FY 2022-23

Six-Month Budget Status Report

The Controller's Office provides periodic budget status updates to the City's policy makers during each fiscal year, as directed by Charter Section 3.105. This report provides expenditure and revenue information and projections as of December 31, 2022, incorporating more current information up to the date of publication as available.

February 15, 2023

City & County of San Francisco
Office of the Controller
Budget & Analysis Division

About the 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. 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

- **We project a $245.4 million General Fund ending balance in the current fiscal year, a $76.7 million improvement from the $168.7 million balance in our last projection (January 2023 Five-Year Financial Plan, or 5-Year Plan) and a $39.8 million improvement versus the adopted budget.** Application of this additional current year fund balance would decrease the projected shortfall in the upcoming two-year budget to $651.6 million after accounting for a $14.8 million draw from the Public Health Revenue Management Reserve.

- **A $30.2 million citywide revenue surplus is due to higher projected levels of hotel tax, property tax, executive pay tax, interest income, and other revenues, partially offset by shortfalls in transfer tax, business taxes, and Federal Emergency Management Agency (FEMA) recoveries for COVID-related costs.** Strength in hospitality industry related revenues, such as hotel and sales taxes, continues from the prior year, and interest income is boosted by successive Fed funds rate increases. Revenues related to office-using sectors, including property transfer and business taxes, are below budget given continued high levels of remote work and uncertainty about office use and values going forward. These projections will be revised in the March 2023 Update to the January 2023 5-Year Plan to reflect updated information about the future of convention and office-using sectors.

- **Departments are projected to end the year with a $1.7 million net operating shortfall.** While state sales tax subvention revenues are above budget and personnel cost savings are projected across many departments, they are offset by shortfalls in certain fee revenues and unanticipated expenditures in others. The Police Department is overspending on overtime, offset in part by savings from unfilled positions, and is expected to exceed its personnel budget by a net $27.6 million. The $14.8 million revenue shortfall at the Department of Public Health, stemming largely from the declining patient census at Laguna Honda Hospital as it seeks CMS recertification, is projected to be closed with the department’s revenue management reserve. Salary, benefit, aid, and other operating savings at the Human Services Agency are offset by the need to fund up to $26.0 million in potential repair and lost revenue costs at hotels used for shelter during the public health emergency.

Table 1. FY 2022-23 Projected General Fund Variances to Budget ($ millions)

		Prior Projection	6-Month	Change
	FY 2021-22 Ending Fund Balance	497.2	497.2	-
	Appropriation in the FY 2022-23 Budget	(457.4)	(457.4)	-
A.	**Prior Year Fund Balance Above Budgeted Levels**	**39.8**	**39.8**	-
	Citywide Revenue	(32.2)	30.2	62.4
	Baseline Contributions	(1.8)	(1.2)	0.6
	Departmental Operations	(0.5)	(1.7)	(1.2)
B.	**Current Year Revenues and Expenditures**	**(34.5)**	**27.4**	**61.9**
	Approved Use of General Reserve	-	-	-
	Public Health Revenue Management Reserve	-	14.8	14.8
C.	**Supplemental Appropriations & Use of Reserves**	-	**14.8**	**14.8**
D.	**Previously Unappappropriated Fund Balance**	**163.4**	**163.4**	-
E.	**FY 2022-23 Projected Ending Balance**	**168.7**	**245.4**	$\boxed{76.7}$

FY 2022-23 Six-Month Budget Status Report

A. GENERAL FUND STARTING BALANCE

Total projected uses of fund balance at the time the FY 2022-23 and FY 2023-24 adopted budget were $457.4 million, of which $307.7 million was appropriated in FY 2022-23 and $149.7 million was appropriated in FY 2023-24. General Fund available fund balance at the end of FY 2021-22 was $39.8 million more than appropriated and assigned.

B. CURRENT YEAR REVENUES AND EXPENDITURES

Citywide Revenue Surplus

As shown in Table 2, citywide revenues are projected to be $30.2 million above budget, an increase of $62.5 million from prior projection assumed in the January 2023 5-Year Plan. The variance from budget is largely due to year-to-date weakness in business and real property transfer tax, as well as anticipated slowing of COVID-related reimbursements from FEMA. These losses are more than offset by strength in the hospitality and tourism sector – evidenced by growth in hotel tax and concessions revenue at San Francisco International Airport – as well as the new tax on executive pay, interest income, and sales tax-based sources including the 1% local sales tax, public safety sales tax, and health and welfare realignment.

Table 2. General Fund Citywide Revenues Variances to Budget ($ millions)

	FY 2021-22	FY 2022-23			Variance	
	Actuals	Budget	5-Yr	6-Mo	Vs Budget	Vs 5-Yr
Property Taxes	2,337.2	2,379.5	2,429.0	2,449.2	69.7	20.2
Property Tax	1,971.3	2,051.0	2,091.0	2,099.0	48.0	8.0
Excess ERAF	365.9	328.5	338.0	350.2	21.7	12.2
Business Taxes	861.2	902.3	831.1	848.9	(53.4)	17.8
Sales Tax - Local 1%	188.3	182.9	203.7	201.4	18.6	(2.3)
Hotel Room Tax	158.2	188.9	257.4	264.9	76.1	7.5
Utility User & Access Line Taxes	161.0	129.7	157.4	161.1	31.4	3.7
Parking Tax	71.1	80.2	80.4	80.2	-	(0.2)
Real Property Transfer Tax	520.3	390.5	233.8	233.8	(156.7)	-
Sugar Sweetened Beverage Tax	12.0	13.3	13.7	13.7	0.5	-
Stadium Admissions Tax	4.6	5.4	5.4	8.0	2.6	2.6
Cannabis Tax	-	-	-	-	-	-
Executive Pay	-	60.0	100.0	100.0	40.0	-
Franchise Taxes	15.4	14.3	15.6	15.6	1.3	-
Interest Income	31.7	44.5	71.7	74.8	30.3	3.2
FEMA Disaster Relief	183.4	243.4	183.4	183.4	(59.9)	-
ARPA	312.4	-	-	-	-	-
Health & Welfare Realignment	283.5	269.1	293.1	299.5	30.3	6.4
Public Safety Realignment	52.1	61.7	60.9	58.4	(3.2)	(2.4)
Public Safety Sales Tax	93.8	89.7	93.1	93.2	3.4	0.1
Airport Transfer In	37.9	37.1	37.1	43.7	6.6	6.6
Commercial Rent Tax Transfer In	28.7	34.0	27.3	26.7	(7.3)	(0.5)
Total Citywide Revenues	5,352.9	5,126.3	5,094.1	5,156.6	30.2	62.5

Baseline Contributions

Table 3 shows the impact of voter-mandated spending requirements. The General Fund portion of the baseline contribution increased by $1.2 million compared to budget and increased by $6.7 million versus prior projections. Highlights include:

- MTA baselines are projected to be $0.7 million above budget due to a slight increase in aggregate discretionary revenue (ADR).
- The Library baseline and property tax set-aside is projected to be $2.9 million above budget.
- The total Public Education Enrichment Fund annual contribution to SFUSD and OECE is projected to increase by $0.2 million from budget.
- The Children and Transitional-Aged Youth expenditure baselines were funded above the required levels in the adopted FY 2022-23 budget, therefore the projected increase in ADR does not increase spending requirements for them.

Table 3. General Fund Baseline and In-Lieu Transfers ($ millions)

	FY 2021-22	FY 2022-23			Variance		
	Actuals	Budget	5-Yr	6-Mo	Vs Budget	Vs 5-Yr	
General Fund Aggregate Discretionary Revenue (ADR)	*4,307.2*	*4,329.1*	*4,291.8*	*4,337.0*	*7.8*	*45.2*	
Municipal Transportation Agency (MTA)							
MTA - Municipal Railway Baseline: 6.686% ADR	288.0	289.4	286.9	290.0	0.5	3.0	
MTA - Central Subway	3.9	16.5	16.5	16.5	-	-	
MTA - Parking & Traffic Baseline: 2.507% ADR	108.0	108.5	107.6	108.7	0.2	1.1	
MTA - Population Adjustment	55.6	58.0	58.0	58.0	-	-	
MTA - 80% Parking Tax In-Lieu	56.9	64.1	64.3	64.1	-	(0.2)	
Subtotal Municipal Transportation Agency	512.3	536.7	533.4	537.4	0.7	4.0	*
Library Preservation Fund							
Library - Baseline: 2.286% ADR, net of General Fund Return	98.5	99.0	98.1	99.1	0.2	1.0	*
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	72.6	75.6	77.7	78.3	2.7	0.6	
Subtotal Library	171.0	174.6	175.8	177.5	2.9	1.6	
Children's Services							
Children's Services Baseline - Requirement: 4.830% ADR	208.0	209.1	207.3	209.5	0.4	2.2	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	25.0	25.1	24.9	25.2	0.0	0.3	
Early Care and Education Baseline (Jun 2018 Prop C) - Requirement: 2.212% ADR	90.6	91.1	90.3	91.2	0.2	1.0	
Public Education Services Baseline: 0.290% ADR (50% GF)	12.5	12.6	12.4	12.6	0.0	0.1	*
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	116.1	121.2	124.3	124.9	3.7	0.6	
Public Education Enrichment Fund: 3.057% ADR	*131.7*	*132.3*	*131.2*	*132.6*	*0.2*	*1.4*	*
1/3 Annual Contribution to Preschool for All	43.9	44.1	43.7	44.2	0.1	0.5	
2/3 Annual Contribution to SF Unified School District	87.8	88.2	87.5	88.4	0.2	0.9	
Subtotal Childrens Services (Required)	583.9	591.3	590.4	595.9	4.6	5.5	
Recreation and Parks							
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	72.6	75.6	77.7	78.3	2.7	0.6	
Recreation & Parks Baseline - Requirement	79.2	82.2	82.2	82.2	-	-	
Subtotal Recreation and Parks (Required)	151.7	157.8	159.9	160.5	2.7	0.6	
Other Financial Baselines							
Our City, Our Home Baseline (Nov 2018 Prop C) - Requirement	215.0	215.0	215.0	215.0	-	-	
Housing Trust Fund Requirement	42.4	45.2	45.2	45.2	-	-	*
Dignity Fund	53.1	56.1	56.1	56.1	-	-	*
Street Tree Maintenance Fund	22.2	22.3	22.1	22.4	0.0	0.2	*
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.7	4.0	4.0	4.1	0.1	0.1	
City Services Auditor: 0.2% of Citywide Budget	15.6	16.7	16.7	16.7	-	-	
Mission Bay Transportation Improvement Fund	7.6	8.8	8.8	8.8	-	-	*
Subtotal Other Financial Baselines	359.6	368.1	367.9	368.3	0.1	0.3	
* General Fund Impact					1.2	6.7	

Departmental Operations

A projected departmental operating shortfall of $1.7 million is summarized in Table 4 below and further detailed in Appendix 2.

Table 4. FY 2022-23 Departmental Operating Summary ($ millions)

Note: Figures may not sum due to rounding.

Net Shortfall Departments	Revenue Surplus / (Shortfall)	Expenditure Savings/ (Deficit)	Net Surplus / (Shortfall)
Police	(0.0)	(27.6)	(27.6)
Public Health	(15.2)	0.4	(14.8)
City Planning	(9.0)	4.9	(4.1)
Assessor/Recorder	(1.1)	0.2	(0.9)
Board of Appeals	(0.2)	(0.1)	(0.3)
Fine Arts Museum	-	(0.2)	(0.2)
Subtotal Net Shortfall Departments	(25.5)	(22.4)	(47.9)

Net Surplus Departments	Revenue Surplus / (Shortfall)	Expenditure Savings/ (Deficit)	Net Surplus / (Shortfall)
General City Responsibility	1.6	10.0	11.6
Homelessness and Supportive Housing	-	6.9	6.9
Human Services Agency	2.3	3.6	5.8
Fire	8.3	(3.9)	4.4
Adult Probation	-	2.8	2.8
City Administrator	(2.0)	4.6	2.6
Public Works	(3.5)	5.8	2.3
Ethics Commission	-	1.3	1.3
Superior Court	-	1.1	1.1
Juvenile Probation	-	1.1	1.1
Sheriff Accountability	-	1.0	1.0
Mayor	-	0.8	0.8
Health Service System	(0.0)	0.8	0.8
Sheriff	(0.1)	0.8	0.7
Police Accountability	-	0.6	0.6
Emergency Management	0.6	-	0.6
Public Defender	-	0.5	0.5
Subtotal Net Surplus Departments	**7.2**	**37.7**	**44.9**
All Other	(19.5)	20.9	1.4
TOTAL	(37.8)	36.2	(1.7)

C. SUPPLEMENTAL APPROPRIATIONS & USE OF RESERVES

No General Fund supplemental appropriations have been approved by the Board of Supervisors in the current year. One supplemental appropriating $5.5 million of General Reserve to the Department of Public Health for wellness hubs to provide drug and alcohol treatment is pending at the Board of Supervisors.

Uses of the General Reserve in the current fiscal year require a like amount to be deposited in the budget year. Should the Board of Supervisors approve the supplemental for the Department of Public Health, this required deposit would be offset by a reduction of the same amount in the operating shortfalls reported for these departments in Appendix 2, for a net zero impact on projected ending balance.

Table 5. Pending and Approved Supplemental Appropriations ($ millions)

Source	Use	Status	Amount
General Reserve	DPH - Wellness	Pending	5.5
	Total Pending Supplementals		**5.5**

The Department of Public Health is projected to draw $14.8 million from the Public Health Revenue Management Reserve to close a revenue shortfall largely stemming from the declining patient census at Laguna Honda Hospital as it seeks recertification from the Center for Medicare Services.

D. PREVIOUSLY UNAPPROPRIATED FUND BALANCE

The projection includes $163.4 million of unappropriated fund balance assumed spent to reduce shortfalls in the January 2023 5-Year Plan.

E. PROJECTED ENDING FUND BALANCE OF $245.4 MILLION

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2022-23 of $245.4 million, a $76.7 million improvement from prior projections prepared in November 2022, for the January 2023 5-Year Plan.

OTHER FUNDS

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds receive General Fund baseline transfers and other subsidies. Others are used to record dedicated tax revenues and related expenditures.

Enterprise funds are used primarily for self-supporting agencies, including the Airport, the Public Utilities Commission (PUC), and the Port. The Municipal Transportation Agency (MTA) receives a significant General Fund subsidy.

Projected General Fund Support requirements for these funds are included in the department budget projections in Appendix 2. Appendix 4 provides a table of selected special revenue and enterprise fund projections and a discussion of their operations.

UPCOMING PROJECTIONS

The March 2023 Update to the January 2023 5-Year Plan will provide revenue and expenditure projections for FY 2023-24 through FY 2027-28 and will incorporate fund balance projections identified in this report. FY 2022-23 projections will be updated in the Nine-Month Budget Status Report, scheduled to be published in early May 2023.

SIX-MONTH OVERTIME REPORT

Administrative Code Section 18.13-1 requires the Controller to submit overtime reports to the Board of Supervisors at the time of the Six-Month and Nine-Month Budget Status Reports, and annually. Appendix 5 presents actual overtime expenditures through the first six months of the year. Administrative Code Section 3.17 requires select departments to request a supplemental appropriation to increase overtime budgets in annual operating funds.

APPENDICES

1. General Fund Revenues and Transfers In
2. General Fund Department Projections
3. Reserves Status
4. Other Funds Highlights
5. Overtime Report

Appendix 1. General Fund Revenues and Transfers In

As shown in Table A1-1, total General Fund revenues are projected to be $12.7 million above revised budget, including $30.2 million above budget in citywide revenue, and $17.6 million below budget in departmental General Fund revenues.

Table A1-1: Detail of General Fund Revenue and Transfers In ($ millions)

	FY 2021-22	FY 2022-23					
GENERAL FUND ($ Millions)	Year End Actual	Original Budget	Revised Budget	5-Year Fall Update	6-Month	Var Vs Rev Budget	Note
PROPERTY TAXES	$ 2,337.2	$ 2,379.5	$ 2,379.5	$ 2,429.0	$ 2,449.2	69.7	1
BUSINESS TAXES							
Business Registration Tax	55.8	37.0	37.0	37.0	37.0	-	
Payroll Tax	-5.1	-4.0	-4.0	4.0	8.5	12.5	
Gross Receipts Tax	811.1	869.3	869.3	790.1	803.4	(65.9)	
Admin Office Tax	-0.6	0.0	0.0	0.0	0.0	-	
Total Business Taxes	861.2	902.3	902.3	831.1	848.9	(53.4)	2
OTHER LOCAL TAXES							
Sales Tax	188.3	182.9	182.9	203.7	201.4	18.6	3
Hotel Room Tax	158.2	188.9	188.9	257.4	264.9	76.1	4
Utility Users Tax	105.2	82.6	82.6	104.6	108.2	25.6	5
Parking Tax	71.1	80.2	80.2	80.4	80.2	-	6
Real Property Transfer Tax	520.3	390.5	390.5	233.8	233.8	(156.7)	7
Sugar Sweetened Beverage Tax	12.0	13.3	13.3	13.7	13.7	0.5	
Stadium Admission Tax	4.6	5.4	5.4	5.4	8.0	2.6	
Access Line Tax	55.8	47.1	47.1	52.9	52.9	5.8	
Cannabis Tax	0.0	0.0	0.0	0.0	0.0	-	8
Overpaid Executive Tax	0.0	60.0	60.0	100.0	100.0	40.0	9
Total Other Local Taxes	1,115.5	1,050.8	1,050.8	1,051.9	1,063.2	12.4	
LICENSES, PERMITS & FRANCHISES							
Licenses & Permits	9.2	12.6	12.6	12.6	12.2	(0.4)	
Franchise Fee	15.4	14.3	14.3	15.6	15.6	1.3	
Total Licenses, Permits & Franchises	24.6	26.8	26.8	28.1	27.7	0.9	
FINES, FORFEITURES & PENALTIES	5.7	3.1	3.1	3.1	2.1	(1.0)	
INTEREST & INVESTMENT INCOME	31.7	44.5	44.5	71.7	74.8	30.3	10
RENTS & CONCESSIONS	11.3	13.1	13.1	13.1	10.1	(3.0)	

GENERAL FUND ($ Millions)	FY 2021-22 Year End Actual	FY 2022-23 Original Budget	FY 2022-23 Revised Budget	FY 2022-23 5-Year Fall Update	FY 2022-23 6-Month	FY 2022-23 Var Vs Rev Budget	Note
INTERGOVERNMENTAL REVENUES							
Federal Government	587.1	561.6	568.0	501.6	508.1	(59.9)	11
State Government	1003.7	942.3	965.9	968.9	1004.4	38.4	12
Other Regional Government	3.4	2.6	3.4	2.6	3.4	-	
CHARGES FOR SERVICES	216.3	217.5	217.6	217.5	206.2	(11.4)	
RECOVERY OF GEN. GOV'T. COSTS	23.6	19.9	19.9	19.9	19.9	-	
OTHER REVENUES	20.3	19.4	19.4	19.4	9.8	(9.6)	
TOTAL REVENUES	6,241.7	6,183.4	6,214.4	6,158.0	6,227.8	13.4	
TRANSFERS INTO GENERAL FUND:							
Airport Transfer In	37.9	37.1	37.1	37.1	43.7	6.6	13
Commercial Rent Tax Transfer In	28.7	34.0	34.0	27.3	26.7	(7.3)	14
Other Transfers	121.8	129.8	131.9	129.8	131.9	-	
Total Transfers In	188.5	200.9	203.0	194.1	202.4	(0.7)	
TOTAL GENERAL FUND RESOURCES	$ 6,430.1	$ 6,384.3	$ 6,417.4	$ 6,352.1	$ 6,430.2	12.7	

1. Property Tax

Total property tax revenue in the General Fund is projected to be $69.7 million (2.9%) above budget and $112.0 million (4.8%) above prior year actual revenue. These figures are a $20.6 million increase from the January 2023 5-Year Plan.

Supplemental and escape related property assessments, which are triggered by new construction or changes in the majority ownership of properties, are being enrolled by the Assessor at higher rates than assumed in the budget, increasing projected revenue by $25.0 million and $11.8 million, respectively. Secured and unsecured property tax revenues are projected at $7.6 and $3.8 million over budget, respectively, due to higher than anticipated growth in assessed values. In addition, the state Department of Finance approved approximately $21.0 million less in tax increment for the redevelopment successor agency (OCII) than assumed in the budget, increasing General Fund revenue by $10.6 million. These revenue increases are partially offset by a $20.1 million increase to projected refunds related to assessment appeals given filings in the first quarter of the fiscal year.

Taken together, these changes increase the amount of revenue deposited into Educational Revenue Augmentation Fund (ERAF) and also the direct property tax allocations to the San Francisco Unified School District, San Francisco County Office of Education, and City College. As more of these entities' revenue limits are achieved through direct allocations, their distributions from ERAF are reduced. These changes, as well as final reconciliation of prior year ERAF allocations, result in a $21.7 million increase in excess ERAF to be returned to the General Fund.

At the end of February, the California Department of Education and California Community Colleges Chancellor's Office will release FY 2020-21 recalculation reports, FY 2021-22 annual reports, and FY 2022-23 First Principal Apportionment (P-1) reports, which may change ERAF entitlement amounts for local education entities and in turn affect the City's current excess ERAF revenue.

Property tax set asides to special revenue funds are shown in Table 3 above.

2. Business Tax

Business tax revenues in the General Fund include business registration fees, gross receipts taxes, and administrative office taxes, and are projected to be $848.9 million in FY 2022-23, or $53.4 million (5.9%) below budget and $12.3 million (1.4%) below prior year actual revenues.

The pandemic has had a lasting effect on the local economy. The gross receipts tax base has been reduced both by a decline in the City's population and by employees continuing to work from home even as the severity of the pandemic has waned. When the City first forecasted the impact of COVID on business taxes, there was a general assumption that telecommuting would decline as pandemic conditions approved. It appears that this dynamic has fallen in importance and now the degree of telecommuting is driven by negotiations between employers and employees over their respective desires for flexibility and productivity.

For office-based categories of businesses, the gross receipts tax is dependent in part on San Francisco payroll. Businesses only include payroll for employees that physically work within the City. The budget assumed that by the end of 2022, employees would work from home approximately 33% of the time, on average. But telecommuting has proved more persistent than expected. For example, according to the office security firm Kastle, in January 2023, office attendance in the Bay Area was still less than half of pre-pandemic levels. Ridership on BART in downtown remains about 70% lower than pre-pandemic levels. To the extent that employees previously commuted into the City but now work at home outside of the City, gross receipts taxes will be reduced. These declines are only partially mitigated by workers who previously commuted out of the City but now work at home within the City. The current projection assumes that telecommuting has led to a 40% reduction in the gross receipts tax base in office-based industries.

The budget did not anticipate the significant number of layoffs that have occurred this fiscal year. As reported to the California Employment Development Division, there have been 4,654 layoffs noticed in San Francisco between July 1, 2022, and December 31, 2022. Layoffs include 794 employees at Twitter, 736 at Invitae, 362 at Meta, 311 at Doordash, and 227 at Lyft. Reduced payroll could result in lower gross receipts apportioned to San Francisco and thus lower tax revenue. Whereas the budget assumed that the gross receipts tax base would grow 4% in 2023, the current projection reduces growth to 0%.

Proposition F (2020) contained a provision that tax increases in certain business sectors scheduled for 2023 would be delayed to 2024 if total gross receipts in 2021 was less than 90% of total gross receipts in 2019. The budget assumed that there would be no delay in the increases. However, total gross receipts did not reach the 90% threshold, so the increases originally scheduled for 2023 will be delayed to 2024. This will affect the first two quarterly prepayments that businesses make for 2023, which are paid in FY 2022-23 and reduce projected revenues by an estimated $10 million.

3. Local Sales Tax

Local sales tax revenues are projected to be $201.4 million in FY 2022-23, $18.6 million (10.1%) above budget and $13.1 million (7.0%) above prior year actuals. In San Francisco, sales taxes grew to $188.3 million in FY 2021-22, an annual improvement of $41.5 million or 28.2% over the prior year. This growth has continued in FY 2022-23 as businesses continue to their economic recovery. San Francisco's sales tax recovery previously lagged behind statewide and other Bay Area counties but has now exceeded both in year over year growth. In the first three months of FY 2022-23, San Francisco's sales tax grew by 19.5%, surpassing the state (7.7%) and the entire Bay Area (10.4%). This growth can primarily be seen in the restaurants and hotels, business and industry, general consumer goods, and fuel and service stations industries. Higher prices due to inflation also contributed to increased sales tax revenues. However, year-over-year quarterly growth in sales tax revenues is projected to slow starting in the latter half of the fiscal year and persist through FY 2023-24.

4. Hotel Room Tax

Hotel taxes for all funds are projected to be $287.5 million in FY 2022-23, $71.0 million (32.8%) above budget and $108.4 million (60.5%) above prior year. General Fund hotel tax revenues are projected to be $264.9 million in FY 2022-23, $76.1 million (40.3%) above budget and $106.8 million (67.5%) above prior year actual revenues due to recovery in the industry as a result of eased restrictions on travel worldwide and the resumption of leisure, business and convention-related travel.

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. TRI (Total Room Inventory, which adjusts for hotel closures) RevPAR for the first six months of FY 2022-23 averaged $154.04, an increase of 92.0% over the TRI RevPAR of $80.21 from FY 2021-22. When compared to pre-pandemic levels in 2019, TRI RevPAR for FY 2022-23 through December was 30.1% lower over the same period.

Enplanements at San Francisco International Airport have improved steadily since the onset of the pandemic. Domestic and international enplanements throughout calendar year (CY) 2022 were 73.1% greater than 2021, but behind 2019 by 26.6%. In CY 2021-22, the international sector improved 208.3% over CY 2020-21, but lagged behind CY 2018-19 by 34.1%. It is expected that international travel will continue to recover due to lifting of travel restrictions in Asia.

Because conventions drive up hotel room rates through compression pricing, the return of conferences and conventions has played a key role in the recovery of hotel tax revenues. In FY 2021-22, a total of 23 conferences with over 126,000 attendees took place in Moscone Center. This is compared to zero events in FY 2020-21 and 54 events with over 723,000 attendees in FY 2018-19. In the first half of FY 2022-23, San Francisco had 17 conferences with over 121,000 attendees. The effects of convention compression pricing have driven RevPAR to spike with each event.

November 2018 Proposition E allocates 1.5% of the 14% hotel tax rate (or approximately 10.7% of total hotel tax revenue) to arts programming outside of the General Fund. Due to greater than budgeted hotel tax revenues, the allocation to arts programs is projected to be $30.8 million in FY 2022-23, or $7.6 million (32.8%) above budget and $14.3 million (87.0%) above the prior year.

Table A1.1 Hotel Tax for the Arts, FY 2022-23 Budget versus Projected Allocations ($ millions)

	Budget	6-Month	Variance
Grants for the Arts	11.8	15.7	3.9
Arts Impact Endowment	1.8	2.4	0.6
Cultural Centers	2.8	3.7	0.9
Cultural Equity Endowment	4.6	6.2	1.5
Cultural Districts	2.2	2.9	0.7
Total	**23.2**	**30.8**	**7.6**

5. Utility Users Tax

Utility user tax revenue in FY 2022-23 is projected to be $108.2 million, $25.6 million (31.0%) above budget and $3.0 million (2.9%) above prior year actuals. Inflationary costs for natural gas, electric, and water is higher than expected, resulting in higher utility tax revenue, particularly electricity and gas. Residential utility consumers are exempt from the tax on electricity and gas consumption.

6. Parking Tax

Parking tax revenue in FY 2022-23 is projected to be $80.2 million, which is on budget and $9.1 million (12.8%) above prior year actual. This projection reflects year to date collections through the first half of the year, which have increased compared to the prior year, although still below pre-pandemic levels in 2019 due to fewer commuters and tourists visiting the City. Revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit under Charter Section 8A.105.

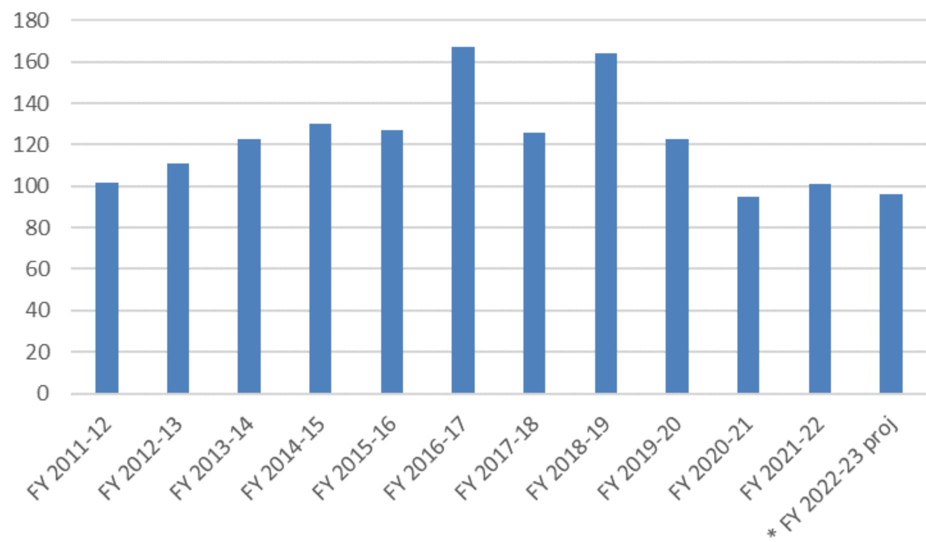
7. Real Property Transfer Tax

Real property transfer tax revenue in FY 2022-23 is projected to be $233.8 million, which is $156.7 million (40.1%) below budget and $286.5 million (55.1%) below prior year actual revenues. The effect of Proposition I in FY 2022-23, is estimated to be $144.4 million or approximately $115.5 million after baselines.

Since the beginning of the COVID-19 pandemic in spring 2020, businesses in office-using sectors have largely adopted remote and hybrid work practices, resulting in persistently high office vacancies, about 25% as of December 2022. This dynamic is expected to decrease commercial real estate values. Exacerbating this structural change in where and how we work – is the current rising interest rate environment, which increases the cost of borrowing and dampens investment in the commercial real sector. Additional factors include credit availability, foreign capital flows, and the relative attractiveness of San Francisco real estate compared to other investment options.

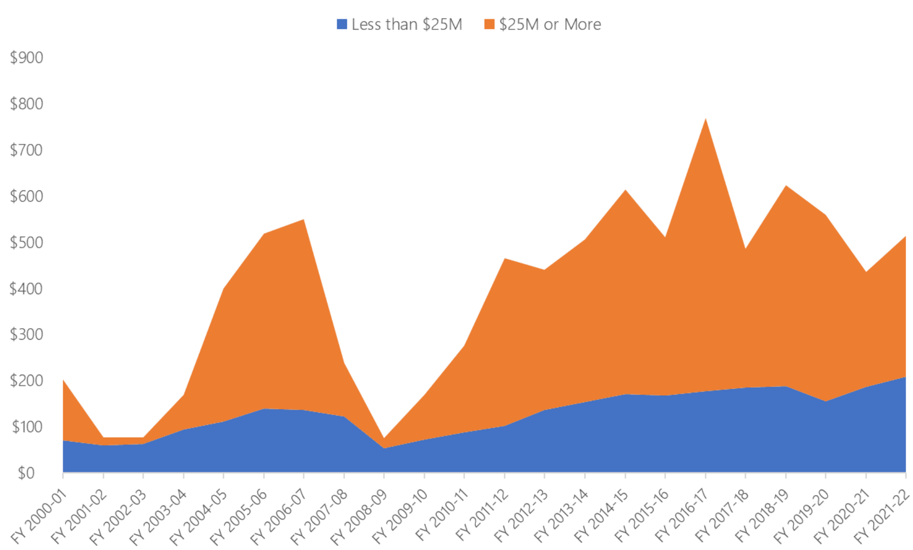
In the current year, the number of real property transfers above $10 million continues to stagnate. For context, the average annual number of transactions over $10 million between FY 2014-15 and FY 2018-19 was 143. That declines by 30%, to 97, between FY 2020-21 and FY 2022-23 (projected).

Number of Transfers Over $10 million, FY 2011-12 through FY 2022-23 (Projected)



Transfer tax revenue is one of the General Fund's most volatile sources. The tax is highly progressive, with a handful of high-value transactions generating a majority of the tax. For example, of the 10,200 total transactions that generated $520.3 million of revenue in FY 2021-22, the 39 transactions (or 0.4% of total) over $25.0 million generated $305.0 million (or about 60% of total revenue). The graph below shows rate-adjusted transfer tax since FY 2000-01 through FY 2021-22, broken out by the value of transactions above and below $25.0 million. The graph underscores the magnitude and volatility of the highest-tier, commercial transactions.

Rate-Adjusted Real Property Transfer Tax, FY 2000-01 through FY 2021-22 ($millions)



8. Cannabis Tax

In December 2022, the Mayor and Board of Supervisors delayed the imposition of the local cannabis excise tax from January 1, 2023, to January 1, 2026. The first collection of cash and recognition of revenue will occur in FY 2026-27.

9. Overpaid Executive Tax

In November 2020, voters passed Proposition L which created a new tax on businesses that depends on the ratio of the total compensation of the highest paid managerial employee to the median compensation of its employees in the City. Although the tax was operative for tax year 2022, no payments are required until the annual business tax filing at the end of February. The budget assumed that revenue would be $60 million in FY 2022-23. The timing of tax payments, however, means that in FY 2022-23, the City will collect a full year of the tax for 2022 as well as two quarterly prepayments for 2023. The current projection for FY 2022-23 is $100 million.

10. Interest & Investment Income

Interest and investment revenues are projected to be $74.8 million, $30.3 million (68.2%) above budget and $43.1 million (135.9%) above prior year actual revenues. This projected growth is solely due to continuous Fed rate hikes since March 2022. Average growth in net monthly interest earnings in the City's cash pool for all funds is 225.4% over the prior year. First quarter interest allocations will not occur until the end of February, after the quarter is closed in the financial system. General Fund earnings projections will incorporate actual experience in the Nine-Month Report.

11. Intergovernmental Revenues – Federal

Federal revenues are projected to be $508.1 million, or $59.9 million (10.6%) below budget and $285.0 million (35.9%) below prior year actuals. The entire variance is driven by FEMA reimbursements of pandemic response costs.

The FY 2022-23 budget assumed $243.4 million of FEMA reimbursement revenue. Given a shift in FEMA's prioritization, of obligating and remitting funds to jurisdictions that have not yet received funds, San Francisco is expecting a delay in reimbursements in the current year. The projection now assumes $183.4 million of FEMA reimbursements in FY 2022-23, shifting $59.9 million of revenue from FY 2022-23 to FY 2023-24.

12. Intergovernmental Revenues – State

State grants and subventions are projected to total $1,004.4 million, $38.4 million (4.0%) above revised budget and $0.7 million (0.1%) above prior year actual, primarily due to state sales tax-based subventions performing better than anticipated due to strength in sales tax in the rest of California relative to San Francisco. These subventions include Health & Welfare realignment ($30.3 million above adopted budget) and Public Safety realignment and Public Safety sales tax ($0.2 million above adopted budget).

13. Airport Transfer In

The Airport's annual service payment to the General Fund is projected to be $43.7 million in FY 2022-23, which is $6.6 million (17.9%) above budget and $5.8 million (15.3%) above prior year actuals. The San Francisco International Airport (SFO) transfers 15% of its annual concession revenue to the City's General Fund. This revenue is dependent upon lease agreements with concessionaires and passenger traffic. At the height of the COVID shutdown, in April 2020, enplanements at SFO decreased by 97% from the prior year. While enplanements have since improved, total explements throughout calendar year 2022 were still 26.6% below the same period in 2019. However, as compared to calendar year 2021, enplanements in 2022 were higher by 73.1%. As a result of continued improving activity at the Airport, the department projects greater than budgeted concession revenues and therefore increased transfers to the General Fund.

14. Commercial Rent Transfer In

The Commercial Rent Transfer In to the General Fund is projected to be $26.7 million, which is $7.3 million (21.5%) below budget and $1.7 million (6.0%) below prior year actuals. In June 2018, voters adopted a commercial rent tax to support early childcare and education. Pursuant to the measure, 15% percent of commercial rent tax revenue is transferred to the General Fund. Due to a projected decrease in commercial rent tax from budget, the associated transfer-in to the General Fund is decreased.

Appendix 2. General Fund Projections

Table A2-1. General Fund Supported Operations ($ millions)

Note: Figures may not sum due to rounding.

GENERAL FUND SUPPORTED OPERATING ($ MILLIONS)	Expenditures - Revised Budget	Expenditures - Projected Year End	Revenue Surplus/ (Deficit)	Expenditure Savings/ (Deficit)	Net Surplus/ (Deficit)	*Notes*
PUBLIC PROTECTION						
ADULT PROBATION	57.8	55.0	-	2.8	2.8	*1*
SUPERIOR COURT	33.4	32.2	-	1.1	1.1	*2*
DISTRICT ATTORNEY	70.0	70.0	-	-	-	
EMERGENCY MANAGEMENT	74.3	74.3	0.6	-	0.6	*3*
FIRE DEPARTMENT	481.6	485.5	8.3	(3.9)	4.4	*4*
JUVENILE PROBATION	33.7	32.7	-	1.1	1.1	*5*
PUBLIC DEFENDER	48.7	48.2	-	0.5	0.5	*6*
POLICE	623.3	650.9	(0.0)	(27.6)	(27.6)	*7*
SHERIFF	296.2	295.4	(0.1)	0.8	0.7	*8*
POLICE ACCOUNTABILITY	10.5	9.8	-	0.6	0.6	*9*
SHERIFF ACCOUNTABILITY	2.5	1.5	-	1.0	1.0	*10*
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Public Works	100.6	94.8	(3.5)	5.8	2.3	*11*
Economic & Workforce Development	133.0	123.1	(9.9)	9.9	-	*12*
Board of Appeals	1.2	1.3	(0.2)	(0.1)	(0.3)	*13*
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT						
Children, Youth and Their Families	32.1	32.1	-	-	-	
Human Services Agency	1,035.9	1,032.4	2.3	3.6	5.8	*14*
Human Rights Commission	16.5	16.5	-	-	-	
Homelessness and Supportive Housing	291.3	284.4	-	6.9	6.9	*15*
Status of Women	17.2	17.2	-	-	-	
Early Childhood	65.7	65.7	-	-	-	
COMMUNITY HEALTH						
Public Health	3,958.4	3,958.1	(15.2)	0.4	(14.8)	*16*
CULTURE & RECREATION						
Asian Art Museum	11.0	11.0	-	-	-	
Arts Commission	11.0	11.0	-	-	-	
Fine Arts Museum	21.3	21.4	-	(0.2)	(0.2)	*17*
Law Library	2.2	2.1	-	0.1	0.1	*18*
Recreation and Park Department	123.4	120.9	(2.5)	2.5	-	*19*
Academy of Sciences	7.5	7.4	-	0.1	0.1	*20*
War Memorial	9.5	9.5	0.3	-	0.3	*21*
GENERAL ADMINISTRATION & FINANCE						
City Administrator	171.4	166.8	(2.0)	4.6	2.6	*22*
Assessor/Recorder	30.2	30.0	(1.1)	0.2	(0.9)	*23*
Board of Supervisors	22.4	22.4	-	-	-	
City Attorney	105.3	99.4	(5.6)	5.9	0.3	*24*
Controller	104.9	104.6	(0.1)	0.2	0.2	*25*
City Planning	50.5	45.6	(9.0)	4.9	(4.1)	*26*
Civil Service Commission	1.5	1.4	-	0.1	0.1	*27*
Ethics Commission	7.2	5.9	-	1.3	1.3	*28*
Human Resources	43.1	41.7	(1.4)	1.4	-	*29*
Health Service System	13.8	13.1	(0.0)	0.8	0.8	*30*
Mayor	160.6	159.8	-	0.8	0.8	*31*
Elections	29.9	29.9	-	-	-	
Technology	4.9	4.4	(0.5)	0.5	-	*32*
Treasurer/Tax Collector	43.4	43.2	0.1	0.3	0.3	*33*
Retirement System	2.5	2.5	-	-	-	
GENERAL CITY RESPONSIBILITY	253.8	246.5	1.6	10.0	11.6	*34*
TOTAL	8,615.1	8,581.6	(37.8)	36.2	(1.7)	

NOTES TO GENERAL FUND DEPARTMENT BUDGET PROJECTIONS

The following notes explain projected variances for select departments' revenues and expenditures compared to the revised budget.

1. Adult Probation

The Adult Probation Department projects to end the fiscal year with aa net operating surplus of $2.8 million, including $2.1 million expenditure savings in salaries and mandatory fringe benefits, and $0.7 million programmatic projects savings in the department's treatment recovery project.

2. Superior Court

The Superior Court projects $1.1 million in expenditure savings in the Indigent Defense program.

3. Department of Emergency Management

The Department of Emergency Management anticipates ending the year with a net surplus of $0.6 million due to a revenue surplus of $0.6 million mainly due to increase ambulance permit fees and emergency services medical fees.

4. Fire Department

The Fire Department projects to end the fiscal year with a net operating surplus of $4.4 million due to $8.3 million in surplus revenue, and a projected $3.9 million spending increase beyond budget. The increased revenue is comprised of a one-time state payment of $5.0 million and $4.6 million in higher than budgeted emergency services revenue, slightly offset by a decrease in other budgeted revenues. Expenditure overspending of $3.9 million more than budget is projected due to increased salary spending, primarily in overtime. A supplemental appropriation for the increased overtime spending, per Administrative Code Section 3.17, and increased revenue will be introduced to the Board of Supervisors.

5. Juvenile Probation

The Juvenile Probation Department projects to end the fiscal year with an operating surplus of $1.1 million, due to $1.1 million expenditure savings in salaries and benefits, non-personnel services, and materials and supplies.

6. Public Defender

The Public Defender's Office projects to end the fiscal year with an operating surplus of $0.5 million due to $0.5 million of salary and benefits savings due to vacant positions.

7. Police

The Police Department projects to end the year with a net operating deficit of $27.6 million due to spending projections beyond budget for overtime, holiday and premium pay. This overspending is offset by savings in permanent salaries and mandatory fringe benefits. The department will seek a supplemental appropriation to provide net increased budget for the projected overspending, and to seek Board of Supervisors approval to increase overtime budget per Administrative Code section 3.17.

8. Sheriff

The Sheriff's Department projects to end the fiscal year with a net operating surplus of $0.7 million comprised of $0.8 million in expenditure savings, offset by $0.1 million in less revenue than budgeted. The expenditure savings are driven by projected savings in services of other departments, including worker's compensation cost savings, and slight savings in salaries and mandatory fringe benefits. Lower than budged revenues are expected due to less federal reimbursement for the boarding of federal prisoners.

9. Department of Police Accountability

The Department of Police Accountability projects to end the fiscal year with an operating surplus of $0.65 million, due to expenditure savings primarily in salaries and fringe, non-personnel and programmatic projects related to citizen complaints.

10. Sheriff's Department of Accountability

The Sheriff's Department of Accountability projects an operating surplus of $1.0 million due to expenditure savings from delays in commencing department operations.

11. Department of Public Works

The Department of Public Works projects to end the year with a net $2.3 million surplus. Revenues are projected to be $3.5 million below budget due to decreased fee revenues in the Bureau of Street Use and Mapping, partially offset by a $1.6 million saving due to hiring delays, a $1.5 million savings from overhead cost allocation, and a $1.7 million projected lower spending than budget in grant programs.

12. Economic and Workforce Development

The Office of Economic and Workforce Development projects to end the year on budget. A projected $9.9 million shortfall in developer exaction revenue in the annual authority controlled fund will be offset by expenditure savings of $7.7M in economic development projects and $7.6M in public private development projects partially offset by $5.5 million spending above budget in workforce development.

13. Board of Appeals

The Board of Appeals projects to have a net deficit of $0.3 million at year end due to lower than budgeted surcharge revenues as a result of hearing fewer appeals ($0.2 million) and increased costs for services provided by other departments ($0.1 million). The department will work with the department to monitor and address the projected deficit.

14. Human Services Agency

The Human Services Agency projects to end the year with a net surplus of $5.8 million, comprised of a $2.3 million revenue surplus and $3.6 million in expenditure savings, as shown in

Table A2-2.Table A2-2. Human Services Agency ($ millions)

	Sources	Uses	Net
	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)
Aid Payments	0.2	3.8	4.1
Operations & Administration	2.1	(0.3)	1.8
Total	**2.3**	**3.6**	**5.8**

The department projects a net surplus of $4.1 million in aid payments, comprised of $0.2 million in surplus revenue and $3.8 million in expenditure savings. County Adult Assistance Programs (CAAP) are projected to have a net deficit of $0.8 million primarily due to significantly higher homeless caseload than budgeted offset by savings in non-homeless caseload. Foster Care and Foster Care Childcare Assistance programs are projected to have a net deficit of $0.2 million due to higher caseload expenditures offset by increased revenues resulting from increased reimbursement rates. Revenues in the In-Home Supportive Services (IHSS) and CalWORKs programs are tied to expenditures and have a combined deficit below $0.1 million due to lower claimable expenditures in these programs than assumed in the budget. Prior year IHSS encumbrance carryforwards will support increased CAAP assistance and represent $5.0 million in surplus expenditure budget.

In operations and administration, the department projects a net surplus of $1.8 million, comprised of $2.1 million in surplus revenue and $0.3 million in expenditure deficit. Revenue projections for 2011 Realignment sales tax subventions and Child Welfare Services are anticipated to be $7.9 million above budget because of higher growth rates and increased allocations. CalWORKs programs and CalFresh revenue allocations are projected to be below budget by $1.3 million because of underspending due to staffing and less demand for work. As a result of changes in time study and labor savings, the following programs are projected to end the year with net surpluses: CalFresh Eligibility ($1.4 million); CAAP and CAPI eligibility services ($6.2 million); CalWORKs and refugee eligibility services, workforce development refugee, CalWORKs mental health and substance abuse ($5.4 million); CalFresh employment and training ($1.4 million); Medi-Cal eligibility ($5.3 million); Human Services Care Fund ($3.5 million), and IHSS administration ($3.6 million). Increased Dignity Fund services and legal services in Disability and Aging Services Public Guardian, Public Conservator, Public Administrator, and Representative Payee programs are projected to result in a net deficit of $1.8 million. Foster care services and child welfare is projected to have a net deficit of $3.7 million largely due to a deferral of Certainty Grant funding to future fiscal years. To address claims brought by Shelter-In-Place (SIP) program hotels for damages, repairs, and lost revenues incurred from participating in the COVID-19 Alternative Shelter Program, the department will set aside $26.0 million of expenditure savings for potential settlement payments.

15. Homelessness and Supportive Housing

Homelessness and Supportive Housing projects to end the fiscal year with a net operating surplus of $6.9 million of expenditure savings. Of the savings, $3.1 million less than budgeted salary and mandatory fringe benefit savings is projected, as well as $4.7 million savings in city grant programs to community based organizations, $2.4 million savings in non-personnel services, offset by a projected decrease of $3.3 million in overhead and allocations.

16. Public Health

The Department of Public Health (DPH) projects to end the fiscal year with a net deficit of $14.8 million, as shown in Table A2-3. The deficit is comprised of a revenue shortfall of $15.2 million offset by expenditure savings of $0.4 million. The department anticipates the use of $14.8 million of DPH Management Reserve to address the anticipated deficit, driven primarily by lower patient census at Laguna Honda Hospital.

Table A2-3. Department of Public Health by Fund ($ millions)

	Sources Surplus/(Deficit)	Uses Surplus/(Deficit)	Net Surplus/(Deficit)
Public Health General Fund	(5.1)	24.0	18.9
Laguna Honda Hospital	(25.6)	(2.8)	(28.4)
Zuckerberg San Francisco General Hospital	15.5	(20.9)	(5.4)
Total	**(15.2)**	**0.4**	**(14.8)**

Public Health General Fund

The projected net surplus for Public Health General Fund programs (including Primary Care, Behavioral Health, Jail Health, Home Health, SF Health Network, Population Health Division, and Public Health Administration) is $18.9 million. The department projects a combined revenue deficit of $5.1 million. Medi-Cal patient service revenues are projected to be under budget by $14.9 million, primarily from the Behavioral Health Division. These are offset by a projected surplus of $14.0 million 2011 Behavioral Health Realignment due to stronger than projected sales tax revenues at the state level. A $1.7 million shortfall in San Francisco Health Plan City Option fees due to ongoing migration to Affordable Care Act marketplace plans and a $2.4 million shortfall in deactivated funds from the San Francisco Health Plan contribute to the revenue deficit. Medicare patient revenue is projected to be above budget by $1.3 million, mainly from Primary Care Clinics.

An expenditure surplus of $24.0 million is due primarily to projected personnel cost savings in Behavioral Health ($7.1 million), Primary Care ($1.9 million), Jail Health ($2.2 million), Health Network ($5.5 million), Population Health ($3.2 million), and Public Health Administration ($4.6 million). The department projects savings of $0.4 million in interdepartmental services, partially offset by overages in contracted services of approximately $1.0 million.

Laguna Honda Hospital

The projected net deficit of $28.4 million at Laguna Honda Hospital includes a revenue deficit of $25.6 million due to lower than budgeted Medi-Cal patient service revenue as a result of a lower census at the Hospital, as new admissions are paused during the recertification process. Laguna Honda projects a $2.8 million expenditure deficit driven by a $4.5 million deficit in non-personnel services driven by recertification contract costs and increased registry costs due to staff vacancies, offset by $1.7 million in savings from services provided by other departments.

Zuckerberg San Francisco General Hospital

The department projects a $5.4 million net deficit at Zuckerberg San Francisco General Hospital (ZSFG). The $15.5 million revenue surplus is due to greater than budgeted patient service revenues ($49.0 million), largely from Medi-Cal, Medicare, and settlements and other patient revenues, offset by lower than budgeted operating revenues ($33.5 million), primarily from Medi-Cal waiver programs and other state revenues. Expenditures are projected to be $20.9 million over budget because of increasing non-personnel services largely due to registry costs ($16.9 million), unanticipated purchases of COVID supplies, and rising costs of materials and goods ($5.5 million). General Hospital projects a savings of $0.8 million in salaries and fringes due to vacancies and delays in hiring and $0.7 million in interdepartmental workorders.

The department projects a $5.4 million net deficit at Zuckerberg San Francisco General Hospital (ZSFG). The net $15.5 million revenue surplus includes a $49.0 million surplus in patient revenues largely due to a change in payment rates for services provided to Medi-Cal covered by the San Francisco Health Plan and better than budgeted rates for the Healthy Worker's members ($10.3 million). The surplus in patient revenue is offset by lower than budgeted Global Payment Program Revenue ($21.8 million), supplemental Medi-Cal Managed Care revenue ($11.1 million), and 340b program revenue ($13.9 million). Expenditures are projected to be $20.9 million over budget largely due to registry nurse costs ($16.9 million), unanticipated expenditure for purchases of COVID supplies, and rising costs of materials and goods ($5.5 million), partially offset by savings of $0.8 million in salaries and fringes due to vacancies and delays in hiring and $0.7 million in interdepartmental workorders.

17. Fine Arts Museum

The department is projected to have a $0.2 million deficit due to increased salary and fringe costs from additional overtime and higher than expected worker's compensation costs. The department will monitor personnel spending as the year progresses.

18. Law Library

The Law Library projects $0.1 million in salary and benefits savings due to staff vacancies.

19. Recreation and Parks Department

The department projects a $2.5 million revenue shortfall in rent and concession fees, which will be offset by $2.5 million in personnel savings, resulting in no projected operating deficit or surplus for the year.

20. Academy of Sciences

The department projects $0.1 million in salary and mandatory fringe benefits savings due to staff vacancies.

21. War Memorial

The department projects a $0.3 million revenue surplus, due to one-time revenue from Transferable Development Rights (TDR).

22. City Administrator

The City Administrator projects to end the year with a net General Fund operating surplus of $2.6 million. A projected revenue shortfall of $2.0 million is comprised of a $0.8 million shortfall in revenue for charges for services such as marriage licenses and wedding fees and a $0.4 million shortfall in Office of Cannabis licenses and permits. The department projects a $0.9 million deficit in recoveries for services provided to other departments, primarily from the Office of Contract Administration and the Office of Labor Standards Enforcement. The department projects expenditure savings of $4.6 million primarily due to $4.5 million in labor savings due to vacant budgeted positions.

23. Assessor Recorder

The Assessor Recorder projects a deficit of $0.9 million due to a revenue deficit of $1.1 million from a decline in fees from the volume of recorded documents, offset by a savings of $0.2 million primarily due to projected decreased work order costs from the Office of Contract Administration.

24. City Attorney

The City Attorney's Office projects to end the fiscal year with an operating surplus of $0.3 million due to an expenditure surplus of $5.9 million from position vacancies and unspent prior year budget in non-personnel services, offset by a projected $5.6 million shortfall in recoveries for legal services provided to other departments.

25. Controller

The Controller's Office projects to end the year with a net surplus of $0.2 million, due to $0.2 million in salary and mandatory fringe benefit savings from vacant positions, slightly offset by $0.1 million lower revenue than budget from the Office of Community Investment and Infrastructure.

26. City Planning

City Planning projects to end the fiscal year with a deficit of $4.1 million due to a revenue shortfall of $9.0 million. The revenue shortfall includes $3.1 million less than budget in conditional use fees, $2.1 million less in exemption fees; $1.8 million less in building permit revenue; $1.1 million less in other short range planning fees. These projected shortfalls are slightly offset by $1.1 million more than budgeted fee revenue from new construction building permits. An additional $0.7 million shortfall in recoveries from various departments, including the Airport and MTA, are projected due to delays in environmental review projects and resiliency work. Offsetting expenditure savings include $1.3 million in salary and mandatory fringe benefits and $2.3 million in non-personnel services savings and materials and supplies.

27. Civil Service Commission

The Civil Service Commission projects $0.1 million in salary and mandatory fringe benefits cost savings due to hiring delays.

28. Ethics

The Ethics Department projects $1.3 million in salary and mandatory fringe benefits cost savings due to delays in filling vacant positions.

29. Human Resources

The Department of Human Resources expects to end the year on budget. A revenue deficit of $1.4 million in work order recoveries will be offset by $1.4 in projected expenditure savings on in costs of services from other departments.

30. Health Service System

The Health Service System anticipates a surplus of $0.8 million, comprised of $0.8 million in expenditure savings primarily in personnel savings from vacant positions, and non-personnel.

31. Mayor

The Mayor's Office projects $0.8 million in salary and fringe savings from vacant positions and other capacity building work.

32. Department of Technology

The Department of Technology projects to end the year on budget. The department projects under recovery of interdepartmental services of $0.5 million in Public Education Governmental (PEG) funds from cable franchises, due to the decline in cable networks. This revenue shortfall is offset by $0.5 million in expenditure savings for personnel.

33. Treasurer/Tax Collector

The Treasurer/Tax Collector projects a surplus of $0.3 million due to savings in non-personnel expenses and a revenue surplus in service charges.

34. General City Responsibility

General City Responsibility contains funds that are allocated for use across various City departments and is projected to have an operating surplus of $11.6 million. A projected revenue surplus of $1.6 million includes $1.2 million in unbudgeted SB 90 state mandate reimbursements and $1.4 million in revenue backfill for criminal fees and fines eliminated by the state legislature, partially offset by a $1.0 million shortfall in traffic fines. A net expenditure surplus of $10.0 million includes $5.2 million of retiree health subsidy savings and $4.8 million of savings from reduced transfers to special revenue funds given projected strength in hotel tax revenue. Department projections in this report assume $14.7 million of budgeted CBO inflationary costs increases is allocated, leaving a $30.8 million balance. The Mayor's Office is working with departments to identify additional needs. Spending will be monitored in the coming months and remaining balances reported in the Nine-Month Report.

Appendix 3. Reserve Status

Various code and Charter provisions govern the establishment and use of reserves. Reserve uses, deposits, and projected year-end balances are displayed in Table A3-1 and discussed in detail below. Table A3-1 also includes anticipated deposits and withdrawals.

Table A3-1. Reserve Balances ($ millions)

Note: Figures may not sum due to rounding.

	FY 2021-22	FY 2022-23			FY 2023-24			
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Note
General Reserve	$ 43.8	64.4	-	$ 108.2	$ 18.5	-	$ 126.7	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	
Percent of General Fund Revenues	*5.9%*			*6.1%*			*6.0%*	
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 Reserve	81.3	-	-	81.3	-	-	81.3	5
Fiscal Cliff Reserve	229.8	-	(9.3)	220.4	-	(90.2)	130.3	6
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	-	29.5	
Public Health Revenue Management Reserve	123.9	-	(14.8)	109.1	-	-	109.1	7
Free City College Reserve	10.9	-	(4.0)	6.9	-	-	6.9	
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0	
Hotel Tax Loss Contingency Reserve	3.5	-	(2.5)	1.0	-	-	1.0	
Alternative Response Reserve	3.0	-	(3.0)	-	-	-	-	
Other Reserves	552.6	-	(102.5)	450.2	-	(90.2)	360.0	
Litigation Reserve	-	10.8	(10.8)	-	11.0	(11.0)	-	
Salary and Benefits Reserve	17.9	21.7	(39.6)	-	28.1	(28.1)	-	8
Annual Operating Reserves	17.9	32.5	(50.4)	-	39.1	(39.1)	-	
TOTAL, General Fund Reserves	994.7	96.8	(152.8)	938.7	57.5	(129.2)	867.0	

1. General Reserve

Pursuant to a financial policy approved by the Board of Supervisors in 2011 and codified in Administrative Code Section 10.60(b), year-end balances in the General Reserve are carried forward into subsequent years and thereby reduce the amount of future appropriations required to support reserve requirements established by the policy. The General Reserve balance in FY 2022-23 is required to be no less than 1.75% of budgeted regular General Fund revenues.

The FY 2021-22 ending balance of the General Reserve was $43.8 million, and the FY 2022-23 approved budget includes a $64.4 million deposit, resulting in a balance of $108.2 million. Any uses of the reserve during the current year (FY 2022-23) will increase the required deposit in the budget year (FY 2023-24) by a like amount. There is $5.5 million proposed use of the General Reserve pending at the Board of Supervisors, supporting a supplemental appropriation for the Department of Public Health to establish wellness hubs.

2. Rainy Day Economic Stabilization Reserve

Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of excess revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District (SFUSD) operating budgets in years when revenues decline.

Charter Section 9.113.5 was amended in November 2014 with the passage of Proposition C, which replaced the Rainy Day Economic Stabilization Reserve with two separate reserves—the School Reserve and the City Reserve. Of the excess revenue growth formerly deposited to the Rainy Day Economic Stabilization Reserve, 75% will be deposited to the City Reserve and 25% to the School Reserve.

The FY 2021-22 ending balance of the City Rainy Day Economic Stabilization Reserve was $114.5 million and of the School Rainy Day Reserve is $1.0 million. In FY 2022-23, the City is not eligible to withdraw or deposit to the Rainy Day Reserve.

3. Budget Stabilization Reserve

Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The Budget Stabilization Reserve is funded by the deposit each year of 75% of real property transfer taxes above the prior five-year average (adjusted for policy changes) and ending unassigned fund balance above the fund balance appropriated as a source in the subsequent year's budget.

The FY 2021-22 ending balance of the Budget Stabilization Reserve was $265.8 million and the Budget Stabilization One Time Reserve was $54.8 million. When the combined value of the City Rainy Day Reserve and the Budget Stabilization Reserve reaches 10% of General Fund revenues, amounts above this cap are deposited into a Budget Stabilization One-Time Reserve for nonrecurring expenses.

The FY 2022-23 adopted budget withdraw $54.8 million from the Budget Stabilization One Time Reserve, resulting in no balance by the end of FY 2022-23. The City is not eligible to withdraw or deposit to the Budget Stabilization Reserve.

4. COVID Response and Economic Loss Reserve

Section 32 of the administrative provisions of the FY 2020-21 and FY 2021-22 Annual Appropriations Ordinance established a COVID Response and Economic Loss Reserve by consolidating the balances of seven existing reserves into a single $507.4 million reserve. The FY 2021-22 and FY 2022-23 budget appropriated withdrawals of $99.5 million and $14.0 million in each of the respective budget years and reassigned $100.0 million of the remaining balance to the Federal and State Emergency Grant Disallowance Reserve and $293.9 million to the Fiscal Cliff Reserve as detailed below. The entire reserve will have been spent by the end of FY 2022-23.

5. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the FY 2021-22 and FY 2022-23 Annual Appropriations Ordinance established a Federal and State Emergency Grant Disallowance Reserve of $100.0 million for the purpose of managing revenue shortfalls related to reimbursement disallowances from FEMA and other state and federal agencies. This reserve is comprised of a portion of the remaining balance of the COVID-19 Response and Economic Loss Contingency Reserve. $18.7 million was used to support the FY 2021-22 budget, resulting in a balance of $81.3 million in FY 2022-23.

6. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the FY 2021-22 and FY 2022-23 Annual Appropriations Ordinance established a Fiscal Cliff Reserve of $293.9 million 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. This reserve is comprised of the balance of the COVID-19 Response and Economic Loss Contingency Reserve (COVID Reserve) remaining after funding the Federal and State Emergency Grant Disallowance Reserve in Section 32 and accounting for the use of the COVID Reserve in the FY 2021-22 and FY 2022-23 budget.

$64.2 million, $9.3 million, and $90.2 million was used to support FY 2021-22, FY 2022-23 and FY 2023-24 budgets resulting in an estimated ending balance of $130.3 million.

7. Public Health Revenue Management Reserve

Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance authorizes the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions or audit adjustments associated with funding allocations for indigent health services in order to manage revenue volatility. At its December 7, 2021, meeting, the San Francisco Health Commission affirmed the department's methodology for calculating the maximum reserve level at 5% of total Medi-Cal, Medicare, and net patient revenue in the most recent adopted two-year budget. As of the end of FY 2021-22, the balance of the reserve is $123.9 million. As of this report, the Department of Public Health forecasts the need to use $14.8 million of this reserve to offset anticipated revenue weakness versus budget at Laguna Honda Hospital.

8. Salary and Benefits Reserve

Section 10.4 of the administrative provisions of the AAO authorizes the Controller to transfer funds from the Salary and Benefits Reserve to adjust appropriations for employee salaries and benefits stipulated in Board-adopted collective bargaining agreements. The reserve had a fiscal year starting balance of $39.6 million, including $17.9 million remaining from FY 2021-22 and $21.7 million appropriated in the FY 2022-23 budget. The Controller's Office has transferred $0.3 million to departments and anticipates transferring an additional $19.2 million by year end, as detailed in Table A3-2.

Table A3-2. Salary and Benefits Reserve ($ millions)

Sources	
FY 2022-23 Adopted Budget	21.7
Carryforward balance from FY 2021-22	17.9
Total Sources	39.6
Uses	
Transfers to Departments	
VDT + Training	0.3
Total Transfers to Departments	0.3
Anticipated Allocations	
Fire Excess Retirement, Payouts, Premiums	4.5
Police Excess Retirement, Payouts	8.5
District Attorney Payouts	1.2
All Other (tuition, retirements)	5.0
Total Anticipated Allocations	19.2
Total Anticipated Uses in the Current Year	19.5
Total Anticipated Uses in the Budget Year	20.0
Net Surplus / (Shortfall)	-

Appendix 4. Other Funds Highlights

Table A4-1. Other Fund Highlights ($ millions)

Note: Figures may not sum due to rounding.

	Prior Year		FY 2022-23					FY 2023-24	
	FY 2021-22 Year End Fund Balance	Fund Balance Used in FY 2022-23 Budget	Beginning Fund Balance	Revenue Surplus/ (Deficit)	Expenditures Savings/ (Deficit)	Net Operating Surplus/ (Deficit)	Estimated Ending Fund Balance	Fund Balance Used in FY 2023-24 Budget	*Notes*
SELECT SPECIAL REVENUE AND INTERNAL SERVICES FUNDS									
Building Inspection Operating Fund	$ 18.2	$ 17.6	**$ 0.5**	$ (3.5)	$ 3.5	$ (0.0)	**$ 0.5**	$ -	*1*
Children and Youth Fund	26.3	8.6	**17.8**	3.7	-	3.7	**21.5**	-	*2*
Public Education Early Care Fund (OECE)	5.8	-	**5.8**	0.1	-	0.1	**5.9**	-	*3*
Public Education Special Fund (SFUSD)	15.5	-	**15.5**	0.2	-	0.2	**15.7**	-	*4*
Convention Facilities Fund	21.3	2.3	**19.0**	(2.0)	5.6	3.6	**22.5**	2.2	*5*
Golf Fund	5.2	2.5	**2.7**	1.1	-	1.1	**3.8**	-	*6*
Marina Fund	(4.3)	-	**(4.3)**	(8.6)	4.5	(4.1)	**(8.5)**	-	*7*
Library Preservation Fund	40.5	10.3	**30.2**	2.9	12.7	15.6	**45.8**	-	*8*
Open Space Fund	40.3	7.5	**32.8**	2.7	3.6	6.3	**39.1**	7.6	*9*
Telecomm. & Information Systems Fund	15.3	3.2	**12.1**	(5.5)	12.1	6.5	**18.6**	3.2	*10*
War Memorial Fund	4.5	1.0	**3.6**	-	0.4	0.4	**4.0**	0.6	*11*
Election Campaign Fund	4.3	0.4	**3.8**	-	3.3	3.3	**7.1**	0.4	*12*
Gas Tax Fund	6.3	2.5	**3.8**	(1.4)	1.4	-	**3.8**	4.0	*13*
Children and Families Commission	11.2	4.4	**6.8**	(0.8)	0.8	-	**6.8**	4.3	*14*
Street Tree Maintenance Fund	4.5	-	**4.5**	0.0	3.1	3.2	**7.7**	4.3	*15*
Public Works Overhead Fund	20.4	12.6	**7.7**	(22.7)	28.2	5.4	**13.2**	3.6	*16*
Public Works Paid Time Off Fund	5.9	-	**5.9**	(4.4)	8.5	4.1	**10.0**	-	*17*
Real Estate Fund	8.6	3.5	**5.1**	(8.9)	17.5	8.6	**13.8**	-	*18*
Museum Admissions Fund	(3.5)	-	**(3.5)**	(0.3)	1.7	1.4	**(2.1)**	-	*19*
Health Care Security Ordinance Fund	-	-	**-**	-	-	-	**830.3**	-	*20*
SPECIAL PURPOSE TAXES									
Neighborhood Beautification Fund	(0.3)	-	**(0.3)**	-	-	-	**(0.3)**	-	*21*
Culture and Recreation Hotel Tax Fund	6.6	5.3	**1.3**	4.7	-	4.7	**6.0**	-	*22*
Traffic Congestion Mitigation Fund (TCM Tax)	0.01	-	**0.0**	(0.6)	-	(0.6)	**(0.6)**	-	*23*
Babies and Families First Fund (Commercial Rents Tax)	87.2	-	**87.2**	(48.1)	-	(48.1)	**39.1**	-	*24*
Our City, Our Home Fund (Homelessness Gross Receipts Tax)	29.1	5.9	**23.2**	(23.4)	-	(23.4)	**(0.2)**	14.3	*25*
Small Business Assistance Fund (Commer	-	-	**-**	-	-	-	**-**	-	*26*
Fair Wages for Educators Fund (Parcel Ta	-	-	**-**	-	-	-	**-**	-	*27*
SELECT ENTERPRISE FUNDS									
Airport Operating Funds	$ 552.9	$ 43.5	**$ 509.4**	$ 4.3	$ 64.9	$ 69.1	**578.5**	$ 77.8	*28*
MTA Operating Funds	240.5	52.7	**187.8**	(60.0)	168.0	108.0	**295.8**	-	*29*
Port Operating Funds	121.1	-	**121.1**	14.0	8.8	22.8	**143.9**	-	*30*
PUC Hetch Hetchy Operating Funds	134.5	-	**134.5**	(0.2)	(1.1)	(1.3)	**133.2**	-	*31*
PUC Wastewater Operating Funds	157.8	25.1	**132.7**	9.3	14.8	24.1	**156.8**	6.7	*32*
PUC Water Operating Funds	175.1	67.9	**107.1**	36.0	2.9	38.9	**146.0**	16.2	*33*
PUC Clean Power Funds	(2.9)	-	**(2.9)**	2.3	19.5	21.8	**18.9**	-	*34*

SELECT SPECIAL REVENUE & INTERNAL SERVICES FUNDS

1. Building Inspection Fund

The Building Inspection Fund began with a balance of $0.5 million, net of a budgeted use of $17.6 million in the current year. The department projects no net operating surplus, with a $3.5 million revenue shortfall primarily in fees for building permits, plan review, and residential records and offsetting expenditure savings of $3.5 million in non-personnel services. The previously adopted FY 2023-24 budget was balanced with $25.6 million use of reserve; the Department of Building Inspection is seeking more savings in the current year to reduce the use of reserve in the upcoming FY 2023-24 and FY 2024-25 budget cycle.

2. Children and Youth Fund

The Children's Fund began with a balance of $17.8 million, net of a budgeted use of $6.6 million in the current year. It is projected to have a revenue surplus of $3.7 million due to projected increases in property tax, resulting in a $21.5 million projected ending balance.

3. Public Education Early Care Fund (OECE)

The Public Education Early Care Fund began with a balance of $5.8 million. Revenues are expected to be $0.1 million above budget, reflecting projected increases in General Fund Aggregate Discretionary Revenue (ADR), resulting in a $5.9 million projected ending balance.

4. Public Education Special Fund (SFUSD)

The Public Education Special Fund began with a balance of $15.5 million. Revenues are expected to be $0.2 million above budget, reflecting projected increases in General Fund ADR, resulting in a $15.7 million projected ending balance.

5. Convention Facilities Fund

The Convention Facilities Fund began with a balance of $19.0 million, net of a budgeted use of $2.3 million in the current year. A net operating surplus of $3.6 million is projected in the fund. The convention facilities operating fund is projected to end the year with a net surplus of $3.6 million because of savings related to cancellations and delays of conventions and shows (revenue shortfall of $2.0 million offset by expenditure savings of $5.6 million) as the City continues to recover from COVID-19. Events that have taken place are smaller in scale, with fewer attendees and vendors. The Moscone Expansion District fund is projected to be on budget. Moscone Expansion District Assessments are projected to be higher than budgeted, allowing the General Fund to transfer in a lower subsidy than previously budgeted, for zero net effect. Ending fund balance in the overall is projected to be $22.5 million.

6. Golf Fund

The Golf Fund began with a balance of $2.7 million, net of $2.5 million of fund balance appropriated in the current year. The Recreation and Parks Department projects a revenue surplus of $1.1 million in golf fees and on budget for spending, leaving a projected fund balance $3.8 million at the year end.

7. Marina Fund

The Marina Fund began the year with an abnormal balance of $4.3 million. The Recreation and Parks Department projects a revenue shortfall of $8.6 million primarily in berth and mooring fees due to a decline in occupancy of the East Harbor, boat abandonment, and non-payment of fees, offset by expenditure savings of $4.5 million. As a result, we project an abnormal ending balance of $8.5 million. The Controller's office will work with the department to address the on-going revenue shortfall and abnormal fund balance in this fund.

8. Library Preservation Fund

The Library Preservation Fund began with a balance of $30.2 million, net of a budgeted use of $10.3 million in the current year. The Library projects a net revenue surplus of $2.9 million, primarily due to projected increases in property taxes and General Fund ADR. The Department projects expenditure savings of $13.2 million largely in materials and supplies, services from other departments and labor cost, offset by the General Fund baseline return of $0.5 million. The net operating surplus of $15.6 million results in a projected ending balance of $45.8 million.

9. Open Space Fund

The Open Space Fund began with a balance of $32.8 million, net of a budgeted use of $7.5 million in the current year. The Recreation and Parks Department projects a revenue surplus of $2.7 million due to projected increases in property taxes, and expenditure savings of $3.6 million due to salary and benefit cost. The net operating surplus of $6.3 million results in a projected ending fund balance of $39.1 million, of which, $7.6 million was used to balance the previously adopted FY 2023-24 budget.

10. Telecommunications & Information Services Fund

The Telecommunication & Information Services Fund began the year with a balance of $12.1 million. A net operating surplus of $6.5 million is projected in the current year, comprised of a $5.5 million shortfall in recoveries from client departments offset by $12.1 million of salary and benefit savings due to vacancies. The fund is projected to end the year with a balance of $18.6 million, of which $3.2 million was used to balance the previously adopted FY 2023-24 budget.

11. War Memorial Fund

The War Memorial Fund began the fiscal year with $3.6 million in fund balance, net of $1.0 million of fund balance appropriated in the current year. The Department projects $0.4 million in salary and fringe benefit savings in its operating fund, resulting in an ending balance of $4.0 million, of which $0.6 million has been budgeted in the approved FY 2023-24 budget.

12. Election Campaign Fund

The Election Campaign Fund began the fiscal year with $4.3 million in fund balance and projects to end the fiscal year with a balance of $7.1 million, with $3.3 million in projected current year expenditures savings.

13. Gas Tax Fund

The Gas Tax Fund began with a $3.8 million balance, net of $2.5 million of fund balance appropriated in the current year. The department projects a revenue shortfall of $1.4 million based on the five-year trend of gas tax revenue and $1.4 million expenditure savings to offset the shortfall. The fund is projected to end with $3.8 million in fund balance, of which $4.0 million has been appropriated in the previously approved FY 2023-24 budget. The Controller's Office will need to work with the Department and Mayor's Office to reduce the use of fund balance appropriated in FY 2023-24.

14. Children and Families Commission

The Children and Families Commission began with a balance of $6.8 million, net of $4.4 million appropriated in the current year. Revenues are projected to be $0.8 million below budget due to lower than anticipated Prop 10 tobacco tax revenue. Total expenditure savings of $0.8 million are projected from delayed program implementation of grants to community organizations. The department projects to end the year with $6.8 million in fund balance, of which $4.3 million is spent in the previously approved FY 2023-24 budget.

15. Public Works – Street Tree Maintenance Fund

The Street Tree Maintenance Fund began the fiscal year with a balance of $4.5 million. The Department of Public Works projects $3.1 million of expenditure savings primarily from non-personnel costs. The net operating surplus of $3.1 million results in a projected ending balance of $7.7 million, of which $4.3 million is used to balance the previously adopted FY 2023-24 budget.

16. Public Works – Overhead Fund

The Overhead Fund began the fiscal year with a balance of $7.7 million, net of a budgeted use of $12.6 million in the current year. The Department of Public Works projects an operating surplus of $5.4 million due to total expenditure savings of $28.2 million primarily from services from other departments, non-personnel, and labor costs offset by an overhead recovery shortfall of $22.7 million. The resulting ending balance is $13.2 million, of which $3.6 million is used to balance the previously adopted FY 2023-24 budget.

17. Public Works – Paid Time-Off Fund

The Paid Time-Off Fund began the fiscal year with a balance of $5.9 million. The Department of Public Works projects an operating surplus of $4.1 million due to expenditure savings of $8.5 million offset by an overhead recovery shortfall of $4.4 million. The resulting ending balance is $10 million.

18. Real Estate Fund

The Real Estate Fund began the fiscal year with $5.1 million in fund balance, net of $3.5 million appropriated in the current year. The fund is projected to have a revenue shortfall of $8.9 million, mostly in recoveries for leased space, offset by expenditure savings of $17.5 million as renewal lease terms are estimated to come in below budget for a number of properties.

19. Museum Admissions Fund

The Museum Admissions fund began the year with a negative balance of $3.5 million. Both the Asian Art Museum and the Fine Arts Museums have budgeted revenue and expenditures in this fund. A projected revenue shortfall of $0.3 million from weakness in museum admissions is offset by a $1.7 million expenditure saving, decreasing the abnormal balance to $-2.1 million. The Controller's Office will work with departments at year end close to address the abnormal balance.

20. Health Care Security Ordinance Fund

The Health Care Security Ordinance (HCSO) Fund is a fiduciary fund containing the balances of medical reimbursement accounts created pursuant to the HCSO, which requires employers in San Francisco to provide either health insurance or contributions on their employees' behalf via the San Francisco City Option. In the current year, City Option funds previously held in a non-interest bearing account of the San Francisco Health Plan were deposited into the City's treasury. Revenues are comprised of employers' contributions and interest earnings, and expenditures include employee benefits and administrative costs. The balance of the fund is projected to be $830.3 million at fiscal year-end.

SPECIAL PURPOSE TAXES

21. Neighborhood Beautification Fund (Dedication of Business Tax)

The Neighborhood Beautification Fund began the fiscal year with an abnormal balance of $0.3 million. No net operating surplus or shortfall or change in fund balance is projected. The Controller's Office will need to de-appropriate budgets to bring this fund into balance by the end of FY 2022-23.

22. Culture and Recreation Hotel Tax Fund (Dedication of Hotel Tax)

In November 2018, voters adopted an ordinance to dedicate a portion of hotel tax to support arts organizations. The dedicated hotel tax is deposited in the Culture and Recreation Hotel Tax Fund and allocated to the Arts Commission, General Services Agency, and Mayor's Office of Housing and Community Development.

Due to better performance than budgeted in hotel tax revenue as described in Appendix 1 of this report, the Culture and Recreation Hotel Tax Fund is expected to have a net revenue surplus of $4.7 million, composed of a hotel tax surplus of $7.6 million, partially offset by the elimination of $2.9 million of General Fund subsidy. The resulting ending balance is $6.0 million.

San Francisco Business and Tax Regulations Code section 515.01(d) requires the Controller to report on revenues and expenditures in the Hotel Room Tax Fund. In FY 2021-22, $35.0 million was transferred to the Culture and Recreation Hotel Tax Fund to support programs in Grants for the Arts, Arts Impact Endowment, Cultural Centers, Cultural Equity Endowment, and Cultural Districts as shown in the table below. Of the $35.0 million, $16.5 million was transferred from Hotel Tax revenue collections and $18.6 million was transferred as backfill from the General Fund to offset the revenue shortfall due to COVID-19.

Table A4-2. Hotel Room Tax for the Arts FY 2021-22 ($ millions)

	Revenues			Expenditures*
	Hotel Room Tax	Gen. Fund Backfill	Total	
Grants for the Arts	8.4	9.5	17.8	12.7
Arts Impact Endowment	1.3	-	1.3	0.0
Cultural Centers	2.0	7.4	9.3	2.5
Cultural Equity Endowment	3.3	-	3.3	5.2
Cultural Districts	1.5	1.7	3.3	3.1
Total	**16.5**	**18.6**	**35.0**	**23.6**

* Programs are funded by multiple funding sources, including hotel room tax from Prop E. Expenditures on this table reflect spending in FY 2021-22 regardless of funding source.

Grant for the Arts (GFTA) spent $12.7 million on grant-making operations, including 279 general operating support for Grants for the Arts related public programs, including parades and festivals. The Arts Impact Endowment awarded and encumbered $1.8 million for programs such as the First-Time Grantee Initiative. In Cultural Centers, the Art Commission disbursed $2.6 million for operating grants and $0.1 million for facilities maintenance. For Cultural Equity, the Art Commission awarded and committed $4.3 million in grants to 75 individual artists and 36 arts organizations based in San Francisco as part of the FY 2021-22 grant cycle.

Nine of the established Cultural Districts receive $0.2 million per year for operations and activities. In FY 2021-22, Cultural District expenditures totaled $3.1 million to support community-based organizations. The funds were used to hire and retain staff; organize neighborhood-based activities and community engagement sessions; establish and maintain community based advisory boards; support and engage local businesses, residents, artists, and culture bearers; and continue development of their strategic planning reports entitled the Cultural Heritage, Housing and Economic Stabilization Strategy (CHHESS) Reports.

23. Traffic Congestion Mitigation Fund (Traffic Congestion Mitigation Excise Tax)

In November 2019, voters adopted 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).

The Traffic Congestion Mitigation Fund began the fiscal year with a minor negative fund balance. All prior year collections have been allocated to the MTA and the SFCTA. Transportation Network Company (TNC) Tax revenues in the current year are projected to be $15.4 million, which is $0.6 million below budget, resulting in an ending balance of negative $0.6 million. The Controller’s Office will need to de-appropriate budgets to bring this fund into balance by the end of FY 2022-23.

San Francisco Business and Tax Regulations Code section 3208(d) requires the Controller to report on revenues and expenditures in the Traffic Congestion Mitigation Fund, as well as the status of projects authorized to be funded. In FY 2021-22, MTA expended $819,000 of Traffic Congestion Mitigation Funds on the projects listed below:

Location	Scope	Status
Lake Merced Boulevard (Skyline to John Muir)	Protected bikeway, neighborways, pedestrian safety improvements, transit boarding islands, transit stop changes	In construction phase
Hyde Street (Market to Geary)	Lane reduction, daylighting, painted safety zones, curb management, signal timing changes	Planning, outreach, and design in progress
17th Street (Potrero to Pennsylvania)	Protected bikeways, curb management, pedestrian safety improvements	Planning, outreach, and design in progress
Franklin Street (Broadway to Lombard)	Painted safety zones, slow turn wedges, turn restrictions, advance limit lines	Completed
Sutter Street (Market to Polk)	Protected bikeways, transit only lane, curb management, signal timing changes, pedestrian safety improvements	Ongoing scope development
Oak Street (Shrader to Baker)	Protected bikeways, signal timing changes	Ongoing scope development
Lincoln Way (22nd to Arguello)	Crosswalk upgrades, daylighting, painted safety zones, signal timing changes	Planning, outreach, and design in progress
Alemany Boulevard (Congdon to Ellsworth)	Protected bikeways	Planning, outreach, and design in progress
3rd Street (Bay Trail to Townsend) Townsend Street (3rd Street to The Embarcadero)	Protected bikeway, curb management	Ongoing scope development
Frida Kahlo / Ocean / Geneva	Protected bikeway, signal timing changes	Planning, outreach, and design in progress

24. Babies and Families First Fund (Early Care and Education Commercial Rent Tax)

In June 2018, voters adopted a commercial rents tax on businesses leasing commercial space in San Francisco to support spending on early childhood care and education. Proceeds are deposited in the Babies and Families First Fund and allocated to the Department of Early Childhood.

The fund began the fiscal year with a fund balance of $87.2 million. Commercial rent tax is projected to be $48.1 million below budget, resulting in an ending balance of $39.1 million.

San Francisco Business and Tax Regulations Code Article 21, section 2112(i) requires the Controller to report on the prior year's revenues and expenditures in the Babies and Families First Fund annually before February 15th. Revenues realized in FY 2021-22 totaled $189.3 million in commercial rent tax and $2.2 million in interest. FY 2021-22 spending of tax proceeds and General Fund advances from the prior year totaling $41.3 million are detailed in Table A4-3 below.

Table A4-3. Babies and Families First Fund FY 2021-22 Report ($ millions)

FY 2021-2022 Baby Proposition C Expenditure Report		
Project or Program	**Description of Project or Program**	**Expenditure**
CBO Services		
Early Learning Scholarships (Wu Yee and Children's Council)	Early Learning Scholarship (ELS) vouchers are provided to high quality preschool programs securing spots for children of low income families. ELS funds qualified programs at (1) the fully funded QRIS Tier 3 cost or (2) as an enhancement to a state or federally funded subsidized child, to reimburse at QRIS Tier 3. Prop C funding distributed to families by Wu Yee and Children's Council.	$ 14,072,034
Workforce Compensation - CARES 2.0 (Children's Council)	Compensation and Retention Early Educators Stipend (CARES 2.0) is a workforce compensation initiative providing direct stipends to teachers and preschool staff employed at licensed family childcare or center-based programs in San Francisco that are funded by the Early Learning Scholarship (ELS) or Preschool for All (PFA) initiatives.	$ 13,514,999
Economic Recovery Grants (Children's Council)	Funding to support ELS programs impacted by the pandemic.	$ 2,336,420
Preschool for All (Children's Council)	Supplemental funding to support universal PreK for San Francisco 4 year olds.	$ 329,999
Expansion of State/Fed Subsidy (Children's Council)	CalWorks - Stage 1 - TANF budget expansion CalWorks - Stage 2 budget expansion CAPP (Alternative Payment Program) budget expansion	$ 2,094,016 $ 555,964 $ 294,474
Childcare Capital (Low Income Investment Fund "LIIF")	The purpose of the grant is to provide both technical assistance and affordable capital to child care providers in order to retain and increase the quantity and enhance the quality of licensed child care spaces available to families and children. This is accomplished through the administration of the Child Care Facilities Fund. (Expenditure includes $332,529 carryforward from prior fiscal year PO).	$ 2,332,529
Early Education Economic Recovery Loans (LIIF)	Financial support program providing access to no-risk, zero-interest loans up to $50,000 to ECE centers and FCC educators in San Francisco (both ELS/PFA participants and non-City funded programs); funding specifically for those negatively impacted by COVID-19.	$ 439,938
Family Resource Center (FRC) Renovation & Repair Grant and FRC Health & Safety Grant	Administration of two Family Resource Center (FRC) grant programs on behalf of First 5: the FRC Renovation and Repair Grant Program, for the renovation or repair of existing FRC facilities, and the FRC Health and Safety Grant Program, for the health and safety of existing FRC facilities, in order to help city contractors meet applicable health and safety standards. (Expenditure includes $74,441.20 carryforward from prior fiscal year PO).	$ 225,994
Other CBO Services	Children's Council Help Desk, Fiscal Intermediary, Childcare Local Planning Council (CPAC), advance reconciliation, etc.	$ 3,317,794
Subtotal - CBO Services		**$ 39,514,161**
Administration & Other		
First 5 Workorder	Enhancements for Family Resource Centers.	$ 1,339,270
OECE Staff & Admin	Funding to expand OECE department FTEs in support of overseeing Prop C funds; funding to Controller's Office for budget & analysis.	$ 429,903
Subtotal - Administration & Other		**$ 1,769,173**
Total - FY 2021-2022		**$ 41,283,334**

25. Our City, Our Home Fund (Homelessness Gross Receipts Tax)

In November 2018, voters adopted an additional gross receipts tax of 0.175% to 0.69% on taxable gross receipts over $50.0 million to support spending on homelessness, housing, and mental health. Proceeds are deposited in the Our City, Our Home Fund and allocated primarily between the Department of Homelessness and Support Housing (HSH) and Department of Public Health (DPH).

The fund began the fiscal year with a balance of $23.2 million. A $23.4 million shortfall in homelessness gross receipts tax revenue is projected, resulting in an ending balance of negative $0.2 million. The Controller's Office will work with the departments of Public Health and Homelessness and Supportive Housing to identify offsetting expenditure savings.

26. Small Business Assistance Fund (Commercial Vacancy Tax)

In March 2020, voters adopted a tax on keeping certain commercial spaces vacant for more than 182 days in a calendar year. This tax supports the maintenance and operation of small businesses in the City. Proceeds are deposited in the Small Business Assistance Fund and allocated primarily to the Office of Economic and Workforce Development. FY 2022-23 is the first year the tax will be collected. As such, the Small Business Assistance Fund began with no fund balance, and no fund balance is anticipated.

27. Fair Wages for Educators Fund (SFUSD Parcel Tax)

In November 2020, voters adopted a $288 per parcel tax to support the San Francisco Unified School District (SFUSD). Proceeds are deposited into the Fair Wages for Educators Fund and transferred to SFUSD, which certifies that funds will be spent in accordance with San Francisco and Business and Tax Regulations Code. The tax was first imposed in FY 2021-22, and the City remitted $47.3 million to SFUSD. The Controller's Office has requested a report from SFUSD on the status of projects funded by this tax, pursuant to the Article 37, Section 3709 of the Business and Tax Regulations Code. The fund began the fiscal year with no fund balance. As all funds are passed through to SFUSD, no fund balance is anticipated.

SELECT ENTERPRISE FUNDS

28. Airport Operating Fund

The Airport began the fiscal year with $509.4 million in available fund balance, net of $43.5 million of fund balance appropriated in the current year. The department projects a net operating surplus of $69.1 million comprised of a projected revenue surplus of $4.3 million and expenditure savings of $64.9 million.

The department's revenue surplus is largely due to greater than budgeted aviation revenues ($47.4 million) and rent and concession revenues ($44.3 million). As a result of operating revenue surpluses, the department projects a lower than budgeted need for transfers-in to support the Airport's operating fund from deferred aviation revenues, PFC revenues, and fund balance to balance expenditures ($90.4 million combined). The aviation revenue surplus is driven by higher than anticipated landing fees and terminal rents from increased airline activity, enplanements, and cargo levels. The surplus in rents and concessions is due to stronger parking, groundside, food and beverage, retail, automobile rental, and other concession sales from an increase in passengers, visitor spending, taxi and TNC trips, and parking activity. The department projects an additional $5.5 million surplus from greater Airtrain activity, sales of electricity, natural gas, water resale, and other miscellaneous terminal fees.

The department's net expenditure savings are driven by a projected $51.1 million in labor savings due to vacancies, time to hire, and attrition higher than previously anticipated. The department also projects savings of $6.8 million in non-personnel costs as a result of delays in invoice processing and initialization of contracts. Materials and supplies are projected to have savings of $6.5 million due to delays in setting up purchase orders. The department estimates savings of $6.8 million in capital outlay due to delivery and manufacturing delays especially for large items such as vehicles and customized equipment.

The department is projected to end the fiscal year with a balance of $578.5 million, of which $77.8 million was used to balance the previously adopted FY 2023-24 budget.

29. Municipal Transportation Agency (MTA) Operating Funds

The MTA began the fiscal year with $187.8 million in available fund balance, net of the use of $52.7 million to support the current year budget. The department projects a net operating surplus of $108.0 million comprised of a projected revenue deficit of $60.0 million offset by expenditure savings of $168.0 million, for a projected ending balance of $295.8 million.

The projected revenue deficit is driven by lower than expected revenues from transit and parking revenues. These deficits are due to various effects of the COVID-19 pandemic, including reduced transit ridership and altered parking behavior.

The agency also projects $168.0 million in expenditure savings comprised of $77.5 million in personnel costs due to challenges hiring beyond the natural rate of attrition, $26.7 million in materials and supplies, and $63.8 million in non-personnel costs.

30. Port Operating Funds

The Port began the fiscal year with $121.1 million in available annual fund balance. The department projects a current year net operating surplus of $22.8 million, including a revenue surplus of $14.0 million in rents from higher levels of leasing and parking activity than anticipated in the budget. Expenditure savings of $8.8 million are largely in salary and fringe benefit savings, given delays in filling vacancies and the plan to shift other hiring to the next fiscal year. Port operating funds are projected to end the fiscal year with a balance of $143.9 million.

Public Utilities Commission (PUC)

PUC projects net operating surpluses for the Wastewater Operations Fund, Water Operating Fund, and Clean Power Fund, and a net operating deficit in the Hetch Hetchy Operating Fund.

31. Public Utilities Commission – Hetch Hetchy Operating Fund

The Hetch Hetchy Fund began the fiscal year with $134.5 million in available operating fund balance. The Fund is projected to end the year with a net operating deficit of $1.3 million due to a $0.2 million revenue shortfall and $1.1 million expenditure deficit. While retail sales volume is performing at par, revenue is below budget because the assumptions in the final Power Rate Study needed to be included in proposed budget as it was in previous years. Wholesale sales are higher than budget mainly due to higher power prices and the sale of steam and gas for heating of City buildings. In addition, interest income is higher above budget due to recent rate increases. The expenditure deficit is primarily due to lower generation and higher power prices, leading to $20.0 million in additional power purchases as well as higher than anticipated transmission rates and costs ($6.0 million), partially offset by a $4.0 million appropriated reserve for power purchase and $3.0 million carryforward budget. These shortfalls are largely offset by $18.0 million General Reserve budgeted and planned to go unspent to build reserves.

The Hetch Hetchy Fund is projected to end the fiscal year with a balance of $133.2 million.

32. Public Utilities Commission – Wastewater Operations Fund

The Wastewater Operations Fund began the fiscal year with $132.7 million in available operating fund balance. The Fund is projected to end the year with a net operating surplus of $24.1 million due to a revenue surplus of $9.3 million, comprised of Wastewater retail billable volumes forecasted to be 44.5 million gallons per day (MGD), a 1.1 percent increase from budget of 44.0 MGD and a 3.5 percent increase from prior year actuals of 43.0 MGD. This includes a 5 percent drought surcharge. The surplus also includes higher interest income compared to budget.

Expenditure savings of $14.8 million are projected in personnel costs due to position vacancies, and debt service savings are mainly due to Wastewater market conditions and issuance of the 2022B Wastewater Refunding Bonds.

The Fund is projected to end the fiscal year with a balance of $156.8 million.

33. Public Utilities Commission – Water Operating Fund

The Water Operations Fund began the fiscal year with $107.1 million in available operating fund balance net of the $67.9 million appropriated to support the FY 2022-23 budget. The Fund is projected to end the fiscal year with a net operating surplus of $38.9 million, comprised of a revenue surplus of $36.0 million and $2.9 million in expenditure savings. The revenue surplus includes $8.5 million in retail water sales, $25.6 million in wholesale water sales, and interest income above budget. Salary and benefit savings of $2.9 million are due to position vacancies.

The Fund is projected to end the fiscal year with a balance of $146.0 million.

34. Public Utilities Commission – Clean Power Fund

The Clean Power Fund began the fiscal year with a deficit balance of $2.9 million and is projected to end the fiscal year with a net operating surplus of $21.8 million. The Fund is projected to have a net revenue surplus of $2.3 million including $2.2 million in wholesale sales, a $0.8 million shortfall in Green and Super Green electric product sales, and a $0.8 million surplus in interest earnings. A $19.5 million projected expenditure surplus include $1.4 million in personnel cost savings due to vacancies and $33.5 million savings in reserve deposits offset by $15.4 million spending above budget for higher than anticipated costs in the energy market. The Fund is projected to end the fiscal year with a balance of $18.9 million.

Appendix 5. Overtime Report

Department ($ Millions)	FY 2021-22 Actual	FY 2022-23 Revised Budget	FY 2022-23 July though 12/31/2022	FY 2022-23 % of Budget through 12/31/2022
Municipal Transit Agency - Total	55.0	52.8	33.0	62%
Police*				
General Fund (Excl. Work Orders)	47.2	25.4	37.6	148%
Airport	1.3	2.3	2.1	92%
General Fund Work Orders	2.3	3.3	1.2	36%
Total Annual Operating Funds	50.83	30.99	40.88	132%
Special Revenue (10B)	15.3		7.0	
Total	*66.2*		*47.8*	
Public Health*				
ZSF General	25.7	12.9	17.1	132%
Laguna Honda	13.2	10.8	6.8	63%
Other Annual Funds	5.4	1.9	2.6	131%
Total Annual Operating Funds	44.32	25.66	26.50	103%
Fire*				
General Fund	76.1	50.9	35.3	69%
Airport	7.0	6.5	3.0	46%
Total Annual Operating Funds	83.07	57.39	38.33	67%
Sheriff*				
General Fund (Excl. Work Orders)	25.6	17.0	13.4	79%
General Fund Work Orders	0.0	11.2	4.2	37%
Total Annual Operating Funds	25.61	28.19	17.63	63%
Airport*				
Annual Operating Funds	2.6	2.9	2.0	70%
Emergency Management*				
Annual Operating Funds	6.1	5.4	3.4	62%
Public Works*				
Annual Operating Funds	2.3	1.5	1.4	96%
General Fund Work Orders	0.4	2.3	0.3	12%
Public Utilities*				
Annual Operating Funds	6.2	5.9	3.1	53%
Recreation and Park*				
Annual Operating Funds	2.6	1.8	1.5	86%
Human Services	3.0	2.9	1.8	63%
Juvenile Probation	1.4	0.9	0.7	80%
Elections	1.0	0.7	0.6	79%
Admin Services	1.7	0.6	1.2	180%
Technology	0.5	0.6	0.4	68%
Controller	0.2	0.5	0.1	14%
Building Inspection	0.5	0.4	0.2	45%
Port	0.6	0.3	0.3	120%
Fine Arts Museum	1.1	0.2	0.6	313%
Adult Probation	0.0	0.1	0.0	12%
Public Library	0.5	0.1	0.3	204%
District Attorney	0.2	0.1	0.1	127%
Academy of Sciences	0.1	0.1	0.0	59%
Public Defender	0.0	0.1	0.0	20%
Asian Art Museum	0.2	0.0	0.1	198%
Homelessness	0.1	0.0	0.1	346%
City Attorney	0.3	0.0	0.2	1537%
Total Overtime**	305.9	222.5	181.7	82%

* Administrative Code Section 3.17 requires these departments to receive appropriation authority from the Board of Supervisors to increase the authorized budget for overtime in annual operating funds.

** Total overtime excludes: special revenue (10B) and non-annual operating funds in departments listed in Administrative Code 3.17.