CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

February 8, 2022

TO: Youth, Young Adult & Families Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 11, 2022 Youth, Young Adult & Families Committee Meeting

TABLE OF CONTENTS

Item 2 **File 21-1293**	**Department:** Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would waive the condition in Ordinance Nos. 33-19 and 169-19 that the San Francisco Unified School District (SFUSD) repay the City $26.6 million using revenues from the voter-approved June 2018 Proposition G parcel tax; and rescind the direction in those Ordinances to the Controller to transfer funds from accumulated balances of Proposition G revenues to repay the General Fund advances.
- The proposed ordinance would require SFUSD to use the $26.6 million to reduce its long-term structural deficit and not for short-term budget relief and to document its planned use in an official budget report submitted to the California Department of Education (CDE). It also stipulates that CDE, or fiscal experts assigned by CDE to monitor SFUSD's fiscal condition, must certify that SFUSD has met the above conditions by September 30, 2022.

Key Points

- June 2018 Proposition G authorized the City to collect an annual parcel tax and transfer revenues from the tax to SFUSD for restricted uses, including teacher salaries and funding staff at high-needs schools. Proposition G revenues were not initially available for appropriation to SFUSD because the parcel tax was the subject of litigation.
- The City appropriated a total of $26.6 million to SFUSD to sustain wages for teachers and staff in Ordinance Nos. 33-19 and 169-19. The two Ordinances appropriated these funds as General Fund advances to SFUSD under the condition that the Controller repay the General Fund using Proposition G revenues should they become available.
- As of November 2021, the litigation is resolved and Proposition G revenues are available for appropriation. Under the terms of the Ordinances, the Controller would be required to repay the General Fund advances from Proposition G revenues.

Fiscal Impact

- The proposed ordinance would effectively forgive the City's $26.6 million loan to SFUSD by rescinding the requirement that the Controller repay the City using Proposition G revenues.
- Repayment of the loan was not assumed in the City's budget because the litigation was not resolved before the July adoption. Therefore, forgiveness of the loan does not impact the City's FY 2021-22 budget, but it would result in a reduction to the General Fund balance of $26.6 million compared to if the loan was repaid.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

The City appropriated a total of $26.6 million to the San Francisco Unified School District (SFUSD) to sustain wages for teachers and staff in Ordinance Nos. 33-19 and 169-19.[1] The two Ordinances appropriated these funds as General Fund advances to SFUSD under the condition that the Controller repay the General Fund using revenues from the parcel tax adopted in the June 2018 Proposition G should they become available. Ordinance No. 33-19 established a Teacher and Early Care Educator Unappropriated Emergency Reserve (Reserve) to sustain wages for early care educators and SFUSD teachers if other revenues were not sufficient to do so. The Ordinance appropriated $13.5 million from the General Fund to the Reserve, and the Annual Appropriation Ordinance for FY 2018-19 and FY 2019-20 appropriated an additional $13.1 million from the General Fund to the Reserve.

Proposition G authorized the City to collect an annual parcel tax and transfer revenues from the tax to SFUSD for restricted uses, including teacher salaries and funding staff at high-needs schools. Because Proposition G was the subject of litigation[2] at the time the Ordinances were approved, the City could not release Proposition G revenues to SFUSD. The Ordinances stipulated that once the litigation was resolved and Proposition G revenues were available for appropriation, the Controller would repay the General Fund advances using the accumulated Proposition G revenues. As of November 2021, the litigation is resolved and Proposition G revenues are available for appropriation. Under the terms of the Ordinances, the Controller would be required to repay the General Fund advances from Proposition G revenues.

Proposition G One-Time Revenues

Because of ongoing litigation, $150 million in Proposition G revenues were withheld over three years ($50 million annually). SFUSD funded a portion of the planned annual Proposition G expenditures ($40 million of the $50 million) using the $26.6 million loan from the City and $93.4 million from SFUSD's Rainy Day Reserve, for a total of $120 million over three years. Over the three years, $30 million of the Proposition G parcel tax went unspent ($10 million annually).

Due to resolution of the Proposition G litigation, $150 million in one-time parcel tax revenue is available, including $26.6 million payable to the City as repayment for the loan to SFUSD and

---

[1] Ordinance 33-19 (File 18-1186) was a supplemental appropriation ordinance approved in February 2019. Ordinance 169-19 was the annual appropriation ordinance for FY 2019-20 & FY 2020-21.

[2] In 2018, 61% of San Francisco voters authorized the Proposition G annual parcel tax for restricted uses, including teacher salaries and funding staff at high-needs schools. A lawsuit argued that a two-thirds supermajority vote was required to pass the ballot measure. In November 2021, the California Supreme Court declined to hear the case, affirming the California Appellate Court's ruling that the parcel tax should be upheld.

$123.4 million payable to SFUSD. Of the $123.4 million payable to SFUSD, $40 million must go to the District's Rainy Day Reserve, $53.4 million may be for general uses,[3] and $30 million must be for Proposition G eligible uses according to a December 2021 SFUSD presentation to the San Francisco Board of Education.

SFUSD Budget

The State's examination of the District's 2021-22 adopted budget triggered additional State oversight due to projections that the District may not be able to satisfy multiyear financial commitments and maintain required reserve levels for FY 2022-23 and FY 2023-24. The State required SFUSD to provide a Board of Education approved fiscal stabilization plan to the California Department of Education, including budget adjustments to restore and maintain a positive fund balance and required reserve levels in FY 2022-23 and FY 2023-24. The State Superintendent of Public Instruction also assigned a fiscal expert to assist the District in identifying budget reductions and to provide financial advice.

As of December 2021, SFUSD projected budget deficits of $125 million in FY 2022-23 and $140 million in FY 2023-24. In December 2021, the San Francisco Board of Education approved a budget balancing plan for FY 2022-23 and FY 2023-24 to stabilize the budget and meet the State-imposed deadline to address its ongoing structural deficit. SFUSD submitted the plan for review and approval to the California Department of Education and expects to receive the results of their review by the end of March according to SFUSD staff.

The budget balancing plan identified $90 million in expenditure reductions and $35 million in funding sources to address the $125 million deficit in FY 2022-23. Based on assumed cost escalations, the plan estimates that these measures will address projected deficits in future years. The proposed $90 million in expenditure reductions would reduce the total budget by 7.0 percent and includes $50 million in ongoing reductions to school site budgets (12.4 percent of school site budgets) to account for declines in student enrollment and $40 million in ongoing reductions to SFUSD's Central Office budgets[4] (4.6 percent of central budgets). According to SFUSD staff, revenue projections for SFUSD have improved since the budget balancing plan was released based on the Governor's January Budget, which will allow SFUSD to restore some of the proposed expenditure reductions, and SFUSD expects to present a revised budget balancing plan to the San Francisco Board of Education in March.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive the condition in Ordinance Nos. 33-19 and 169-19 that the San Francisco Unified School District repay the City $26.6 million using revenues from the voter-

[3] According to SFUSD staff, $40 million of the $93.4 million from SFUSD's Rainy Day Reserve must be returned to the reserve and the remaining $53.4 million does not have to be returned to the reserve and can be applied towards general uses.

[4] Central Office budgets include budgets for administrative services, instructional support for schools, operational support services (e.g., custodial services), and other services that are centrally managed.

approved June 2018 Proposition G parcel tax; and rescind the direction in those Ordinances to the Controller to transfer funds from accumulated balances of Proposition G revenues to repay the General Fund advances.

Under the proposed ordinance, forgiveness of the General Fund advances is subject to the following conditions:

- SFUSD must use the $26.6 million to reduce its long-term structural deficit and not for short-term budget relief;
- The planned use must be documented in an official budget report submitted to the California Department of Education (CDE); and
- CDE, or fiscal experts assigned by CDE to monitor SFUSD's fiscal condition, must certify that SFUSD has met the above conditions by September 30, 2022.

FISCAL IMPACT

The proposed ordinance would effectively forgive the City's $26.6 million loan to SFUSD by rescinding the requirement that the Controller repay the City using Proposition G revenues. According to City Controller Ben Rosenfield, repayment of the loan was not assumed in the City's budget because the litigation was not resolved before the July adoption. Therefore, forgiveness of the loan does not impact the City's FY 2021-22 budget, but it would result in a reduction to the General Fund balance of $26.6 million compared to if the loan was repaid.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.