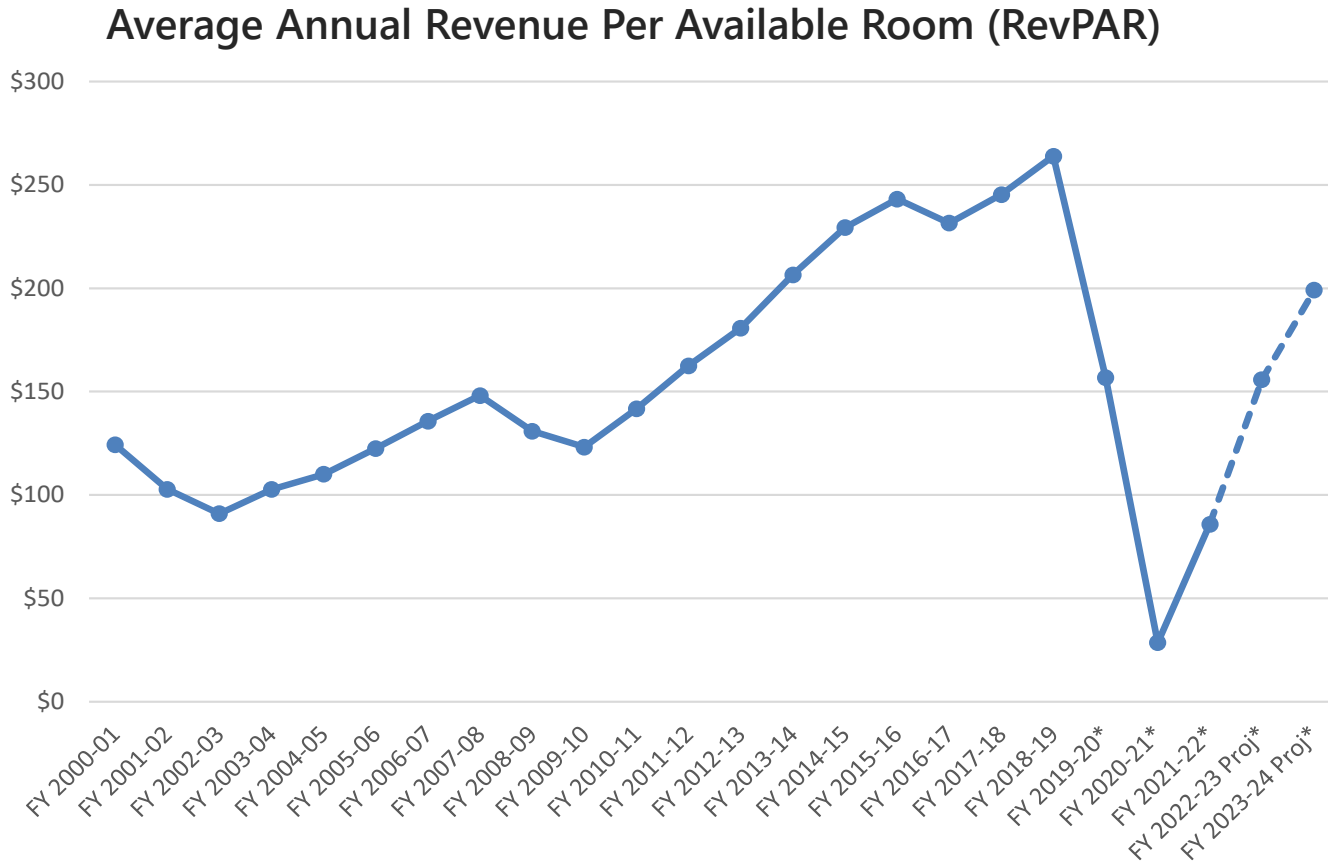
- Roll growth of secured property assessments is assumed to be 4.0% in FY 2022-23
- Excess ERAF revenues are assume 5.33 percent cost of living adjustments (COLA) to the K-12 Local Control Funding Formula (LCFF) for FY 2022-23 and 3.61 percent for FY 2023-24 along with a 15 percent increase in per pupil funding (to \$820) for Special Education AB-602 programs. Increases in LCFF above this assumption would lower excess ERAF vs budget.

- **Business Tax**

- Underlying economic growth of 5% and 4% is assumed for tax years 2022 and 2023.
- Assumes a permanent telecommute rate of 33% for office workers by end of calendar year 2022.

General Fund Taxes, Detail

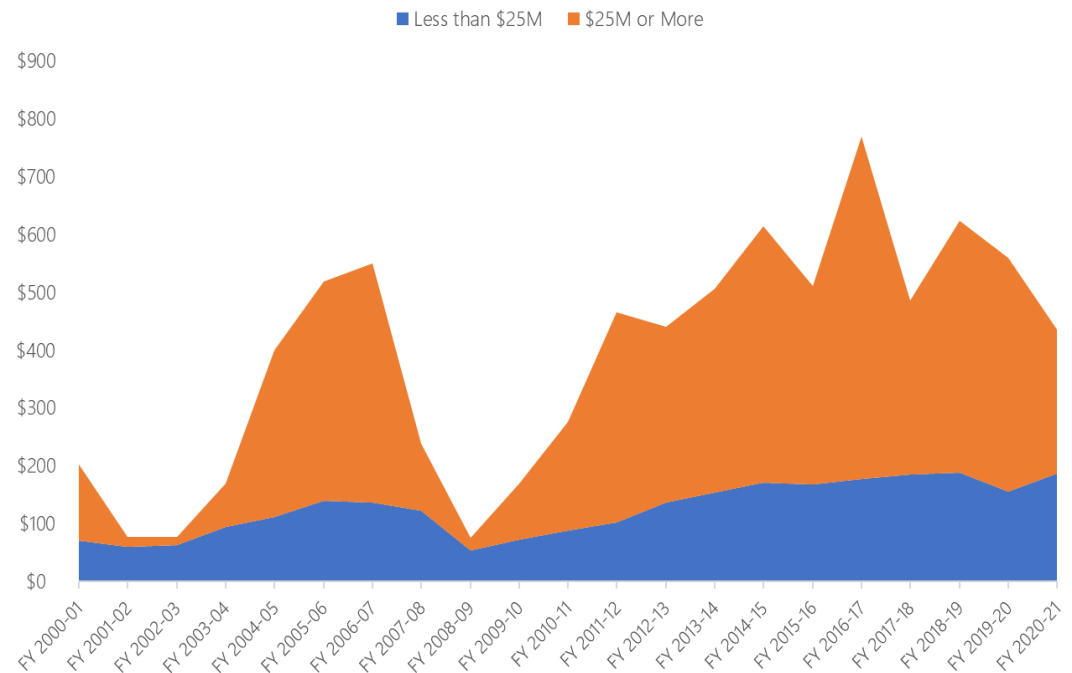
General Fund **Hotel Tax** is projected to increase by ~140% in FY 2022-23 and ~26% in FY 2023-24 after a historic drop in FY 2020-21. Despite rapid growth in the budget years, hotel tax receipts are not anticipated to recover to their prior peak until calendar year 2026.



General Fund Taxes, Detail

- Sales Tax** is projected to grow 25.5% in FY 2022-23 and 5.6% in FY 2023-24. Return of the City's daytime and residential population is critical to this source's recovery.
- Transfer Tax** is assumed to stay at prior year levels in FY 2022-23, adjusted for one-in-a-lifetime transactions. In FY 2023-24, it is expected to begin a two-year return to its rate-adjusted historic average by FY 2024-25. This is the General Fund's most volatile revenue source, with <1% of transactions driving >50% of revenue.

Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size (\$ millions)



Charter-Mandated Spending Requirements

- The budget supports over \$2.0 billion of baseline spending mandates. These mandates include spending for transit, libraries, schools, early childhood education, recreation and parks, among others.
- Several programs are funded above the required levels, including:
 - Children's Services and Transitional Aged Youth baseline
 - Recreation and Parks baseline
 - Our City, Our Home Baseline (November 2018 Prop C)
 - Early Care and Education baseline (June 2018 Prop C)

Reserve Status

	FY 2021-22	FY 2022-23			FY 2023-24			Note
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	
General Reserve	\$ 40.7	64.4	-	\$ 105.1	\$ 20.6	-	\$ 125.7	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8	3
Economic Stabilization Reserves	380.3	-	-	380.3	-	-	380.3	
<i>Percent of General Fund Revenues</i>	<i>6.3%</i>			<i>6.2%</i>			<i>5.9%</i>	
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Budget Stabilization Reserve - One Time Reserve	54.8	-	(54.8)	-	-	-	-	3
COVID Response and Economic Loss Reserve	14.0	-	(14.0)	-	-	-	-	4
Federal and State Emergency Grant Disallowance	81.3	-	-	81.3	-	-	81.3	5
Fiscal Cliff Reserve	229.8	-	(9.3)	220.4	-	(90.2)	130.3	6
Public Health Management Reserve	113.3	-	-	113.3	-	-	113.3	7
Free City College Reserve	5.3	-	(4.0)	1.3	-	-	1.3	8
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0	9
Hotel Tax Loss Contingency Reserve	3.5	-	(2.5)	1.0	-	-	1.0	10
Alternative Response Reserve	3.0	-	(3.0)	-	-	-	-	11
Other Reserves	507.0	-	(87.7)	419.4	-	(90.2)	329.2	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	12
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	13
Salary and Benefits Reserve	-	23.5	(23.5)	-	28.1	(28.1)	-	14
Annual Operating Reserves	-	39.5	(39.5)	-	44.1	(44.1)	-	
TOTAL, General Fund Reserves	928.0	103.9	(127.2)	904.8	64.7	(134.2)	835.2	

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Any questions?

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