

File No. 240320

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Brent Jalipa Date April 11, 2024

Completed by: Brent Jalipa Date _____



CITY AND COUNTY OF SAN FRANCISCO

TO: Mayor London Breed
President Aaron Peskin and Members of the Board of Supervisors

FROM: Dan Goncher, Board of Supervisors Budget & Legislative Analyst
Anna Duning, Mayor's Budget Director
Greg Wagner, Controller

DATE: March 29, 2024

SUBJECT: **Budget Outlook Update (March Joint Report Update)**

Executive Summary

San Francisco Administrative Code Section 3.6(b) requires the Mayor, Board of Supervisors Budget Analyst, and Controller to submit regular updates to the City's Five-Year Financial Plan. This report (sometimes referred to as the Joint Report) updates our offices' last projection, which was published in the City's Five-Year Financial Plan in December 2023.

Given more recent information and trends, compared to the December 2023 forecast, our offices project slightly reduced future shortfalls in FY 2024-25, FY 2025-26, and FY 2026-27, and a larger future shortfall in FY 2027-28:

- The shortfall for the coming fiscal year (FY 2024-25) is forecasted to be \$235.9 million, or \$8.7 million lower than our last projection.
- In the upcoming two fiscal years, the period for which the City is required to adopt a balanced budget, our offices now project a \$789.3 million shortfall, or \$9.9 million less than the \$799.2 million shortfall projected in the December 2023 report.
- Long term structural shortfalls remain, growing to \$1,361.6 million by FY 2027-28, which is \$11.9 million more than the December 2023 projection.
- Significant risks and outstanding policy decisions could affect this forecast in coming years, including economic uncertainty, employee costs, and state and federal funding levels.

Taken together, these updates are the result of modest improvements in current year fund balance, modest net change to the revenue forecast, higher employee benefit costs, and nominal updates to other citywide expenditures since the December 2023 forecast.

Table 1. Base Case – General Fund-Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)

	2024-25	2025-26	2026-27	2027-28
SOURCES Increase / (Decrease)	3.8	191.4	206.6	203.0
Uses				
Baselines & Reserves	(9.9)	(68.8)	(146.3)	(257.0)
Salaries & Benefits	(170.1)	(356.4)	(480.6)	(635.9)
Citywide Operating Budget Costs	(95.2)	(299.3)	(404.1)	(505.1)
Departmental Costs	35.4	(20.3)	(102.5)	(166.7)
USES Decrease / (Increase)	(239.8)	(744.7)	(1,133.6)	(1,564.6)
Projected Cumulative Projected Surplus / (Shortfall)	(235.9)	(553.3)	(927.0)	(1,361.6)
Two-Year Deficit	(789.3)			

Financial provisions in the City's labor contracts and local law are dependent on the projections in this March report. The FY 2024-25 projected deficit of \$235.9 million is below the \$300.0 million threshold established in public safety labor contracts, which, if exceeded, would have delayed negotiated wage increases by six months. However, the FY 2024-25 projected deficit is above the deficit thresholds for several voter-adopted baselines, which will result in the suspension of requirements to increase the Early Care and Education and Street Tree Maintenance baselines.

Changes from the December 2023 Joint Report

Table 2 below outlines the cumulative changes from the December 2023 projections that are reflected in this update; these changes are described in more detail below.

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

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Sources - Revenue, Fund Balance, and Reserves	13.5	10.4	52.6	30.2
Uses - Baselines & Reserves	3.4	9.6	4.1	7.2
Uses - Salaries & Benefits	(6.8)	(20.1)	(33.3)	(42.8)
Uses - Citywide Operating Budget Costs	0.1	2.4	(8.2)	(8.8)
Uses - Departmental Costs	(1.3)	(1.0)	2.8	2.3
Total Annual Change	8.7	1.2	18.1	(11.9)
Change in Two-Year Deficit	9.9			

SOURCES – Revenue, Fund Balance, and Reserves: Compared to the December Joint Report, projected General Fund sources increase by \$13.5 million in FY 2024-25, \$10.4 million in FY 2025-26, \$52.6 million in FY 2026-27, and \$30.2 million in FY 2027-28. Key drivers of this change include:

- **Fund Balance:** An additional \$39.4 million of FY 2023-24 fund balance is assumed in this forecast, of which \$34.4 million was reported in the Controller's Six-Month Budget Status Report and \$5.0 million is due to additional current year tax revenue discussed below.

- **General Fund Tax Revenues:** Net General Fund revenues are largely unchanged from the prior projection. Declines in property tax are roughly offset by the assumption of Federal Emergency Management Agency (FEMA) reimbursements for 2023 winter storm costs and an increase in overpaid executive tax (OET) Revenue. The most significant revenues are discussed below:
 - **Property Tax.** Projected property tax revenues are lower throughout the forecast period primarily due to updated assumptions about refunds triggered by reductions in value as appeals are resolved through the Assessment Appeals Board (AAB) and decreased excess Educational Revenue Augmentation Fund (ERAF) expectations.

While projected FY 2024-25 secured roll growth has increased from 2.5% to 3.0% based upon preliminary working roll data from the Assessor, it is offset by a significant increase in revenues needed to fund assessment appeals. Based upon updated data from Moody's and Jones Lang LaSalle (JLL) for San Francisco, office vacancy rate assumptions increased while rent expectations decreased versus those used in our December 2023 forecast, further decreasing anticipated assessed valuations for office properties. Data from Zillow point to a slower housing recovery than previously forecast, with valuations of residential properties at lower levels particularly in the final two years of the forecast. The effects of these updated assumptions on General Fund revenues are additional reductions of \$14.3 million, \$30.1 million, \$13.4 million, and \$22.0 million for FY 2024-25, FY 2025-26, FY 2026-27, and FY 2027-28 respectively.

The California Department of Education (CDE) and California Community College Chancellor's Office (CCCCO) published FY 2023-24 funding level reports at the end of February 2024 that increased ERAF entitlements \$15.0 million above prior assumptions for San Francisco Unified School District (SFUSD), \$1.7 million for the San Francisco County Office of Education (SFCOE), and \$6.8 million for the San Francisco Community College District (SFCCD). Future fiscal years are assumed to grow by 3% annually for all three education entities. Offsetting the ERAF entitlements of each entity are their direct allocations of local property taxes. The result for the forecast period is reduced excess ERAF available to return to the City's General Fund of \$2.3 million, \$11.4 million, \$21.2 million, \$12.8 million, and \$15.1 million for FY 2023-24, FY 2024-25, FY 2025-26, FY 2026-27, and FY 2027-28, respectively, versus December 2023 report projections. Excess ERAF can be dramatically affected going forward by changes in state law and school funding under Proposition 98.

- **Business Tax.** The March forecast increases gross receipts tax revenues by \$4.0 million in FY 2023-24, with little change in future years. There are two offsetting factors that affect the business tax revenue forecast. First, businesses make three quarterly prepayments and then true up to the actual tax obligation for the tax year each February. This year, collections in February were much stronger than expected, raising the forecast in the current year as well as future years. The strength of collections in February is likely due both to businesses underpaying their three prepayments and to overall growth in gross receipts. Offsetting strength in collections, however, are increased claims and litigation over business taxes. The City defers certain tax revenues

at risk of refund, lowering the forecast in the current year. In addition, for forecasting purposes, it is assumed that a portion of the revenue at issue will be lost on an ongoing basis, which lowers the forecast in future years.

- **Transfer Tax.** This forecast assumes the same level of transfer tax as in the December 2023 Joint Report, increasing year-over-year from the FY 2023-24 forecast of \$188.3 million (as reported in the Six Month Report) to an anticipated long-run average of \$365.0 million by FY 2027-28.

On March 5, 2024, voters passed Proposition C, which would exempt a seller from transfer tax the first time a property is transferred after being converted from commercial to residential use. Up to five million square feet of converted space will be exempt through 2054. While the Controller's office estimates a potential loss of \$34 million to \$154 million over the next thirty years, due to current market conditions and the time needed to convert and sell properties, we do not estimate any exemptions will be granted within the plan period. Any future reductions to the transfer tax rate or exemptions from the tax approved by policymakers could reduce future revenues.

- **Overpaid Executive Tax (OET).** The March forecast estimates \$133 million of OET in FY 2023-24 and \$140 million in future years, which is a \$13 million increase in FY 2023-24 and \$20 million increase in other years versus the December 2023 Joint Report. This brings the forecast to the high end of the Controller's original revenue estimate published in the voter information pamphlet in November 2020.

First collected in tax year 2022, the Overpaid Executive Tax is based on gross receipts, with the tax rate determined by the ratio of total compensation for the company's highest paid employee anywhere to total compensation for the median employee in San Francisco. Because executive compensation can vary widely from year to year and because a majority of the tax is paid by just a few taxpayers, some volatility in this revenue is expected. Based on actual collections for tax years 2022 and 2023, the forecast has increased. There are currently claims and litigation over the tax, but as a new tax, it is difficult to know how widespread claims will be in the future. This presents a risk to future collections.

- **Additional Federal Emergency Management Agency (FEMA) reimbursement for 2023 Winter Storms:** FEMA reimbursements for COVID-19 response costs are assumed to stay at the same levels as assumed in the December 2023 Joint Report. An additional \$21.8 million is anticipated to reimburse Department of Public Works and Recreation and Parks Department expenditures incurred in responding to the two declared winter storm disasters in 2023.
- **Public Health One-Time and Operating Revenue:** The Department of Public Health (DPH) projects a revenue increase of \$13.5 million in FY 2024-25 and \$18.4 million in each of the remaining years of the forecast. This includes increases in Zuckerberg San Francisco General Hospital operating revenues of \$12.5 million in FY 2024-25 and \$14.4 million in each of the three remaining years of the forecast driven by fee for service, supplemental, and capitation payments. Projections assume no changes in behavioral health revenue or net revenue at

Laguna Honda Hospital, given the pending Medicare recertification. One-time revenues from prior year settlements are projected to be an additional \$1.0 million in FY 2024-25 and \$4.0 million in FY 2025-26 due to anticipated settlement of prior year waiver and supplemental revenues.

- **Use of Reserves:** This update assumes no major changes to the use of reserves from the December 2023 report.

USES – Baselines and Reserves: Changes in projected General Fund revenues result in corresponding changes to baselines and reserves. A decrease of \$3.4 million in baseline and reserve costs is projected for FY 2024-25, with cumulative cost decreases of \$9.6 million in FY 2025-26, \$4.1 million in FY 2026-27, and \$7.2 million in FY 2027-28 compared to the December report.

- **Baselines:** Most of the City's Charter-mandated baselines (including Municipal Transportation Agency, Library, and the Public Education and Enrichment Fund) are driven by changes in aggregate discretionary revenue (ADR), which typically follows the General Fund revenue projection. These changes since our last report adjust projections given our most recent revenue forecasts, summarized above. They do not account for the suspension of growth triggered by the projected shortfall for several baselines, noted above.
- **Deposits to Reserves:** Net increases or decreases in projected General Fund revenues trigger corresponding changes in General Reserve deposits. Given the minimal changes in projected net General Fund revenues, these have increased marginally from the December 2023 report. Uses of the General Reserve to fund supplemental appropriations in the current year require equal deposits in the budget year. The Budget and Appropriations Committee has approved the use of \$0.5 million of General Reserve to the Public Utilities Commission for analysis on sea level rise and groundwater in the Hunters Point Shipyard. Should the full Board approve this ordinance, it will increase the required FY 2024-25 reserve deposit and deficit by \$0.5 million.

The projection continues to assume deposits to the Budget Stabilization Reserve in FY 2026-27 and FY 2027-28 as the City's real property transfer tax is expected to exceed the average five-year transfer tax level in those years, triggering required deposits. The deposit levels are slightly lower than previously expected, at \$30.0 million and \$97.1 million, consistent with a minor downward revision to the transfer tax forecast.

USES – Salaries & Benefits: Compared to the December Joint Report, salary and benefit projected costs increase by \$6.8 million in FY 2024-25, \$20.1 million in FY 2025-26, \$33.3 million in FY 2026-27, and \$42.8 million in FY 2027-28. These changes are primarily driven by changes in employer pension contribution rates and changes to projected costs of health benefits:

- **CPI Changes for Labor and Non-Labor Cost Projections:** In years where labor contracts are open, projections continue to assume consumer price index (CPI) increases. Miscellaneous employee unions will have open contracts starting in FY 2024-25, and Police and Firefighters' unions will have open contracts starting in FY 2026-27. At the time of issuance, these are projected to be 2.54% in FY 2024-25, 2.53% in FY 2025-26, 2.56% in FY 2026-27, and 2.28% in FY 2027-28. Assumed CPI wage increases are applied to the first pay period in January 2025

and the first pay period of each fiscal year thereafter. These changes are based on updates to the average projections of the California Department of Finance SF Area CPI and Moody's SF Metropolitan Statistical Area CPI. CPI assumptions have been updated as follows:

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
December 2023	2.65%	2.57%	2.23%	2.21%
March 2024	2.54%	2.53%	2.56%	2.28%
Difference	-0.11%	-0.04%	0.33%	0.07%

- Retirement Benefits – Employer Contribution Rates:** This projection includes updates to the employer contribution rates to the San Francisco Employees' Retirement System (SFERS). The increased costs compared to the prior projections are due to an update to the FY 2024-25 employer contribution rate, which increased from 16.7% in the December projections, prior to employee cost-sharing, to 16.9% in this report. This increase is due to salary increases for active members and other changes in population data that were not yet measured in December.
- Health and Dental Benefits for Active Employees and Retired City Employees:** Health costs for active members are higher compared to the fall projection as they include updated medical enrollments as of March 2024 and cost increases based on preliminary discussions with insured plans, increasing claims experience trends, and increased cost shifting from government to commercial insurance. Health costs for retired City employees are projected to increase compared to the December report based on an increase in the 10-County average.

USES – Citywide Operating Costs: Compared to the December 2023 Joint Report, projected citywide operating costs decrease by \$0.1 million in FY 2024-25 and \$2.4 million in FY 2025-26, and increase by \$8.2 million in FY 2026-27 and \$8.8 million in FY 2027-28. The additional costs are primarily driven by updated Cost-of-Doing-Business (CODB) projections in FY 2026-27 for community-based organization grants to align with the latest CPI projections. Projected CPI increases in FY 2026-27 and FY 2027-28 also led to higher projected non-personnel costs in these years. These costs are offset by lower projected CPI rates in FY 2024-25 and FY 2025-26 and a one-time correction to projected CODB costs in FY 2024-25.

USES – Departmental Operating Costs: Compared to the December Joint Report, departmental projected costs increase by \$1.3 million in FY 2024-25 and \$1.0 million in FY 2025-26 and decrease by \$2.8 million in FY 2026-27 and \$2.3 million in FY 2027-28. These changes are due to updates to the Human Services Agency's (HSA) In-Home Supportive Services (IHSS), entitlement program, and affordable housing and Local Operating Subsidy Program (LOSP) costs.

- HSA County Aid & IHSS:** This update modifies previous projections of the local cost of entitlement programs to reflect current-year trends and incorporate State policy changes. CalWORKs grants are projected to increase 2.7% in FY 2024-25, based on forecasted increases in inflation (CPI), and local ordinance applies CalWORKs increases to County Adult Assistance Program (CAAP) grants, which are local costs. This projection assumes that CAAP grants will receive the analogous 2.7% increase, but overall, CAAP expenditures are projected to decrease due to moderately declining caseloads over the forecast period. In Family and Children's

Services (FCS), there is slight cost growth from the rollout of a pilot program that increases HSA's intensive foster care placements for high-needs youth, while in IHSS, local costs dip, reflecting a minor adjustment to align estimates with State Maintenance of Effort (MOE) actuals.

- **Affordable & Permanent Supportive Housing Project Costs:** This update modifies previous projections of Local Operating Subsidy (LOSP) program costs, with increases of approximately \$2.2 million in FY 2024-25 and \$4.3 million in FY 2025-26 from previous projections. Approximately 60% of the increase is attributable to increased costs at existing operational housing sites, with the remaining 40% attributable to increased costs from newly added projects and units. Across the board in affordable housing, and more acutely in permanent supportive housing, there are increases in operating costs due to inflation, staffing shortages, and sharply escalating insurance and utility expenses. Across the affordable housing industry, insurance costs have seen unprecedented increases of approximately 26% over the last year and, per the City's Risk Manager, are anticipated to continue to rise for several years. Within the LOSP portfolio, affordable housing providers have seen even higher increases, due to the higher costs associated with serving LOSP tenants.

Key Factors that Could Affect the Forecast

Significant uncertainties and outstanding policy choices remain that could affect the City's financial condition over the next four years. The following factors could materially affect the outlook:

- **Labor negotiations:** This projection updates the average inflation projection of the California Department of Finance SF Metropolitan Statistical Area CPI and Moody's SF Metropolitan Area CPI as noted in the table above, resulting in modest savings versus prior projections in the first two years and costs in the last two years of the plan period. Miscellaneous contracts are open beginning in FY 2024-25 and public safety contracts are open beginning in FY 2026-27. All open contracts assume updated inflation factors. Every 1% increase in wages above plan assumptions for miscellaneous employees would increase the General Fund deficit by approximately \$28.4 million in each year.
- **Recent downward revision to local employment numbers:** On March 22, 2024, the Employment Development Department (EDD) released a significant revision to its employment data, showing San Francisco and San Mateo counties lost 34,100 jobs between July 2022 and February 2024, with the largest downward revisions in the information and professional, scientific, and technical services industries, which are the primary office-using sectors in San Francisco. The revised figures reflect technology-sector layoffs since 2022, reversing the City's previous understanding that these job losses were absorbed by overall growth in the technology industry. This additional information increases downside risk to the forecast.
- **Retirement contribution rate:** Projections assume the SFERS adopted 7.2% rate of return in FY 2023-24. Returns through February 29, 2024 were 5.70%, however, final audited actuarial valuations may vary from the year-to-date return value due to market volatility and the additional time required to get private market valuations. Final results below the 7.2% assumption will result in higher retirement contribution costs during the forecast period.

- **State budget impacts:** This report does not assume significant changes in state funding levels. While it reflects changes to subventions of state sales tax revenues to align to the state's current sales tax projections, it does not assume the policy changes proposed in the budget, including an increase in the amount of ERAF sent to school districts to distribute to charter schools, which would reduce City excess ERAF revenues by \$43 million annually, or proposed reductions to social service subventions. The Governor will introduce changes to the FY 2024-25 state budget in early May, which will be further amended by the state legislature. Given the state's budget shortfall, we will monitor budget legislation for changes that would affect excess ERAF and other local revenues.
- **Federal fiscal impacts:** The City and other peer jurisdictions in the state are in active discussions with the California Office of Emergency Services (CalOES) regarding the FEMA Region 9 Administrator's October 2023 guidance on eligible costs for non-congregate shelter (NCS) services, which San Francisco provided through the Shelter in Place (SIP) hotel program through May 11, 2023. We will update estimated FEMA reimbursements of pandemic expenses when there is more information available about the actual or likely outcome of the discussion. This guidance would not affect current year revenues but will likely affect future year forecasts. This report does include an additional \$19.5 million of estimated FEMA reimbursements for costs incurred by Public Works and Recreation and Parks during the declared 2023 winter storm disasters.
- **Pending Policy Decisions with Fiscal Impact:** Legislative or voter-approved increases to existing baselines, set-asides, or other new spending increases without commensurate revenue increases from new funding sources will impact the projections included in this report. For example, in early March, the Mayor introduced legislation to amend the Development Agreement between the City and County of San Francisco and Treasure Island Community Development, LLC (TICD), the entity developing Treasure Island, as well as the Disposition and Development Agreement between the Treasure Island Development Authority and TICD. The amendment would alter the financing plan to help fund the development of infrastructure on the island and result in 20-25 years of lease payments from the City's General Fund starting in FY 2025-26 or FY 2026-27, pending final financing details. This would result in increased costs to the General Fund of approximately \$11 million to \$14 million annually.

Conclusion

Benefiting from modest improvement in fund balance, this update projects slightly lower deficits for the next three fiscal years compared to the December 2023 projection. Yet the City's significant structural deficit remains and the projected shortfall will continue to exceed \$1 billion in FY 2027-28 absent corrective action. Slight revenue improvements in the latter years of the forecast are offset by increasing health and retirement costs. As discussed above, the City is in active labor negotiations with miscellaneous employees. The outcome of these negotiations will impact the projection.

Appendix A: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2024-28 – INCREMENTAL CHANGE (\$ in millions)

This appendix provides an updated version of Table 2A from the December Joint Report.

SOURCES Increase/(Decrease)		2024-25	2025-26	2026-27	2027-28
Fund Balance & Reserves					
1	Use of Fund Balance - Gain/(Loss)	32.1	-	-	(154.8)
2	Reserves - Use	(19.4)	(70.8)	-	-
Subtotal Fund Balance & Reserves		12.7	(70.8)	-	(154.8)
Revenues					
3	General Fund Taxes, Revenues and Transfers net of items below	28.4	163.7	142.2	132.5
4	FEMA Revenue	(90.0)	75.7	(147.0)	(4.3)
5	Public Health - One-time Revenues	(15.6)	3.0	(4.0)	-
6	Public Health - Operating Revenues	43.6	19.5	15.5	15.7
7	Other General Fund Support	24.7	(3.5)	8.5	7.4
Subtotal Revenues		(8.9)	258.3	15.2	151.3
TOTAL CHANGES TO SOURCES		3.8	187.5	15.2	(3.6)
USES Decrease/(Increase)					
Baselines & Reserves					
8	Contributions to Baselines	(49.9)	(50.5)	(52.7)	(39.0)
9	Contributions to Reserves	40.0	(8.3)	(24.8)	(71.7)
Subtotal Baselines and Reserves		(9.9)	(58.9)	(77.5)	(110.7)
Salaries & Benefits					
10	Previously Negotiated Closed Labor Agreements	(24.0)	(34.8)	-	-
11	Projected Costs of Open Labor Agreements	(114.7)	(120.0)	(86.0)	(89.9)
12	Health & Dental Benefits - Current & Retired Employees	(44.1)	(40.1)	(38.6)	(41.5)
13	Retirement Benefits - Employer Contribution Rates	15.7	10.8	1.3	(22.9)
14	Other Salaries and Benefits Savings/(Costs)	(3.0)	(2.1)	(1.0)	(0.9)
Subtotal Salaries & Benefits		(170.1)	(186.2)	(124.3)	(155.2)
Citywide Operating Costs					
15	Capital, Equipment, & Technology	4.1	(115.7)	(34.8)	(35.3)
16	Implementation of Multiyear Inflation on Nonprofit Grants	(24.8)	(24.7)	(26.1)	(17.9)
17	MCO and Annualization of Prior Year CBO COLA	(37.3)	(6.5)	(0.4)	(0.4)
18	CPI on Nonpersonnel	-	(11.6)	(12.0)	(11.0)
19	Debt Service & Real Estate	(17.9)	(27.2)	(13.1)	(17.5)
20	Sewer, Water, and Power Rates	(3.7)	(7.4)	(6.9)	(6.6)
21	Workers' Compensation Claims	(3.8)	(3.2)	(3.3)	(3.5)
22	Citywide Technology Operating Costs	(8.7)	(4.8)	(5.2)	(5.5)
23	Other Citywide Costs	(3.1)	(2.9)	(2.9)	(3.4)
Subtotal Citywide Operating Costs		(95.2)	(204.1)	(104.8)	(101.0)
Departmental Costs					
24	City Administrator's Office - Convention Facilities Subsidy	1.4	0.3	(0.8)	5.5
25	Elections - Number of Scheduled Elections	(2.7)	1.8	(1.1)	0.3
26	Ethics Commission - Public Financing of Elections	(5.3)	3.3	1.7	(1.3)
27	Affordable & Permanent Supportive Housing Project Costs	(4.4)	(14.2)	(6.5)	(9.2)
28	Homelessness - Expiring Grants for Shelters	(27.0)	-	-	-
29	Human Services Agency - IHSS and Other Benefit Costs	(16.2)	(16.9)	(21.9)	(30.5)
30	Public Health - Operating Costs	(14.5)	(27.7)	(49.0)	(32.5)
31	Economic Recovery and Activation	18.4	(8.7)	-	-
32	FY 2023-24 One-time Initiatives and Community Support Investments	37.6	10.0	-	-
33	FY 2023-24 Midyear Reductions - Ongoing Savings	38.1	(2.4)	-	-
34	All Other Departmental Savings / (Costs)	10.1	(1.3)	(4.6)	3.6
Subtotal Departmental Costs		35.4	(55.7)	(82.2)	(64.2)
TOTAL CHANGES TO USES		(239.8)	(504.9)	(388.8)	(431.1)
Projected Surplus/(Shortfall) vs. Prior Year		(235.9)	(317.4)	(373.6)	(434.6)
Annual Projected Surplus/(Shortfall)		(235.9)	(553.3)	(927.0)	(1,361.6)
Two-Year Surplus/(Shortfall)		(789.3)			

Appendix B: Updated Base Case – Key Changes to General Fund-Supported Sources & Uses FY 2024-28 – CUMULATIVE CHANGE (\$ in millions)

This appendix provides an updated version of Table 2B from the December Joint Report.

SOURCES Increase/(Decrease)		2024-25	2025-26	2026-27	2027-28
Fund Balance & Reserves					
1	Use of Fund Balance - Gain/(Loss)	32.1	32.1	32.1	(122.7)
2	Reserves - Use	(19.4)	(90.2)	(90.2)	(90.2)
Subtotal Fund Balance & Reserves		12.7	(58.0)	(58.0)	(212.9)
Revenues					
3	General Fund Taxes, Revenues and Transfers net of items below	28.4	192.1	334.3	466.8
4	FEMA Revenue	(90.0)	(14.3)	(161.3)	(165.6)
5	Public Health - One-time Revenues	(15.6)	(12.6)	(16.6)	(16.6)
6	Public Health - Operating Revenues	43.6	63.1	78.6	94.3
7	Other General Fund Support	24.7	21.2	29.7	37.1
Subtotal Revenues		(8.9)	249.4	264.6	415.9
TOTAL CHANGES TO SOURCES		3.8	191.4	206.6	203.0
USES Decrease/(Increase)					
Baselines & Reserves					
8	Contributions to Baselines	(49.9)	(100.4)	(153.1)	(192.1)
9	Contributions to Reserves	40.0	31.7	6.8	(64.9)
Subtotal Baselines and Reserves		(9.9)	(68.8)	(146.3)	(257.0)
Salaries & Benefits					
10	Previously Negotiated Closed Labor Agreements	(24.0)	(58.8)	(58.8)	(58.8)
11	Projected Costs of Open Labor Agreements	(114.7)	(234.7)	(320.7)	(410.6)
12	Health & Dental Benefits - Current & Retired Employees	(44.1)	(84.2)	(122.7)	(164.2)
13	Retirement Benefits - Employer Contribution Rates	15.7	26.5	27.8	4.8
14	Other Salaries and Benefits Savings/(Costs)	(3.0)	(5.1)	(6.1)	(7.0)
Subtotal Salaries & Benefits		(170.1)	(356.4)	(480.6)	(635.9)
Citywide Operating Costs					
15	Capital, Equipment, & Technology	4.1	(111.6)	(146.4)	(181.7)
16	Implementation of Multiyear Inflation on Nonprofit Grants	(24.8)	(49.5)	(75.6)	(93.5)
17	MCO and Annualization of Prior Year CBO COLA	(37.3)	(43.8)	(44.2)	(44.6)
18	CPI on Nonpersonnel	-	(11.6)	(23.7)	(34.7)
19	Debt Service & Real Estate	(17.9)	(45.2)	(58.2)	(75.7)
20	Sewer, Water, and Power Rates	(3.7)	(11.1)	(18.0)	(24.6)
21	Workers' Compensation Claims	(3.8)	(7.0)	(10.3)	(13.8)
22	Citywide Technology Operating Costs	(8.7)	(13.5)	(18.8)	(24.3)
23	Other Citywide Costs	(3.1)	(6.0)	(8.9)	(12.3)
Subtotal Citywide Operating Costs		(95.2)	(299.3)	(404.1)	(505.1)
Departmental Costs					
24	City Administrator's Office - Convention Facilities Subsidy	1.4	1.7	0.9	6.3
25	Elections - Number of Scheduled Elections	(2.7)	(0.9)	(1.9)	(1.7)
26	Ethics Commission - Public Financing of Elections	(5.3)	(2.1)	(0.4)	(1.7)
27	Affordable & Permanent Supportive Housing Project Costs	(4.4)	(18.5)	(25.0)	(34.2)
28	Homelessness - Expiring Grants for Shelters	(27.0)	(27.0)	(27.0)	(27.0)
29	Human Services Agency - IHSS and Other Benefit Costs	(16.2)	(33.1)	(55.1)	(85.6)
30	Public Health - Operating Costs	(14.5)	(42.2)	(91.2)	(123.8)
31	Economic Recovery and Activation	18.4	9.7	9.7	9.7
32	FY 2023-24 One-time Initiatives and Community Support Investments	37.6	47.6	47.6	47.6
33	FY 2023-24 Midyear Reductions - Ongoing Savings	38.1	35.7	35.7	35.7
34	All Other Departmental Savings / (Costs)	10.1	8.9	4.3	7.9
Subtotal Departmental Costs		35.4	(20.3)	(102.5)	(166.7)
TOTAL CHANGES TO USES		(239.8)	(744.7)	(1,133.6)	(1,564.6)
Annual Projected Surplus/(Shortfall)		(235.9)	(553.3)	(927.0)	(1,361.6)
Two-Year Surplus/(Shortfall)		(789.3)			

Appendix C: Updated Summary of General Fund-Supported Operating Revenues and Transfers in Sources & Uses FY 2022-23 through FY 2027-28 (\$ in millions)

This appendix provides an updated version of Table 3A from the December Joint Report.

	FY 2022-23	FY 2023-24	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
	Original						
	Year-End	Budget	Projection	Projection	Projection	Projection	Projection
Property Taxes	\$ 2,466.9	\$ 2,510.0	\$ 2,486.6	\$ 2,465.0	\$ 2,457.9	\$ 2,474.5	\$ 2,503.2
Business Taxes	850.6	851.1	825.0	883.0	954.0	980.0	1,011.0
Sales Tax	197.9	200.0	188.6	193.7	198.9	205.1	211.5
Hotel Room Tax	252.9	302.9	262.1	285.2	315.8	338.9	350.5
Utility Users Tax	110.7	111.4	118.5	110.7	111.8	112.9	114.1
Parking Tax	82.7	84.1	84.8	86.9	88.8	90.6	92.5
Real Property Transfer Tax	186.2	222.0	188.3	218.8	267.6	316.3	365.0
Sugar Sweetened Beverage Tax	12.9	13.7	12.7	12.7	12.7	12.7	12.7
Stadium Admission Tax	6.0	9.1	7.4	7.4	7.4	7.4	7.4
Access Line Tax	53.2	55.6	64.3	53.7	55.1	56.5	56.3
Cannabis Tax	-	-	-	-	-	8.2	8.2
Executive Pay	206.0	100.0	125.0	140.0	140.0	140.0	140.0
Local Tax Revenues	4,426.0	4,460.0	4,363.4	4,457.2	4,610.0	4,743.1	4,872.4
Licenses, Permits & Franchises	29.0	30.3	29.7	31.9	32.1	31.9	31.8
Fines, Forfeitures & Penalties	3.2	3.0	3.8	3.1	3.1	3.1	3.1
Interest & Investment Income	105.0	121.1	152.2	146.7	146.7	143.9	135.0
Rents & Concessions	12.5	14.6	13.0	14.1	15.4	15.4	15.4
Licenses, Fines, Interest, Rent	149.6	168.9	198.7	196.0	197.3	194.3	185.2
Social Service Subventions	(3.4)	337.6	330.0	353.0	359.9	359.9	359.9
Disaster Relief - FEMA & ARPA	2.6	170.0	123.6	80.0	155.7	8.7	4.4
Other Grants & Subventions	303.9	1.5	1.4	2.4	1.7	1.7	1.7
Federal Subventions	303.1	509.1	455.1	435.3	517.3	370.3	366.0
Social Service Subventions	278.4	305.4	324.4	313.7	318.4	318.4	318.4
Health & Welfare Realignment - Sales Tax	247.9	233.7	233.3	238.5	245.4	253.1	260.7
Health & Welfare Realignment - VLF	42.8	48.0	42.8	45.1	45.0	45.0	45.0
Health & Welfare Realignment - CalWORKs	37.6	21.7	21.7	22.9	24.1	24.1	24.1
Health/Mental Health Subventions	211.7	160.8	162.6	86.7	90.2	90.2	90.2
Public Safety Sales Tax	94.9	100.4	98.1	99.6	102.3	105.4	108.5
Motor Vehicle In-Lieu (County & City)	1.6	-	-	-	-	-	-
Public Safety Realignment (AB109)	58.5	51.6	54.1	55.4	56.8	58.3	59.8
Other Grants & Subventions	55.5	42.5	51.6	16.0	16.0	16.0	16.0
State Subventions	1,029.0	964.1	988.5	877.9	898.3	910.5	922.7
General Government Service Charges	48.2	51.2	41.1	50.7	50.9	50.9	50.9
Public Safety Service Charges	43.8	42.4	45.4	45.6	46.2	46.2	46.2
Recreation Charges - Rec/Park	23.7	27.6	25.9	27.2	29.5	29.5	29.5
MediCal, MediCare & Health Svc. Chgs.	84.9	105.6	115.2	171.4	174.7	174.7	174.7
Other Service Charges	22.4	19.9	19.0	19.1	18.7	18.7	18.7
Charges for Services	223.0	246.7	246.6	314.1	319.9	319.9	319.9
Recovery of General Gov't Costs	19.9	26.2	26.2	27.7	27.7	27.7	27.7
Other Revenues	15.6	21.4	13.2	31.8	21.2	21.2	21.2
TOTAL REVENUES	6,166.1	6,396.4	6,291.6	6,339.8	6,591.7	6,586.9	6,715.1
Transfers in to General Fund							
Airport	48.7	50.9	54.8	58.3	60.7	64.9	68.0
Commercial Rent Tax Transfer In	28.5	28.4	28.2	28.1	27.7	27.7	28.0
Other Transfers	114.9	132.1	132.5	124.5	124.5	124.5	124.5
Total Transfers-In	192.1	211.3	215.5	211.0	212.9	217.2	220.6
TOTAL GF Revenues and Transfers-In	6,358.2	6,607.7	6,507.1	6,550.8	6,804.6	6,804.1	6,935.7

Appendix D: General Fund Baselines and In-Lieu Transfers FY 2022-23 through FY 2027-28
 (\$ millions)

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Deficit
	Actuals	Budget	Projection	Projection	Projection	Projection	Triggers
General Fund Aggregate Discretionary Revenue (ADR)	\$ 4,459.6	\$ 4,497.8	\$ 4,431.6	\$ 4,625.6	\$ 4,782.4	\$ 4,911.8	\$ 5,030.9
Municipal Transportation Agency (MTA)							
MTA - Municipal Railway Baseline (Central Subway included)	315.2	317.9	313.2	326.9	338.0	347.1	355.6
MTA - Parking & Traffic Baseline	112.0	112.6	111.1	116.0	119.9	123.1	126.1
MTA - Population Adjustment	58.0	82.8	68.6	74.5	75.4	76.2	77.6
MTA - 80% Parking Tax In-Lieu	66.2	67.3	67.8	69.5	71.0	72.5	74.0
Subtotal Municipal Transportation Agency	\$ 551.4	\$ 580.6	\$ 560.8	\$ 586.8	\$ 604.3	\$ 619.0	\$ 633.3
Library Preservation Fund							
Library - Baseline	102.1	102.7	101.3	105.7	109.3	112.3	115.0
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	78.7	79.5	78.5	79.2	79.4	80.3	81.7
Subtotal Library	180.8	182.2	179.8	185.0	188.7	192.6	196.7
Children's Services							
Children's Services Baseline - Requirement	215.4	217.2	214.0	223.4	231.0	237.2	243.0
Transitional Aged Youth Baseline - Requirement	25.9	26.1	25.7	26.8	27.7	28.5	29.2
Early Care and Education Baseline (Jun 2018 Prop C) - Requirement *	93.8	73.2	73.8	87.7	100.8	103.5	106.1
Public Education Services Baseline (50% GF + 50% Non GF)	12.9	13.0	12.8	13.4	13.9	14.2	14.6
NAV	125.5	127.2	125.6	126.8	127.0	128.5	130.6
Public Education Enrichment Fund	136.3	137.5	135.5	141.4	146.2	150.1	153.8
1/3 Annual Contribution to Preschool for All	45.5	45.8	45.2	47.1	48.7	50.0	51.3
2/3 Annual Contribution to SF Unified School District	91.0	91.6	90.3	94.3	97.5	100.1	102.5
Student Success Fund (SFUSD)	N/A	11.0	11.0	35.0	45.0	60.0	61.5
Subtotal Childrens Services (Required)	609.8	605.3	598.4	654.5	691.6	722.2	738.7
Recreation and Parks							
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	78.7	79.5	78.5	79.2	79.4	80.3	81.7
Recreation & Parks Baseline - Requirement	82.2	82.2	82.2	85.2	88.2	90.5	92.7
Subtotal Recreation and Parks (Required)	160.8	161.7	160.6	164.4	167.6	170.9	174.4
Other Financial Baselines							
Our City, Our Home Baseline (Nov 2018 Prop C) - Requirement	215.0	215.0	215.0	215.0	215.0	215.0	215.0
Housing Trust Fund Requirement	45.2	48.0	48.0	50.8	52.5	53.9	55.3
Dignity Fund	56.1	56.1	56.1	59.1	62.1	65.1	66.7
Street Tree Maintenance Fund	23.0	22.8	23.0	23.9	24.7	25.4	26.0
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.0	4.3	4.3	4.4	4.5	4.6	4.7
City Services Auditor: 0.2% of Citywide Budget	26.1	26.0	26.0	26.5	27.5	28.2	29.0
Subtotal Other Financial Baselines (Required)	369.4	372.2	372.4	379.7	386.3	392.2	396.6
Total Financial Baselines	1,872.2	1,902.0	1,872.0	1,970.3	2,038.5	2,096.8	2,139.7

* Per the ordinance (File n# 230661), a credit of \$20 million and \$10 million was applied against the Early Care and Education Baseline requirement from interest earnings in FY20223-24 and FY2024-25, respectively.

Appendix E: Summary of Projected Reserve Balances - FY 2022-23 through FY 2027-28 (\$millions)

This appendix provides an updated version of Table 4 from the December Joint Report.

	FY 2022-23			FY 2023-24			FY 2024-25			FY 2025-26			FY 2026-27			FY 2027-28		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use
General Reserve	\$ 57.8	\$ 70.8	-	\$ 128.7	\$ 14.0	-	\$ 142.6	\$ 22.1	-	\$ 164.8	\$ 16.3	-	\$ 181.1	\$ 20.3	-	\$ 201.5		
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-
Budget Stabilization Reserve	275.2	-	-	275.2	-	-	275.2	-	-	275.2	30.0	-	305.2	97.1	-	402.3		
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	-	-	389.7	30.0	-	419.7	97.1	-	516.8		
Percent of General Fund Revenues	6.3%			6.2%			6.7%			5.9%			6.4%			7.7%		
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-
Federal and State Emergency Grant Disallowance	81.3	-	-	81.3	-	(41.3)	40.0	-	-	40.0	-	-	40.0	-	-	40.0	-	-
Fiscal Cliff Reserve	220.4	-	(90.2)	130.3	-	-	130.3	-	-	130.3	-	-	130.3	-	-	130.3	-	-
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	(29.5)	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Revenue Management Reserve	130.3	-	-	130.3	-	-	130.3	-	-	130.3	-	-	130.3	-	-	130.3	-	-
Free City College Reserve	6.9	-	(6.9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mission Bay Transportation Improvement Fund	1.0	-	(1.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hotel Tax Loss Contingency Reserve	3.5	-	(3.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Reserves	528.7	-	(101.5)	427.2	-	(70.8)	356.4	-	-	356.4	-	-	356.4	-	-	356.4	-	-
Litigation Reserve	-	10.8	(10.8)	-	10.8	(10.8)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)
Salary and Benefits Reserve	27.9	7.0	(34.9)	-	21.0	(21.0)	-	29.6	(29.6)	-	30.3	(30.3)	-	31.1	(31.1)	-	31.1	(31.1)
Annual Operating Reserves	27.9	17.8	(45.7)	-	31.8	(31.8)	-	40.6	(40.6)	-	41.3	(41.3)	-	42.1	(42.1)	-	42.1	(42.1)
TOTAL, General Fund Reserves	1,004.2	88.6	(147.3)	945.5	45.8	(102.6)	888.8	62.7	(40.6)	910.9	87.6	(41.3)	957.3	159.5	(42.1)	1,074.7		

BOARD of SUPERVISORS



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MEMORANDUM

TO: Greg Wagner, City Controller, Office of the Controller
Anna Duning, Budget Director, Mayor's Office of Public Policy and Finance

FROM: Brent Jalipa, Assistant Clerk
Budget and Appropriations Committee

DATE: April 1, 2024

SUBJECT: HEARING MATTER INTRODUCED

The Board of Supervisors' Budget and Appropriations Committee has received the following hearing request, introduced by Supervisor Connie Chan:

File No. 240320
Hearing on the March update to the City and County of San Francisco's Five-Year Financial Plan; and requesting the Controller and the Mayor's Budget Director to report.

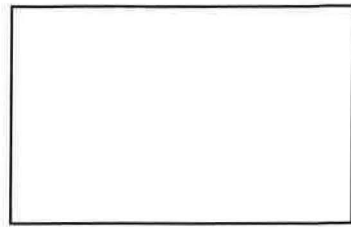
Pursuant to the hearing request, you or a representative will be expected to attend and present on the subject when this matter is agendaized.

If you have any comments or reports to be included with the file, please forward them to me by email to: brent.jalipa@sfgov.org.

c: Todd Rydstrom, Office of the Controller

Introduction Form

(by a Member of the Board of Supervisors or the Mayor)



I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee (Ordinance, Resolution, Motion or Charter Amendment)
- 2. Request for next printed agenda (For Adoption Without Committee Reference)
(Routine, non-controversial and/or commendatory matters only)
- 3. Request for Hearing on a subject matter at Committee
- 4. Request for Letter beginning with "Supervisor _____ inquires..."
- 5. City Attorney Request
- 6. Call File No. _____ from Committee.
- 7. Budget and Legislative Analyst Request (attached written Motion)
- 8. Substitute Legislation File No. _____
- 9. Reactivate File No. _____
- 10. Topic submitted for Mayoral Appearance before the Board on _____

The proposed legislation should be forwarded to the following (please check all appropriate boxes):

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission Human Resources Department

General Plan Referral sent to the Planning Department (proposed legislation subject to Charter 4.105 & Admin 2A.53):

- Yes No

(Note: For Imperative Agenda items (a Resolution not on the printed agenda), use the Imperative Agenda Form.)

Sponsor(s):

Chan

Subject:

Hearing - Five Year Financial Plan March Update

Long Title or text listed:

Hearing on the March update to the City and County of San Francisco's Five-Year Financial Plan and requesting the Controller and Mayor's Budget Director to report.

Signature of Sponsoring Supervisor: