

## APPENDIX A

### CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

This Appendix A to the Official Statement of the City provides general information about the City's governance structure, budget processes, property taxation system and tax and other revenue sources, City expenditures, labor relations, employment benefits and retirement costs, investments, bonds, and other long-term obligations.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A which are hosted on the City's website. A wide variety of other information, including financial information, concerning the City is available from the City's publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A and should not be considered in making a decision to buy the Certificates.

Information concerning the City's finances that does not materially impact the availability of moneys deposited in the General Fund including San Francisco International Airport ("SFO" or the "Airport"), Public Utilities Commission ("PUC"), and other enterprise funds, or the expenditure of moneys from the General Fund, is generally not included or, if included, is not described in detail in this Appendix A.

The information presented in this Appendix A contains, among other information, City budgetary forecasts, projections, estimates and other statements that are based on current expectations as of its date. The words "expects," "forecasts," "projects," "budgets," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify such information as "forward-looking statements." Such budgetary forecasts, projections and estimates are not intended as representations of fact or intended as guarantees of results. Any such forward-looking statements are inherently subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected.

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## **CITY FINANCIAL CHALLENGES**

The City is facing material financial challenges, including actual and projected revenue losses, resulting from a variety of factors, including continuing remote work by a significant portion of the workforce (which has led to declining property taxes for certain office buildings, lower real estate property transfer taxes, and reductions in taxes based on employees physically located in the City), slower than anticipated recovery in the local hospitality and convention industries (resulting in declines in hotel and sales taxes), and general economic conditions.

The Original Budget for fiscal years 2023-24 and 2024-25 (the “FY24 & FY25 Original Budget”) was approved by the Board of Supervisors on July 25, 2023 and signed by the Mayor on July 27, 2023. See “CITY BUDGET – Budget Process” for additional detail.

The COVID-19 pandemic resulted in general negative effects on the City’s economy which materially adversely impacted the City’s tax revenues and increased expenses due to public health responses. These decreases occurred in nearly every category of revenue except intergovernmental revenue and property taxes; most significantly, the City experienced the greatest decline in its “other local taxes,” which includes hotel and sales taxes. See “GENERAL FUND REVENUES – PROPERTY TAXATION – Tax Levy and Collection” for additional detail.

The FY24 & FY25 Original Budget reflects continuing but slow economic recovery from the pandemic, with a significant drag created by the continuing effect of remote office work on economic activity in the City. The budget relies heavily on one-time funds to support operations during the two-year budget period.

The FY24 & FY25 Original Budget was based in large part on revenue assumptions contained in the fiscal year 2023-24 Nine-Month Budget Status Report (the “Nine-Month Report”) (issued in May 2023), which assumed continuing economic recovery in fiscal years 2023-24 and 2024-25. Most economically sensitive taxes, such as sales and hotel taxes, are projected to grow during the coming two years, but in most cases are expected to remain below pre-pandemic levels. The continuity of remote work and high interest rates are projected to continue to have significant adverse impacts on the City’s property, business, and property transfer taxes. On August 1, 2023, the Controller issued a report on the status of the City economy for July 2023. The Controller’s report noted that the local labor market remained strong, as the San Francisco Metropolitan Area added 8,400 jobs in June, after adding 8,800 in May, with the technology sector driving job growth. These gains largely offset the technology sector layoffs of late 2022/early 2023. The Controller’s report also indicated that there was little sign of recovery in the downtown office market; office vacancy rose in the second quarter of 2023, while rents, office attendance, and downtown transit ridership were largely flat. Additionally, the City’s housing market also remained sluggish, with condo prices falling faster in San Francisco than Statewide. These factors negatively impact the City’s revenues, including, but not limited to, transfer tax, business tax and property tax revenues. See “BUDGETARY RISKS – Office Vacancy in San Francisco” for a discussion of the impact of remote working on commercial property in the City. In addition, there can be no assurances that potential adverse impacts of the current economic challenges on the financial condition of the State will not result in decreases in State funding to the City.

On June 12, 2023, the City Controller issued the “FY 2023-24 and FY 2024-25 Revenue Letter” (the “Revenue Letter”). In the Controller Revenue Letter, the Controller found the revenue assumptions in the FY24 & FY25 Original Budget to be reasonable, but cautioned they are highly dependent on conditions in the local economy, will require frequent monitoring, and are subject to updates as conditions change. The

Controller Revenue Letter also noted the FY24 & FY25 Original Budget relies heavily on one-time funds to support operations during the two-year budget period, and a structural gap in excess of \$500 million is likely to persist following the exhaustion of those funds. See “CITY BUDGET – Original Budget for Fiscal Years 2023-24 and 2024-25 and Revenue Letter” for more information.

On October 11, 2023 the Mayor’s Office issued instructions for mid-year cuts in departmental General Fund budgets in October and November 2023. This current fiscal year saving strategy is intended to achieve onetime and ongoing savings that will reduce projected budget deficits in future fiscal years. While the City is not aware of material weakness in the current year budget, this plan would also provide a financial hedge should such variances occur as the current fiscal year progresses.

Potential reductions include eliminating non-essential vacant positions, reducing grants and contracts, and shifting General Fund expenditures to other sources. A full update to the Five Year Financial plan and budget instructions from the Mayor’s Office to departments for the FY25 & FY26 budgets will follow in December 2023.

## **CITY GOVERNMENT**

### **City Charter**

San Francisco is constituted as a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the “State”) and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government to the City. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, voters approved the current charter, which went into effect in most respects on July 1, 1996 (“Charter”).

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (“Board of Supervisors”), and a Mayor elected at large who serves as chief executive officer (“Mayor”). Members of the Board of Supervisors and the Mayor each serve a four-year term. The Mayor and members of the Board of Supervisors are subject to term limits as established by the Charter. Members of the Board of Supervisors may serve no more than two successive four-year terms and may not serve another term until four years have elapsed since the end of the second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer and Tax Collector, Sheriff, and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. The Charter provides a civil service system for most City employees. School functions are carried out by the San Francisco Unified School District (grades TK-12) (“SFUSD”) and the San Francisco Community College District (post-secondary) (“SFCCD”). Each is a separate legal entity with a separately elected governing board.

Unique among California cities, San Francisco as a charter city and county provides the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including a port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for

slightly less than 50% of all City expenditures. In addition, voters have approved Charter amendments that impose certain spending mandates and tax revenue set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including transportation services, children’s services and public education, and libraries.

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mills Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today’s San Francisco International Airport. In 1969, the City acquired the Port of San Francisco (the “Port”) in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. SFO, the Port, the PUC (which includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency (“MTA”) (which operates the San Francisco Municipal Railway or “Muni” and the Department of Parking and Traffic (“DPT”), including twenty one public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the “enterprise fund departments,” as they are not integrated into the City’s General Fund operating budget. However, certain enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital, and the MTA, annually receive significant General Fund-transfers.

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission and may remove department heads.

## **Mayor**

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. In November 2019, Mayor Breed was elected to serve her first full term. Prior to her election, Mayor Breed served as Acting Mayor, leading the City following the sudden passing of Mayor Lee. Mayor Breed previously served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

## **Board of Supervisors**

Table A-1 lists the current members of the Board of Supervisors. The Supervisors are elected for staggered four-year terms and are elected by district. Vacancies are filled by appointment by the Mayor.

TABLE A-1

**CITY AND COUNTY OF SAN FRANCISCO**  
**Board of Supervisors**

Name	First Elected or Appointed	Current Term Expires
Connie Chan, <i>District 1</i>	2021	2025
Catherine Stefani, <i>District 2</i>	2018	2027
Aaron Peskin, Board President, <i>District 3</i>	2015	2025
Joel Engardio, <i>District 4</i>	2023	2027
Dean Preston, <i>District 5</i>	2019	2025
Matt Dorsey, <i>District 6</i>	2022	2027
Myrna Melgar, <i>District 7</i>	2021	2025
Rafael Mandelman, <i>District 8</i>	2018	2027
Hillary Ronen, <i>District 9</i>	2017	2025
Shamann Walton, <i>District 10</i>	2019	2027
Ahsha Safai, <i>District 11</i>	2017	2025

**Other Elected and Appointed City Officers**

The City Attorney, an elected position, represents the City in all legal proceedings in which the City has an interest. On September 29, 2021, Mayor London N. Breed appointed Assemblymember David Chiu to serve as the San Francisco City Attorney. Mr. Chiu replaced the prior City Attorney, Dennis Herrera, who became the General Manager of the San Francisco Public Utilities Commission on November 1, 2021. Mr. Chiu ran and was elected by voters in an election on June 7, 2022 to his current term as City Attorney.

The Assessor-Recorder administers the property tax assessment system of the City. On February 8, 2021, Joaquín Torres, formerly the Director of the Office of Economic and Workforce Development, was sworn in as the new Assessor-Recorder. The position of Assessor-Recorder is a citywide elected position. Mr. Torres ran and was elected by voters in a special election on February 15, 2022 to his current term as Assessor-Recorder.

The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2019. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom.

The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008 and was confirmed by the Board of Supervisors in accordance with the Charter. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in Spring 2018, and his nomination was confirmed by the Board of Supervisors on May 1, 2018.

The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. The City Administrator oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. Carmen Chu was sworn in as the City Administrator on February 2, 2021.

## **CITY BUDGET**

### **Overview**

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprises through its annual budget process. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. General Fund revenues consist largely of local property tax, business tax, sales tax, other local taxes and charges for services. A significant portion of the City's revenue also comes in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal position is affected by the health of the local real estate market, the local business and tourist economy, and, by budgetary decisions made by the State and federal governments which depend, in turn, on the health of the larger State and national economies. All these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a vote of City residents. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein. Also, the fact that the City's annual budget must be adopted before the State and federal budgets adds uncertainty to the budget process and necessitates flexibility so that spending decisions can be adjusted during the course of the fiscal year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The FY24 & FY25 Original Budget was passed by the Board of Supervisors on July 25, 2023 and signed by Mayor Breed on July 27, 2023. The Original Budget for fiscal year 2023-24 appropriated annual revenues, fund balance, transfers and reserves of \$14.6 billion, of which the City's General Fund accounts for \$6.8 billion. The Original Budget for fiscal year 2024-25 appropriates revenues, fund balance, transfers and reserves of \$14.5 billion, of which \$7.0 billion represents the General Fund budget. See "CITY BUDGET – Original Budget for Fiscal Years 2023-24 and 2024-25" for further details on the budget. Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2020-21 and 2021-22, and Original Budgets for fiscal years 2022-23 through 2024-25. The Final Revised Budget for fiscal year 2022-23 is pending completion of the City's Annual Comprehensive Financial Report ("ACFR") for fiscal year 2022-23, and is not yet available. See "GENERAL FUND REVENUES - PROPERTY TAXATION –Tax Levy and Collection," "GENERAL FUND REVENUES - OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

See "CITY FINANCIAL CHALLENGES" and "BUDGETARY RISKS" for discussions of factors that may affect the revenue and expenditure levels assumed in the Original Budget.



TABLE A-2

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 2020-21 through 2024-25**  
**(000s)**

	2020-21 Final Revised Budget <sup>6</sup>	2021-22 Final Revised Budget <sup>6</sup>	2022-23 Original Budget <sup>7</sup>	2023-24 Original Budget <sup>8</sup>	2024-25 Original Budget <sup>8</sup>
Prior-Year Budgetary Fund Balance & Reserves	\$2,816,902	\$2,803,535	\$395,409	\$224,248	\$362,464
<b><u>Budgeted Revenues</u></b>					
Property Taxes <sup>1</sup>	\$2,161,945	\$2,115,600	\$2,379,530	\$2,510,000	\$2,474,000
Business Taxes	798,057	957,307	902,300	851,100	941,100
Other Local Taxes <sup>2</sup>	657,990	777,750	1,050,820	1,098,880	1,197,380
Licenses, Permits and Franchises	22,977	28,027	26,818	30,291	30,583
Fines, Forfeitures and Penalties	2,389	4,039	3,088	3,014	3,141
Interest and Investment Earnings	20,732	34,215	44,467	121,071	113,517
Rents and Concessions	11,166	11,820	13,131	14,571	14,803
Grants and Subventions	1,591,756	1,699,946	1,511,286	1,477,115	1,388,989
Charges for Services	254,990	258,939	236,924	272,865	264,613
Other	59,773	37,694	19,420	17,532	27,766
<b>Total Budgeted Revenues</b>	<b>\$5,581,775</b>	<b>\$5,925,337</b>	<b>\$6,187,784</b>	<b>\$6,396,439</b>	<b>\$6,455,892</b>
Bond Proceeds & Repayment of Loans	-	-	-	-	-
<b><u>Expenditure Appropriations</u></b>					
Public Protection	\$1,505,780	\$1,586,264	\$1,675,801	\$1,747,204	\$1,779,540
Public Works, Transportation & Commerce	218,986	244,365	262,733	242,912	233,446
Human Welfare & Neighborhood Development	1,605,573	1,571,761	1,576,410	1,604,163	1,615,373
Community Health	1,158,599	1,119,891	1,162,956	1,125,977	1,157,023
Culture and Recreation	147,334	161,417	197,596	201,453	202,539
General Administration & Finance	332,997	353,518	338,055	345,406	357,335
General City Responsibilities <sup>3</sup>	126,993	156,892	226,931	184,513	237,146
<b>Total Expenditure Appropriations</b>	<b>\$5,096,262</b>	<b>\$5,194,108</b>	<b>\$5,440,482</b>	<b>\$5,451,628</b>	<b>\$5,582,402</b>
Budgetary reserves and designations, net	\$42,454	\$45,567	\$65,741	\$70,840	\$17,550
Transfers In	\$417,009	\$194,114	\$203,001	\$211,296	\$210,318
Transfers Out <sup>4</sup>	(1,164,927)	(1,181,704)	(1,279,971)	(1,309,516)	(1,428,723)
Net Transfers In/Out	(\$747,918)	(\$987,590)	(\$1,076,970)	(\$1,098,220)	(\$1,218,405)
<b>Budgeted Excess (Deficiency) of Sources</b>					
Over (Under) Uses	2,512,044	2,501,608	-	-	-
Variance of Actual vs. Budget	291,491	712,423	-	-	-
<b>Total Actual Budgetary Fund Balance<sup>5</sup></b>	<b>2,803,535</b>	<b>3,214,031</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The Budget appropriates Excess ERAF property tax funds in all fiscal years shown on the table. Please see "Property Tax" sections for more information about Excess ERAF.

<sup>2</sup> Other Local Taxes includes sales, hotel, utility users, parking, transfer, sugar sweetened beverage, stadium admissions, access line, cannabis, and overpaid executive taxes.

<sup>3</sup> Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area groupings above for the time periods shown.

<sup>4</sup> Other Transfers Out is primarily related to transfers to support Charter-mandated spending requirements and hospitals.

<sup>5</sup> Fiscal year 2020-21 through fiscal year 2021-22 Final Revised Budget reflects prior year *actual* budgetary fund balance.

<sup>6</sup> Fiscal year 2020-21, and 2021-22 Final Revised Budgets are based on fiscal year 2020-21, and 2021-22 ACFRs, respectively. Does not reflect material adverse impacts of the COVID-19 pandemic on the General Fund. See reserve discussion under "CITY BUDGET" section.

<sup>7</sup> Fiscal year 2022-23 amounts represent the Original Budget, adopted July 27, 2022. Final Revised Budget is pending completion of FY 2022-23 ACFR.

<sup>8</sup> Fiscal year 2023-24 and 2024-25 amounts represent the Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

## **Budget Process**

The following paragraphs contain a description of the City's customary budget process. The City's fiscal year commences on July 1 and ends on June 30. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit a proposed budget, including all departments, to the Board of Supervisors.

Under the Charter, following the submission of the Mayor's Proposed Budget, the City Controller must provide an opinion to the Board of Supervisors regarding the economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget (the City Controller's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's Proposed Budget. The Revenue Letter and other information from the Controller's website are not incorporated herein by reference. The City's Capital Planning Committee (composed of other City officials) also reviews the proposed budget and provides recommendations based on the budget's conformance with the City's adopted ten-year capital plan. For a further discussion of the Capital Planning Committee and the City's ten-year capital plan, see "CAPITAL FINANCING AND BONDS – Capital Plan" herein.

The City is required by the Charter to adopt, each year, a budget which is balanced in each fund. During its budget approval process, the Board of Supervisors has the power to reduce or augment any appropriation in the proposed budget, provided the total budgeted appropriation amount in each fund is not greater than the total budgeted appropriation amount for such fund submitted by the Mayor. The Board of Supervisors approves the budget by adoption of the Budget and Appropriation Ordinance (also referred to herein as the "Original Budget") typically by no later than August 1 of each fiscal year.

The Budget and Appropriation Ordinance becomes effective with or without the Mayor's signature after 10 days; however, the Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire Budget and Appropriation Ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any Budget and Appropriation Ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors.

Following the adoption and approval of the Budget and Appropriation Ordinance, the City makes various revisions throughout the fiscal year (the Original Budget plus any changes made to date are collectively referred to herein as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year upon release of the City's ACFR to reflect the year-end revenue and expenditure appropriations for that fiscal year.

## Multi-Year Budgeting and Planning

The City's budget involves multi-year budgeting and financial planning, including:

1. Fixed two-year budgets are approved by the Board of Supervisors. For fiscal year 2023-24 MTA, PUC, SFO, and the Port were in the second year of their previously adopted, fixed, two-year budgets. In fiscal year 2024-25, those department budgets will open again for amendments. All other departments prepared balanced, rolling two-year budgets for Board approval.
2. Five-year financial plan and update, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. A five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, the Budget Analyst for the Board of Supervisors and Controller's Office on January 13, 2023, for fiscal year 2023-24 through fiscal year 2027-28. See "Five-Year Financial Plan and Mayor's Budget Instructions" section below. The Five-Year Financial Plan was updated in the March Joint Report, see "CITY BUDGET: Five-Year Financial Plan, Mayor's Budget Instructions, and March Joint Report" for a summary. The next plan update will be released in early 2024.
3. The Controller's Office proposes to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and the City is required to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1. Key financial policies that have been enacted include:
  - Non-Recurring Revenue Policy – This policy limits the Mayor's and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance, the General Fund share of revenues from prepayments provided under long- term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long-term obligations.
  - Rainy Day and Budget Stabilization Reserve Policies – These reserves were established to support the City's budget in years when revenues decline. These and other reserves are discussed in detail below. Charter Section 9.113.5 requires deposits into the Rainy Day Reserve if total General Fund revenues for a fiscal year exceed total General Fund revenues for the prior fiscal year by more than five percent. Similarly, if budget year revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues. The fiscal year 2020-21 Original Budget withdrew the maximum permissible amount from the City's Rainy Day and Budget Stabilization Reserves, but the original fiscal year 2021-22 budget provided for the withdrawal of a *de minimis* amount, preserving the remaining balance of the reserves. Fiscal years 2022-23, 2023-24, and 2024-25 budgets did not withdraw from the Rainy Day or Budget Stabilization Reserves. These and other reserves are discussed under the Rainy Day Reserve and Budget Stabilization Reserve section.

4. The City is required to submit labor agreements to the Board of Supervisors by May 15, so the fiscal impact of the agreements can be incorporated in the Mayor's proposed June 1 budget. The City negotiated agreements with its public safety employee organizations for fiscal years 2023-24 and 2024-25. Miscellaneous employee labor agreements are open for 2024-25, and the City will be bargaining in spring 2024.

### **Role of Controller in Budgetary Analysis and Projections**

As Chief Fiscal Officer and City Services Auditor, the City Controller monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds. Under the Charter, no obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available to meet such obligation as it becomes due in the then-current fiscal year, which ends June 30. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's actual expenditures are often different from the estimated expenditures in the Original Budget due to supplemental appropriations, continuing appropriations of prior years, and unexpended current-year funds. If the Controller estimates revenue shortfalls that exceed applicable reserves and any other allowances for revenue shortfalls in the adopted City budget, upon receipt of such estimates, the Mayor is to inform the Board of Supervisors of actions to address this shortfall. The Board of Supervisors may adopt an ordinance to reflect the Mayor's proposal or alternative proposals in order to balance the budget.

In addition to the five-year planning responsibilities discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued fiscal year 2022-23 Six Month Report (the "Six Month Report") on February 15, 2023 and the Nine Month Report on May 15, 2023. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's Proposed Budget for fiscal year 2023-24 and 2024-25 in the Revenue Letter, which was issued on June 12, 2023.

### **General Fund Results: Audited Financial Statements**

The City issued the ACFR, which includes the City's audited financial statements, for fiscal year 2021-22 on March 1, 2023. The fiscal year 2022-23 ACFR will be released in fall 2023. Fiscal year 2022-23 pre-audit results for selected revenues are discussed in Appendix A, but final revised budgets and overall net position are still pending and not updated here.

Fiscal year 2021-22 General Fund balance showed an increase from the fiscal year 2020-21 General Fund balance. As of June 30, 2022, the net available budgetary basis General Fund fund balance was \$1.02 billion (see Table A-4), which represents a \$114.2 million increase in available fund balance from the \$902.0 million available as of June 30, 2021. This increase resulted primarily from greater-than-budgeted property, hotel and real property transfer tax revenues, partially offset by under-performance in business tax revenues in fiscal year 2021-22.

The General Fund balance as of June 30, 2022 was \$2.9 billion (shown in Tables A-3 and A-4) using Generally Accepted Accounting Principles (“GAAP”), derived from revenues of \$6.3 billion. The City prepares its budget on a modified accrual basis, which is also referred to as “budget basis” in the ACFR. Accruals for incurred liabilities, such as claims and judgments, workers’ compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. Table A-3 focuses on a specific portion of the City’s balance sheet; General Fund balances are shown on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2018 through June 30, 2022.

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TABLE A-3

**CITY AND COUNTY OF SAN FRANCISCO**  
**Summary of General Fund Fund Balances**  
**Fiscal Years 2017-18 through 2021-22**  
**(000s)**

	2017-18	2018-19	2019-20	2020-21	2021-22
Restricted for rainy day (Economic Stabilization account) <sup>1</sup>	\$89,309	\$229,069	\$229,069	\$114,539	\$114,539
Restricted for rainy day (One-time Spending account) <sup>2</sup>	54,668	95,908	-	-	-
Committed for budget stabilization (citywide) <sup>2</sup>	369,958	396,760	362,607	320,637	320,637
Committed for Recreation & Parks savings reserve <sup>3</sup>	1,740	803	803	-	-
<b><u>Assigned, not available for appropriation</u></b>					
Assigned for encumbrances	\$345,596	\$351,446	\$394,912	\$407,137	\$462,668
Assigned for appropriation carryforward	423,835	496,846	630,759	753,776	940,213
Assigned for budget savings incentive program (Citywide) <sup>3</sup>	73,650	86,979	-	-	-
Assigned for salaries and benefits <sup>4</sup>	23,931	28,965	25,371	5,088	17,921
Assigned for Self-Insurance <sup>5</sup>	-	-	-	42,454	45,567
Assigned for Hotel Tax Loss Contingency <sup>6</sup>	-	-	-	6,000	3,500
<b>Total Fund Balance Not Available for Appropriation</b>	<b>\$1,382,687</b>	<b>\$1,686,776</b>	<b>\$1,643,521</b>	<b>\$1,649,631</b>	<b>\$1,905,045</b>
<b><u>Assigned and unassigned, available for appropriation</u></b>					
Assigned for litigation & contingencies <sup>4</sup>	\$235,925	\$186,913	\$160,314	\$173,591	\$235,133
Assigned for subsequent year's budget	188,562	210,638	370,405	173,989	307,743
Unassigned for General Reserve <sup>7</sup>	106,878	130,894	78,498	78,333	57,696
Unassigned - Budgeted for use second budget year	223,251	285,152	84	-	149,695
Unassigned - Projected for use third and fourth budget year	-	-	-	-	163,400
Unassigned - Contingency for second budget year	160,000	308,000	510,400	-	-
Unassigned - COVID-19 Response and Economic Contingency Reserve <sup>8</sup>	-	-	-	113,500	13,999
Unassigned - Federal & State Emergency Revenue Reserve <sup>8</sup>	-	-	-	100,000	81,300
Unassigned - Fiscal Cliff Reserve <sup>8</sup>	-	-	-	293,900	229,750
Unassigned - Business Tax Stabilization Reserve	-	-	-	149,000	29,454
Unassigned - Gross Receipts Prepayment Reserve	-	-	-	26,000	-
Unassigned - Other Reserve	-	-	-	13,807	1,021
Unassigned - Available for future appropriation	44,779	8,897	18,283	31,784	39,795
<b>Total Fund Balance Available for Appropriation</b>	<b>\$959,395</b>	<b>\$1,130,494</b>	<b>\$1,137,984</b>	<b>\$1,153,904</b>	<b>\$1,308,986</b>
<b>Total Fund Balance, Budget Basis</b>	<b>\$2,342,082</b>	<b>\$2,817,270</b>	<b>\$2,781,505</b>	<b>\$2,803,535</b>	<b>\$3,214,031</b>
<b><u>Budget Basis to GAAP Basis Reconciliation</u></b>					
Total Fund Balance - Budget Basis	\$2,342,082	\$2,817,270	\$2,781,505	\$2,803,535	\$3,214,031
Unrealized gain or loss on investments	(20,602)	16,275	36,626	3,978	(156,403)
Nonspendable fund balance	1,512	1,259	1,274	2,714	4,134
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(25,495)	(23,793)	(20,655)	(31,745)	(32,874)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(68,958)	(87,794)	(139,590)	(120,569)	(118,791)
Inventories	-	-	33,212	17,925	-
Pre-paid lease revenue	(6,598)	(6,194)	(6,450)	(5,734)	(4,954)
<b>Total Fund Balance, GAAP Basis</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>	<b>\$2,670,104</b>	<b>\$2,905,143</b>

<sup>1</sup> Additional information in Rainy Day Reserves section of Appendix A, following this table.

<sup>2</sup> Additional information in Budget Stabilization Reserve section of Appendix A, following this table.

<sup>3</sup> Additional information in Budget Savings Incentive Reserve section of Appendix A, following this table.

<sup>4</sup> Additional information in Salaries, Benefits and Litigation Reserves section of Appendix A, following this table.

The increase in FY18 was largely due to a small number of claims filed against the City with large known or potential settlement stipulations.

<sup>5</sup> Due to the GASB 84 implementation, the self-insurance and other general City activities from the former Payroll (Agency) Fund became part of the General Fund.

The balance represents a fund collected and restricted for self-insurance purpose.

<sup>6</sup> Additional information in Hotel Tax Loss Contingency of Appendix A, following this table.

<sup>7</sup> Additional information in General Reserves section of Appendix A, following this table.

<sup>8</sup> Additional information in the COVID Response and Economic Loss Reserve section of Appendix A, following this table.

Source: Office of the Controller, City and County of San Francisco.

In addition to the reconciliation of GAAP versus budget-basis fund balance, Table A-3 shows the City's various reserve balances as designations of fund balance. Key reserves are described further as follows:

### **Rainy Day Reserve**

The City maintains a Rainy Day Reserve, as shown on the first and second line of Table A-3 above. Charter Section 9.113.5 requires that if total General Fund revenues for the current year exceed total General Fund revenues for the prior year by more than five percent, then the City must deposit anticipated General Fund revenues in excess of that five percent growth into three accounts within the Rainy Day Reserve (see below) and for other lawful governmental purposes. Similarly, if budgeted revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. Effective January 1, 2015, Proposition C, passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") for SFUSD, with each reserve account receiving 50% of the existing balance at the time. Deposits to the reserve are allocated as follows:

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve (not shown in Table A-3 because it is not part of the General Fund, it is reserved for SFUSD);
- 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
- 25 percent of the excess revenues to any lawful governmental purpose.

The fiscal year 2021-22 ending balance of the Rainy Day Economic Stabilization City Reserve was \$114.5 million, as shown in Table A-3. Under Proposition C, the City is not eligible to withdraw from the Rainy Day Reserve in fiscal years 2022-23, 2023-24 or 2024-25, preserving the balance of \$114.5 million in those years.

The combined balances of the Rainy Day Reserve's Economic Stabilization account and the Budget Stabilization Reserve are subject to a cap of 10% of actual total General Fund revenues. Amounts in excess of that cap in any year will be placed in the Budget Stabilization One-Time Reserve, which is eligible to be allocated to capital and other one-time expenditures. Monies in the City Reserve are available to provide budgetary support in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day One-Time Reserve are available for capital and other one-time spending initiatives.

### **Budget Stabilization Reserve**

The City maintains a Budget Stabilization Reserve, as shown on the third line of Table A-3 above. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues, including Real Property Transfer Tax ("RPTT") receipts in excess of the rolling five-year annual average (adjusting for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

The combined value of the Budget Stabilization Reserve and the Budget Stabilization One Time Reserve was \$320.6 million at the end of fiscal year 2021-22, with an ending balance of \$265.8 million in the Budget Stabilization Reserve and \$54.8 million in the Budget Stabilization One-Time Reserve. The fiscal year 2022-23 Original Budget withdraws the balance of the Budget Stabilization One-Time Reserve. As with the Rainy Day Reserve under Proposition C, the City is not eligible to withdraw from the Budget Stabilization Reserve in fiscal years 2022-23, 2023-24 or 2024-25, maintaining the fiscal year 2021-22 \$265.8 million balance.

The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn. No deposits are required in years when the City is eligible to withdraw.

### **Salaries, Benefits and Litigation Reserves**

The City maintains two reserves to offset potential expenses, which are available to City departments through a Controller's Office review and approval process. These are shown in the "assigned, not available for appropriation," and "assigned and unassigned, available for appropriation" sections of Table A-3 above. These include the Salaries and Benefit Reserve (balance of \$17.9 million as of fiscal year 2021-22) and the Litigation Reserve. The Litigation Reserve and Public Health Management Reserve (balance of \$235.1 million in fiscal year 2021-22) are combined for reporting purposes. The purpose of the latter is to manage patient revenue volatility in the Department of Public Health.

### **General Reserve**

The City maintains a General Reserve, shown as part of "Unassigned for General Reserve" in the "assigned and unassigned, available for appropriation" section of Table A-3 above. The fiscal year 2021-22 balance of \$57.7 million includes \$43.8 million of General Reserve, as well as two smaller, unrelated reserves. The General Reserve is to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the General Reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues in years when the City appropriates a withdrawal from the Rainy Day reserve. The intent of this policy change was to increase reserves available during a multi-year downturn. In fiscal years 2020-21 and 2021-22, the City withdrew from the Rainy Day Reserve and reset its General Fund Reserve deposit requirement to 1.5% of General Fund revenues in those years. The fiscal year 2021-22 ending balance of the General Reserve is \$43.8 million. The Original Budget for fiscal years 2022-23, 2023-24, and 2024-25 includes deposits of \$64.4 million, \$70.8 million, and \$17.6 million, respectively. See "CITY BUDGET – Five-Year Financial Plan and Mayor's Budget Instructions" and "– Other Budget Updates: Fiscal Year 2022-23 Nine-Month Budget Status Report" for a summary of the most recent projections.

### **COVID Response and Economic Loss Reserve, Federal and State Emergency Grant Disallowance Reserve, and Fiscal Cliff Reserve**

The fiscal year 2020-21 Original Budget consolidated the balances of several City reserves into a single COVID Response and Economic Loss Reserve of \$507.4 million in fiscal year 2019-20, as shown as part of



“Unassigned Contingency for Second Budget Year” line in Table A-3. The COVID Response and Economic Loss Reserve was available to offset revenue losses or to assist otherwise with balancing of future fiscal year budgets. The Controller noted that the \$507.4 million total balance would be sufficient to offset some, but not all, of the budget risks identified in future years.

At the end of fiscal year 2020-21, the COVID Response and Economic Loss Reserve was split into two new reserves -- \$100.0 million for a “Federal and State Emergency Grant Disallowance Reserve,” and \$293.9 million for a “Fiscal Cliff Reserve”-- leaving \$113.5 million in the original COVID Response and Economic Loss Reserve. In fiscal year 2021-22, \$99.5 million of the COVID Response and Economic Loss Reserve was used to balance the budget, leaving a balance of \$14.0 million. The 2022-23 Original Budget used the remainder of this reserve.

The Federal and State Emergency Grant Disallowance Reserve was created for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (“FEMA”) and other state and federal agencies. In fiscal year 2021-22, \$18.7 million of the Federal and State Emergency Grant Disallowance Reserve was appropriated in the Original Budget, leaving a balance of \$81.3 million. The fiscal year 2023-24 Original Budget does not appropriate any of this reserve, but the fiscal year 2024-25 Original Budget appropriates \$41.3 million, leaving a balance of \$40.0 million.

The Fiscal Cliff Reserve was created for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources. In fiscal year 2021-22, \$64.2 million of the Fiscal Cliff Reserve was appropriated through a supplemental appropriations ordinance for rent relief and social housing. As a result, the fiscal year 2021-22 reserve balance was \$229.8 million. The fiscal years 2022-23, 2023-24, and 2024-25 budgets appropriate \$9.3 million, \$90.2 million, and \$0 respectively, leaving a balance of \$130.3 million.

### **Operating Cash Reserve**

Not shown in Table A-3, under the City Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City’s operating cash reserve from any unencumbered funds then held in the City’s pooled investment fund (which contains cash for all pool participants, including city departments and external agencies such as San Francisco Unified School District and City College). The operating cash reserve is available to cover cash flow deficits in various City funds, including the City’s General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. See “INVESTMENT OF CITY FUNDS – Investment Policy” herein.

Table A-4, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s published ACFR. Audited financial statements can be obtained from the City Controller’s website <https://sf.gov/annual-comprehensive-financial-reports-acfr>. Information from the City Controller’s website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes), and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements. See “CITY BUDGET – Five-Year Financial Plan and Mayor’s Budget Instructions” for a summary of the most recent projections.

TABLE A-4

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Revenues, Expenditures and Changes in General Fund Fund Balances<sup>1</sup>**  
**Fiscal Years 2017-18 through 2021-22**  
**(000s)**

	2017-18	2018-19	2019-20	2020-21	2021-22
<b>Revenues:</b>					
Property Taxes <sup>2</sup>	\$1,673,950	\$2,248,004	\$2,075,002	\$2,332,864	2,336,071
Business Taxes	897,076	917,811	822,154	722,642	861,172
Other Local Taxes <sup>3</sup>	1,093,769	1,215,306	996,180	709,018	1,115,553
Licenses, Permits and Franchises	28,803	27,960	25,318	12,332	32,078
Fines, Forfeitures and Penalties	7,966	4,740	3,705	4,508	5,755
Interest and Investment Income	16,245	88,523	65,459	(1,605)	(93,447)
Rents and Concessions	14,533	14,460	9,816	5,111	10,668
Intergovernmental	983,809	1,069,349	1,183,341	1,607,803	1,795,395
Charges for Services	248,926	257,814	229,759	230,048	238,438
Other	24,478	46,254	62,218	46,434	23,265
<b>Total Revenues</b>	<b>\$4,989,555</b>	<b>\$5,890,221</b>	<b>\$5,472,952</b>	<b>\$5,669,155</b>	<b>\$6,324,948</b>
<b>Expenditures:</b>					
Public Protection	\$1,312,582	\$1,382,031	\$1,479,195	\$1,498,514	\$1,562,797
Public Works, Transportation & Commerce	223,830	202,988	203,350	204,973	232,078
Human Welfare and Neighborhood Development	999,048	1,071,309	1,252,865	1,562,982	1,478,115
Community Health	706,322	809,120	909,261	1,056,590	1,002,047
Culture and Recreation	142,215	152,250	155,164	145,405	159,056
General Administration & Finance	244,773	267,997	304,073	314,298	298,742
General City Responsibilities	110,812	144,808	129,941	113,913	156,870
<b>Total Expenditures</b>	<b>\$3,739,582</b>	<b>\$4,030,503</b>	<b>\$4,433,849</b>	<b>\$4,896,675</b>	<b>\$4,889,705</b>
Excess of Revenues over Expenditures	\$1,249,973	\$1,859,718	\$1,039,103	\$772,480	\$1,435,243
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$112,228	\$104,338	\$87,618	\$343,498	\$84,107
Transfers Out	(1,010,785)	(1,468,971)	(1,157,822)	(1,166,855)	(1,209,383)
Other	(178)	(3)	-	(338)	(74,928)
<b>Total Other Financing Sources (Uses)</b>	<b>(\$898,735)</b>	<b>(\$1,364,636)</b>	<b>(\$1,070,204)</b>	<b>(\$823,695)</b>	<b>(\$1,200,204)</b>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$351,238	\$495,082	(\$31,101)	(\$51,215)	\$235,039
<b>Total Fund Balance at Beginning of Year</b>	<b>\$1,870,703</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>	<b>\$2,670,104</b>
Cumulative effect of accounting change				35,397	-
<b>Total Fund Balance at End of Year -- GAAP Basis</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>	<b>\$2,670,104</b>	<b>\$2,905,143</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
-- GAAP Basis	\$286,143	\$326,582	\$395,776	\$179,077	\$325,664
-- Budget Basis	\$616,592	\$812,687	\$896,172	\$901,980	\$1,016,157

1 Summary of financial information derived from City ACFRs. Fund balances include amounts reserved for rainy day (Economic Stabilization and One-time Spending accounts), encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved designated and undesignated available fund balances (which amounts constitute unrestricted General Fund balances).

2 The City recognized \$548.0 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue in FY 2018-19, representing FY16-17, FY17-18, and FY18-19 (3 fiscal years) of ERAF. Please see "GENERAL FUND REVENUES - Property Taxation" for more information about Excess ERAF.

3 Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, and cannabis taxes (once it takes effect beginning January 1, 2022).

Sources: Annual Comprehensive Financial Report; Office of the Controller, City and County of San Francisco

## **Five-Year Financial Plan, Mayor’s Budget Instructions, and March Joint Report**

The Five-Year Financial Plan (“Five-Year Plan”) is required under Proposition A, a charter amendment approved by voters in November 2009. The Charter requires the City to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Five-Year Plan be adopted every two years. Charter Section 9.119 requires that by March 1 of each odd-numbered year, the Mayor submit a Five-Year Plan to the Board. The City’s Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimate for the remaining four years of the most recently adopted Five-Year Plan.

On January 13, 2023, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller’s Office issued the Five-Year Plan for fiscal years 2023-24 through 2027-28, which projected annual shortfalls of \$200.8 million, \$527.5 million, \$745.6 million, \$991.7 million, and \$1.2 billion for those years, respectively. San Francisco’s Charter requires that each year’s budget be balanced. Based on the forecast in the Five-Year Plan, the Mayor’s Budget Office issued instructions to departments in December 2022 to reduce their expenditures by 5% and 8% in fiscal years 2023-24 and 2024-25, respectively, in order to close the gap between projected sources and uses.

The City provided updated projections to the Five-Year Plan in its March Joint Report released on March 31, 2023. The March Joint Report projected larger shortfalls than the Five-Year Plan given more recent information and trends, including a fiscal year 2023-24 shortfall of \$290.9 million, or \$90.1 million higher than the projection in the Five-Year Plan (as defined herein) and an aggregate fiscal year 2023-24 and 2024-25 shortfall of \$779.8 million, or \$51.5 million more than the amount projected in the Five-Year Plan. The shortfall in fiscal year 2027-28 is projected to be \$1.3 billion, which is \$95.6 million greater than the projection in the Five-Year Plan. Based on this update, the Mayor’s Budget Office issued additional instructions to departments on March 30, 2023, to reduce expenditures by an additional 5% in fiscal years 2023-24 and 2024-25.

The March Joint Report notes that the increased shortfalls are largely the result of lower revenue projections, higher employee benefit costs, and new spending proposals adopted by the City since the issuance of the Five-Year Plan. The March Joint Report also notes a number of factors that could impact the projections, including any contract changes due to labor negotiations, additional interest rate increases or other factors that may tip the nation into a recession, increases in the retirement contribution rate, and State and federal budget impacts.

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TABLE A-5(a)

CITY AND COUNTY OF SAN FRANCISCO  
 Five Year Financial Plan  
 Fiscal Years 2023-24 through 2027-28  
 Projections as of March 31, 2023  
 (\$ Millions)

	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Sources - Increase / (Decrease):</b>	(\$116.0)	\$18.3	\$85.6	\$72.8	\$191.3
<b>Uses:</b>					
Baselines & Reserves	(\$55.6)	(\$56.0)	(\$91.2)	(\$162.6)	(\$210.5)
Salaries & Benefits	(65.5)	(216.8)	(324.7)	(433.2)	(574.7)
Citywide Operating Budget Costs	(83.9)	(204.3)	(317.0)	(413.2)	(517.8)
Departmental Costs	30.1	(30.1)	(76.7)	(139.1)	(207.9)
<b>Total Uses - (Increase) / Decrease:</b>	(\$174.9)	(\$507.3)	(\$809.6)	(\$1,148.1)	(\$1,511.1)
<b>Projected Surplus / (Shortfall):</b>	(\$290.9)	(\$488.9)	(\$723.9)	(\$1,075.3)	(\$1,319.8)

**Key assumptions in the Five-Year Plan and March Joint Report were:**

- Recovery continues, but high levels of remote work persist:** San Francisco’s economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism. This report assumes changes in office use that occurred during the pandemic are long lasting, affecting commercial and residential real estate and taxable gross receipts. While the recovery in travel and tourism is stronger than prior forecasts, hotel tax revenues are not projected to reach their pre-pandemic levels until fiscal year 2026-27 and are subject to weakness in business travel and convention activity. The March Joint Report forecasts weakening revenue, primarily due to improvements in property and business taxes being more than offset by weakness in FEMA reimbursements, State sales tax-based subventions, sales, hotel, and transfer taxes.
- Implementation of measures adopted by voters in the November 2022 election:** Projections assume a net expenditure increase from these measures, including: costs to provide additional inflationary increases to pre-1996 retiree pensions; savings from the elimination of the Department of Streets and Sanitation and the consolidation of elections; creation of an oversight commission for the Department of Homelessness and Housing; extension of General Fund transfers to the Library Preservation Fund; and funding of a new baseline, the Student Success Fund.
- Previously negotiated wage increases and inflationary increases for open contracts in line with CPI:** The March Update assumed the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters’ unions have closed memoranda of understanding (“MOU”) through fiscal year 2025-26. Miscellaneous unions have closed MOUs through fiscal year 2023-24 that include a “recession trigger” provision to delay fiscal year 2023-24 scheduled wage increases should the projected shortfall for that year exceed \$300 million Both reports assume the threshold is not met, which was the case for this year and will be tested again later this fiscal year. In open contract years, this report projects salary increases equal to the change in CPI using the average projection of the California Department of Finance San Francisco Area CPI and Moody’s SF Metropolitan Statistical Area CPI. This corresponds to 3.56% in fiscal year 2023-24, 2.62% in fiscal year 2024-25, 2.66% in fiscal year 2025-26, 2.45% in fiscal year 2026-27, and 2.51% in fiscal year 2027-28. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels, but rather are used for projection purposes.

- **Pension investment returns meet expectations, but do not trigger a supplemental Cost of Living Adjustment (“COLA”):** Both reports assume a return on San Francisco Employees’ Retirement System (“SFERS” or “Retirement System”) assets of 7.2%, the actuarially assumed rate of return. This projection does not assume that any on-going supplemental COLA payment to certain retirees is triggered, which would require increased employer contributions.
- **Health insurance cost increases:** The January projection assumed that the employer share of health insurance costs for active employees would increase by 5.2% in fiscal year 2023-24, 6.8% in fiscal year 2024-25, 6.3% in fiscal year 2025-26, and then 6.0% in each of the remaining two years of the projection period, for an average of 6.0% annually over the five years. Retiree health costs are assumed to grow by 5.3% in fiscal year 2023-24, 6.8% in fiscal year 2024-25, 6.3% in fiscal year 2025-26, and then 6.0% in each of the remaining two years, an average of 6.1% annually over the projection period. The March projection assumes health costs for active members are higher compared to the January projection as they include medical inflation and updated medical enrollments as of March 2023. The March projection also assumes that health costs for retired City employees will decrease in fiscal year 2023-24 compared to the January projections based on the Charter-required 10-county average, which was updated in March 2023.

**The Five-Year Plan and March Joint Report noted key factors that could materially impact the City’s financial condition, including the following:**

- **Labor negotiations:** The reports assume approved wage increases in collective bargaining agreements for most labor unions through the end of fiscal year 2023-24 and apply inflationary increases on open contracts in all other years based on the same CPI rates used in the January Report. Other than these costs, the reports do not assume any contract changes due to labor negotiations with Police and Firefighters’ unions for contracts effective July 1, 2023. Wage or benefit changes above or below these assumptions would impact the projection. At the time of the March update, the membership of the Police Officer’s Association had approved a tentative agreement with the City that would increase wages and premiums by rates greater than the CPI-based wage increases assumed in this report; this cost is not included in the update as the Board had not approved the MOU.
- **Interest rate increases or other factors tip the nation into recession:** The reports assume very modest revenue growth over the forecast period given structural changes in office using sectors, and that successive Fed interest rate increases slow growth without inducing a recession. However, there is continuing discussion among economic forecasters of the likelihood of a mild recession beginning in the first half of 2024. Assuming policymakers choose to completely deplete the City’s economic stabilization reserves, the report estimates such a recession would increase the total shortfall amount by \$339.0 million over the forecast period.
- **Pending or proposed new programs or legislation:** No pending or proposed legislative changes with a fiscal impact are assumed in this projection. Legislation adopted by the Mayor and Board of Supervisors with a fiscal impact would increase the projected shortfalls. Future projections will include impacts from any subsequently adopted legislation.

- **Revenue volatility from a highly progressive tax structure:** The General Fund projection includes revenue from the tax on executive compensation (November 2020 Proposition L) as well as revenue from new transfer tax rates (November 2020 Proposition I). These sources add to the City’s already progressive tax structure, increasing revenue volatility. In addition, both taxes will likely lead to a variety of tax avoidance behaviors that are difficult to project in both form and timing, resulting in revenue that could be higher or lower than projected. See “BUDGETARY RISKS – Commuting Pattern Changes” for a summary of the July 2023 memorandum issued by the Controller’s Office on how the City’s business tax system is being challenged by the recent trends towards remote working.
- **State fiscal shortfall:** These projections assume excess ERAF property tax allocations continue under current legal requirements. However, in its November 2022 fiscal outlook report, the state Legislative Analyst Office projected a \$24 billion shortfall in fiscal year 2023-24 and ongoing deficits, thereafter, increasing the likelihood of legislative proposals to alter ERAF allocations in a way that reduces the draw on the state’s general fund to meet its Prop 98 school funding requirements, which would reduce excess ERAF that reverts to the City. In fiscal year 2022-23 excess ERAF property allocations to the City are projected to be approximately \$350 million, which included certain one-time payments. In addition, discretionary state funding for housing, criminal justice, and other local government grants will likely decline. See “BUDGETARY RISKS – Impact of the State of California Budget on Local Finances” for more detail.
- **Retirement contribution rate:** Projections assume the SFERS achieves a 7.2% rate of return in fiscal year 2022-23 and in each year beyond. For the quarter ended June 30, 2023, the Retirement Fund was valued at \$33.6 Billion (unaudited). The net of fee total returns for that quarter and the trailing one-year were 2.36% and 4.25%, respectively. The final audited valuation June 30, 2023 could vary from the year-to-date return value. Final results below the 7.2% assumption will result in higher retirement contribution costs during the forecast period. Reference “EMPLOYMENT COSTS; POST-EMPLOYMENT OBLIGATIONS: San Francisco Employees’ Retirement System” for more information.

**Other Budget Updates: Fiscal Year 2022-23 Nine-Month Budget Status Report**

The Nine-Month Budget Status Report (the “Nine-Month Report”) was released on May 15, 2023. The Nine-Month Report indicates a projected General Fund net surplus of \$209.3 million in fiscal year 2022-23, which is a \$36.3 million improvement from the March Joint Report. The improvement was largely driven by an improving revenue outlook.

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TABLE A-5(b)

**Nine-Month Report**  
**Fiscal Year 22-23 Projected General Fund Variances to Budget (\$ million)**

	March 5-Yr Update	9-Month	Change
FY 2021-22 Ending Fund Balance	497.2	497.2	-
Appropriation in the FY 2022-23 Budget	(457.4)	(457.4)	-
<b>Prior Year Fund Balance Above Budgeted Levels</b>	<b>39.8</b>	<b>39.8</b>	-
Citywide Revenue	(58.8)	(31.9)	26.9
Baseline Contributions	(11.6)	(13.7)	(2.0)
Departmental Operations	25.4	44.7	19.3
<b>Current Year Revenues and Expenditures</b>	<b>(45.0)</b>	<b>(0.8)</b>	<b>44.1</b>
Approved Use of General Reserve - Source	50.4	50.4	-
Approved Use of General Reserve - Expenditure	(50.4)	(50.4)	-
Public Health Revenue Management Reserve	14.8	6.9	(7.9)
<b>Supplemental Appropriations &amp; Use of Reserves</b>	<b>14.8</b>	<b>6.9</b>	<b>(7.9)</b>
Previously Unappropriated Fund Balance	163.4	163.4	-
FY 2022-23 Projected Ending Balance	173.0	209.3	<b>36.3</b>

The following is a discussion of certain elements of the fiscal year 2022-23 projections in the Nine-Month Report:

- Implications for upcoming fiscal years.** The Nine-Month Report forecasts a \$209.3 million General Fund ending balance in fiscal year 2022-23, a \$36.3 million improvement from the \$173.0 million balance in the March Joint Report and a \$39.8 million improvement versus the adopted budget for fiscal year 2022-23. Application of this additional current year fund balance would decrease the projected shortfall in the upcoming two-year budget to \$743.5 million.
- Citywide revenues are projected to be \$31.9 million below budget, an improvement of \$26.9 million from the March Joint Report to the Five-Year Plan.** The variance from budget is largely due to significant weakness in FEMA reimbursements of COVID expenses, real property transfer tax, and business tax. These shortfalls are partially offset by strength in the overpaid executives tax, the hospitality and tourism sector – evidenced by growth in hotel tax and concessions revenue at San Francisco International Airport (SFO)– as well as sales tax, property tax, and interest income.
- Departments are projected to end the year with a \$44.7 million net operating surplus, of which \$27.6 million is attributable to approval of a supplemental appropriation to fund Police Department overtime overspending.** Controlling for offsetting revenue and expenditure fluctuations at the Human Services Agency (HSA), modest increases in revenue shortfalls in other departments were more than offset by savings in a range of expenditure types, but largely driven

by salary and fringe benefit savings given hiring delays versus the adopted budget. The \$18.0 million revenue shortfall at the Department of Public Health (DPH), stemming largely from the declining patient census at Laguna Honda Hospital as it seeks Center for Medicare Services (CMS) recertification, is projected to be closed with the department's revenue management reserve.

### **Original Budget for Fiscal Years 2023-24 and 2024-25 and Revenue Letter**

On June 1, 2023, the Mayor submitted a proposed, balanced budget for fiscal years 2023-24 and 2024-25 to the Board of Supervisors. On July 25, 2023, the Board of Supervisors passed a final budget, and the Mayor approved this budget on July 27, 2023 (the "FY24 & FY25 Original Budget").

The FY24 & FY25 Original Budget totals \$14.6 billion for fiscal year 2023-24 and \$14.5 billion for fiscal year 2024-25. The General Fund portion is \$6.8 billion in fiscal year 2023-24 and \$7.0 billion in fiscal year 2024-25. There are 33,402 funded full-time equivalent positions in fiscal year 2023-24 and 33,562 in fiscal year 2024-25, representing year-over-year increases of 194 and 160 positions, respectively.

The Charter requires that the Controller comment on revenue estimates assumed in the Mayor's fiscal year 2023-24 and fiscal year 2024-25 proposed budget. These comments were issued in the Revenue Letter on June 12, 2023. The revenue estimates assumed in the proposed budget are not materially different from the budget finally passed and approved later in the summer.

In the Revenue Letter, the Controller's Office found tax revenue assumptions to be reasonable, but cautioned that they are highly dependent on conditions in the local economy, will require frequent monitoring, and are subject to updates as conditions change. The report also noted the budget relies heavily on one-time funds to support operations during the two-year budget period, and a structural gap in excess of \$500 million is likely to persist following the exhaustion of those funds.

### **Key findings in the Revenue Letter include:**

- **Tax revenue projections generally assume a continuing but slow economic recovery from the pandemic, with a significant drag created by the continuing effect of remote office work on economic activity in the City.** Most economically sensitive taxes, such as sales and hotel taxes, are projected to grow during the coming two years, but in most cases remain below pre-pandemic levels. However, the continuity of remote work and high interest rates are projected to continue to have significant impacts on the City's property, business, and property transfer taxes. Tax increases adopted by the voters in recent years are projected to contribute to modest overall General Fund tax revenue growth of 0.6% in fiscal year 2023-24 and 3.3% fiscal year 2024-25.
- **The budget assumes nearly \$1 billion of General Fund one-time solutions over the two budget years.** These one-time solutions include drawdown of \$405.0 million in prior year fund balance, including \$117.2 million in prior continuing appropriations the Mayor's budget proposes to close; \$250.0 million of FEMA reimbursement for previously incurred emergency response costs; \$172.3 million of reserve drawdowns; and other one-time solutions. Additionally, the budget proposes \$125.9 million of short-term shifts of costs in other funds, with a significant portion designed to achieve General Fund savings.



- **The budget further draws on available reserves but maintains the City’s economic stabilization reserves.** The budget uses \$172.3 million of reserves established in prior years. By the end of the two-year budget period, the City will have used approximately \$620 million (or 43%) of its \$1.4 billion of pre-pandemic reserves to support on-going operations. The Mayor’s proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined “Economic Stabilization Reserves”). Required General Reserve funding levels are maintained in the proposed budget.
- **The proposed budget makes some limited progress towards projected structural budget gaps in years beyond the coming two-year budget period.** This forecast, published in March 2023, forecasted a structural budget gap of \$724 million in fiscal year 2025-26, growing in subsequent years, absent ongoing corrective action by policy makers. Based on a preliminary review of the mix of ongoing and one-time solutions proposed in the Mayor’s budget, the Controller’s Office estimates a likely shortfall in excess of \$500 million in fiscal year 2025-26, growing in subsequent years.
- **The final adopted budget will require active monitoring and management by the Mayor and Board of Supervisors given a number of economic and financial risks.** These risks include the possibility of a slowing economic recovery or a recession, delays in the recertification of Laguna Honda Hospital, and risks associated with both State and Federal revenues streams. See “BUDGETARY RISKS – Laguna Honda Hospital Loss of Federal Funding” for more information on the recertification of Laguna Honda Hospital.

## **BUDGETARY RISKS**

In addition to the budgetary risks described below, see “CITY BUDGET – Other Budget Updates: Fiscal Year 2022-23 Nine-Month Budget Status Report” for the most recent periodic budget status update released from the Controller’s Office, as required by Section 3.105 of the City Charter.

### **Threat of Recession**

Geopolitical events, successive interest rate increases by the Federal Reserve to combat inflation, and financial turmoil in the banking sector have increased expectations of recession in financial markets. A recession could adversely impact the City’s economy and the financial condition of the General Fund. During the “Great Recession” that occurred nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9% in the fourth quarter of 2006 to peak at 12.3% in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017.

### **Commuting Pattern Changes**

Continued heightened levels of telecommuting results in continued pressure on the City’s general fund revenues. Approximately half of workers in major tax-paying sectors such as professional services, financial services, and information live outside of San Francisco. Continued high levels of telecommuting

and work from anywhere policies may affect how much of any business's gross receipts are apportionable to the City. San Francisco still lags the state as a whole in time spent at workplaces, and weekly office attendance has only reached approximately 45% by the end of July 2023, below other peer cities. As of August 2023, BART ridership was 42% of pre-pandemic levels. As of June 2023, bridge crossings into and out of the City were approximately 90% of pre-pandemic levels. Businesses owe gross receipts tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting has resulted in reduced business taxes and, if the change becomes permanent, could negatively impact the City for the foreseeable future. Although some City residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

On July 12, 2023, the Office of the Controller issued a memorandum to the Board of Supervisors in response to a request from one of the Board of Supervisors of how the City's business tax system is being challenged by the recent trends towards remote working (the "Business Tax Memorandum").

The Business Tax Memorandum summarized that during the 2010s, the rapid growth of the tech industry, and the entire City economy, fueled growth in City tax revenues, particularly from business taxes. The City, which started the decade with the highest business tax burden of any city in California, further raised that burden with several rate increases and new taxes. However, none of these changes stopped the City from being one of the fastest growing cities in the country during the 2010s, although it did deepen three sources of risk in the City's finances.

First, the City's business tax revenue increasingly comes from a smaller handful of large taxpayers, mainly in the technology sector. These businesses could potentially reap substantial tax savings by locating in other Bay Area tech centers. With the persistence of hybrid work, most of them are currently reducing their office space needs in the City, and elsewhere.

Secondly, the City is increasingly reliant on taxes on the leasing and sale of commercial office properties. Remote work has led to a reduced volume of transactions of these properties, and there is some evidence of a marked reduction in property values. Both trends lead to revenue weakness for the City.

Finally, the business tax memorandum noted that, both structural changes in the City's economy, and policy choices to make the tax system more progressive, has had the effect of raising overall revenue volatility by concentrating revenue in a few payers. This runs counter to a long-standing City policy goal of minimizing volatility by broadening the tax base.

See "General Fund Revenues – Other City Tax Revenues" for a discussion of the Business Taxes, Real Property Transfer Tax and Overpaid Executive Tax referenced in the Business Tax Memorandum.

### **Office Vacancy in San Francisco; Impact on Property Taxes and Other Revenues**

On October 19, 2022, the Chief Economist of the City's Office of the Controller released a memorandum regarding the impact of remote work on commercial property and tax revenue in the City. The following summarizes certain portions of such memorandum.

The City has experienced the largest increase in office vacancy among major urban office markets in the United States, then estimated at 24% in the 3rd quarter of 2022, from around 5% before the pandemic.

Because of the prevalence of long-term leases in the commercial real estate industry, sudden reductions in demand often result in increases in sublease vacancy, instead of direct vacancy. Sublease vacancy occurs when existing tenants vacate their space and seek to find sub-lessees, but continue to pay rent under the original lease. A direct vacancy occurs when the original lease has been broken, or has expired and not been renewed. In this case, the property's income declines until a new lease is signed. In San Francisco, sublease vacancies were a very high percentage (80-90%) of office vacancies during 2020 and 2021. In 2022, the sublease vacancy rate declined, while the direct vacancy rate continued to rise.

By mid-2022, direct vacancies accounted for most of the vacant office space in San Francisco, according to Jones Lang LaSalle IP, Inc. ("JLL"). For example, JLL developed a series of office vacancy rate forecasts for the City, through the year 2026. JLL generally showed historically high office vacancy rates persisting throughout the forecast period. JLL forecasted office vacancy in the city to remain between 19.5% and 25.3% by 2026, a range which is as high, or higher than any previous peak in office vacancy dating back to the 1990s. JLL also forecasted rents to rise again by the end of the forecast period, but at a slower rate than was seen in the 2010s. If vacancy rates remain at this elevated level, and a large share of these are direct vacancies, then the income, and market value, of office buildings in the City are likely to be negatively affected. The market value of commercial real estate reflects the current and future income that the market expects the property to generate. If expectations of future income streams are reduced, then the market value of office properties will be reduced.

A reduction in demand from tenants is not the only thing that could reduce the market value of San Francisco office buildings in the near future. Using an income valuation approach, the market value of properties is commonly estimated as the property's net operating income, divided by its capitalization rate (its effective rate of return). Capitalization rates are generally calculated from the sales of comparable properties, and vary across markets, and over time, according to changes in investors' perception of risk, and the risk-free rate of return. When investors perceive greater risk, they require a higher rate of return, and the spread between that asset's capitalization rate and the risk-free rate widens. When the capitalization rate rises, for whatever reason, the market value of a property will decline, all other things being equal.

The market value of a property is important for property tax revenue because a property's assessed value – the basis of its property tax liability – may not exceed its market value. If a property owner believes a property is assessed above its market value, they can request a reduction in assessment from the Assessor, and/or appeal a decision to the Assessment Appeals Board.

Under California's Proposition 13, however, a property's assessed value may grow by no more than 2% per year, unless a sale or other assessable event (like new construction) prompts a reassessment. In San Francisco, for several decades, the average market value of most classes of property has increased by well more than 2% annually. Proposition 13 has thus created a situation in which most San Francisco properties, that have not been recently sold, are assessed at levels below their market value. Most properties would not be over-assessed, and property tax revenue would not be at risk, if their market values declined by a small amount. In other words, Proposition 13 effectively cushions the City's property tax base from downturns in property markets, at the cost of reduced growth in property tax revenue during periods of strong economic growth.

On November 16, 2022, the Controller's Office provided a presentation to the Board of Supervisors concerning potential property tax implications relating to the continuation of significant remote work by employees of companies located in the City (the "Office Property Tax Presentation"). The presentation

noted that remote work has persisted in the City, and that office vacancy rates have risen and could rise further. The Office Property Tax Presentation contained projected property tax losses based on three different market value scenarios provided by JLL relating to continuing remote work and vacancy rates. The projected losses under scenarios ranged from approximately \$80 million to \$150 million annually by 2026, with a potential widening to \$100 million to \$200 million annually by 2028, if conditions do not improve. The City cannot predict the actual level of revenues losses, however the City will continue to account for these trends in our periodic reports. Please see “CITY BUDGET — Other Budget Updates: Fiscal Year 2022-23 Nine-Month Budget Status Report” and “CITY BUDGET – Original Budget For Fiscal Years 2023-24 and 2024-25 and Revenue Letter” for additional information.

The trends identified in this report have continued. Based on the September 2023 report on the status of the City economy, office vacancy in the City was estimated to be 30% as of the 3rd quarter of 2023.

### **Potential City Acquisition of PG&E Distribution Assets**

On January 29, 2019, PG&E filed for Chapter 11 bankruptcy protection to shield itself from potential wildfire liability that was estimated upwards of \$30 billion. Taxes and fees paid by PG&E to the City total approximately \$75 million annually and include property taxes, franchise fees and business taxes, as well as the utility user taxes it remits on behalf of its customers.

On June 20, 2020, the United States Bankruptcy Court for the Northern District of California confirmed PG&E’s Plan of Reorganization, and on July 1, 2020 PG&E announced that it had emerged from Chapter 11 bankruptcy. As part of its restructuring, on June 9, PG&E announced that it would be relocating its business headquarters, currently located at 245 Market Street and 77 Beale Street in San Francisco, to Oakland. The relocation was expected to occur in June 2022.

During the pendency of the PG&E bankruptcy, on September 6, 2019 the City submitted a non-binding indication of interest (“IOI”) to PG&E and PG&E Corporation to purchase substantially all of PG&E’s electric distribution and transmission assets needed to provide retail electric service to all electricity customers within the geographic boundaries of the City (“Target Assets”) for a purchase price of \$2.5 billion (such transaction, the “Proposed Transaction”). In a letter dated October 7, 2019, PG&E declined the City’s offer. On November 4, 2019, the City sent PG&E a follow-up letter reiterating its interest in acquiring the Target Assets. To demonstrate public support for the Proposed Transaction, on January 14, 2020, the City’s Board of Supervisors and the PUC’s Commission conditionally authorized the sale of up to \$3.065 billion of Power Enterprise Revenue Bonds to finance the acquisition of the Target Assets and related costs, subject to specific conditions set forth in each authorizing resolution.

On July 27, 2021, the City submitted a petition with the California Public Utilities Commission (“CPUC”) seeking formal determination of the value of investor-owned PG&E’s local electric infrastructure. The matter is pending before the CPUC and the City can give no assurance about whether or when the CPUC will hold a hearing on the matter.

The City is unable to predict whether it will be able to consummate a final negotiated acquisition price for the Target Assets and, if so, the terms thereof. Any such final terms would be subject to approval by the Board of Supervisors and the PUC. If consummated, it is expected that such new electric system would be wholly supported by its own revenues, and no revenues of the City’s General Fund would be available to

pay for system operations, or City General Fund secured bonds issued to acquire the Target Assets. The City is committed to acquiring PG&E's assets and expects to continue its pursuit with the newly reorganized entity.

### **Impact of Recent Voter-Initiated and Approved Revenue Measures on Local Finances**

On August 28, 2017, the California Supreme Court in California *Cannabis Coalition v. City of Upland* (August 28, 2017, No. S234148) ("Upland Decision") interpreted Article XIII C, Section 2(b) of the State Constitution, which requires local government proposals imposing general taxes to be submitted to the voters at a general election (i.e., an election at which members of the governing body stand for election). The court concluded such provision did not apply to tax measures submitted through the citizen initiative process. Under the Upland Decision, citizens exercising their right of initiative may now call for general or special taxes on the ballot at a special election (i.e. an election where members of the governing body are not standing for election). The court did not, however, resolve whether a special tax submitted by voter initiative needs only simple majority voter approval, and not the super-majority (i.e. two-thirds) voter approval required of special taxes placed on the ballot by a governing body. On June 5, 2018 voters of the City passed by majority vote two special taxes submitted through the citizen initiative process: a Commercial Rent Tax for Childcare and Early Education ("June Proposition C") and a Parcel Tax for the San Francisco Unified School District ("Proposition G" and, together with June Proposition C, the "June Propositions C and G"). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax ("November Proposition C"), a gross receipts tax on larger companies in the City to fund affordable housing, mental health, and other homeless services.

The Upland Decision was subsequently affirmed by the California Supreme Court when it declined to review lower court challenges by plaintiffs in two other San Francisco Cases: *City of County of San Francisco v. All Persons Interested in the Matter of Proposition C*, 51 Cal. App. 5<sup>th</sup> 703 (2020) (Court of Appeal rejected a taxpayer challenge to validity of June Proposition C) and *City of County of San Francisco v. All Persons Interested in the Matter of Proposition G* (July 26, 2021, A16059) (Court of Appeal rejected a taxpayer challenge to validity of Proposition G). In so doing, the Upland Decision was affirmed as binding authority for the proposition that special taxes submitted through a citizen's initiative process only need pass by a majority vote, and not the supermajority requirement of Article XIII C, Section 2(b) of the State Constitution.

### **Impact of the State of California Budget on Local Finances**

Revenues from the State represent approximately 10% of the General Fund revenues appropriated in the Original Budget for fiscal years 2023-24 and 2024-25, and thus changes in State revenues could have a material impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2023, California's fiscal year 2023-24 Budget was passed by the Legislature and signed by the Governor. This budget closed an estimated \$31.7 billion shortfall primarily through funding shifts, modest spending reductions, delays in spending, and other sources.

Due to the timing of the City's reporting vs the State's estimates, estimated growth rates in state sales tax and VLF (defined herein) revenues contained in the January proposal have been reflected in the City's Nine-Month Report projections of state subventions and are included in the recently adopted fiscal year 2023-24 and 2024-25 budget. As discussed under "CITY BUDGET – Five-Year Financial Plan and Mayor's Budget Instructions" the Five-Year Plan identifies State changes in ERAF allocation as a key factor that could impact the City's future financial position.

### **Impact of Federal Government on Local Finances**

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending.

In the event Congress and the President fail to enact appropriations, budgets or debt ceiling increases on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets will have on the City's finances and operations. The City's General Fund and hospitals, which are supported by the General Fund, collectively receive over \$1 billion annually in federal subventions for entitlement programs, the large majority of which are reimbursements for care provided to Medicaid and Medicare recipients. See "Laguna Honda Hospital Potential Loss of Federal Funding." In addition, tens of thousands of San Franciscans receive federal subsidies to purchase private insurance on the State's health care exchange, Covered California. Efforts to change such subsidies or alter provisions of the Affordable Care Act through regulatory changes could have significant effects on future health care costs.

The federal government provided significant funding to local governments to respond to the public health emergency and mitigate the fiscal effect of the COVID-19 pandemic. The City spent the entirety of its General Fund allocations of Coronavirus Aid, Relief, and Economic Security Act ("CARES") and American Rescue Plan Act ("ARPA") State and Local Fiscal Recovery Fund monies as of fiscal year 2021-22 and is awaiting reimbursement of emergency response costs submitted to the FEMA. In fiscal year 2022-23, the City originally budgeted \$243.4 million of FEMA reimbursements. By May 2023, the City estimated it would only receive \$23.4 million in that fiscal year. However, the City closed the fiscal year with only \$2.6 million. The City expected a delay in reimbursements because FEMA began prioritizing claims of jurisdictions that have not yet received funds.

### **Laguna Hospital Potential Loss of Federal Funding**

The Laguna Honda Hospital and Rehabilitation Center ("Laguna Honda Hospital") is a skilled nursing facility owned and operated by the City through its Department of Public Health, serving up to 660 patients, most of whom are low income or extremely low income residents. On March 30, 2022, the City received notice from the Centers for Medicare and Medicaid Services ("CMS"), an agency within the federal Department of Health & Human Services ("DHHS") responsible for administering federal health care programs that, effective April 14, 2022, CMS was terminating its contract with the City for Medicare and Medicaid reimbursements for patients at the Laguna Honda Hospital. CMS's notice of termination of Laguna Honda Hospital's provider agreement for Medicare and Medicaid reimbursements relates to a series of incidents from July 2021 to March 30, 2022 that the Laguna Honda Hospital self-reported to the California Department of Public Health ("CDPH", the state agency with delegated authority to enforce all applicable

regulations and federal conditions of participation for Medicare and Medicaid) and follow up surveys by CDPH and CMS. CDPH and CMS determined that Laguna Honda Hospital had not substantially complied with the CMS conditions of participation in the Medicare program. Out of the approximately \$308.6 million fiscal year 2021-22 budget for operating the Laguna Honda Hospital, approximately \$202.73 million is paid from reimbursements from CMS. The remaining portion of the budget is paid from the City's General Fund. CMS initially agreed to extend funding at least through November 13, 2022. On October 12, 2022, CMS agreed to extend Medicare and Medicaid payment for services through November 13, 2023, contingent on Laguna Honda meeting requirements aimed at making health and safety improvements at the facility.

On May 18, 2023, CMS, the City, and the California Department of Public Health reached an agreement in principle to settle ongoing administrative proceedings and federal court litigation. This settlement will allow Laguna Honda to continue to receive Medicare and Medicaid payments while addressing the quality improvements needed to ensure resident health and safety. As part of the settlement, CMS extended payments for Medicare and Medicaid services through March 19, 2024, contingent on Laguna Honda meeting requirements aimed at making health and safety improvements at the facility. During this period, Laguna Honda will continue to work on quality improvement efforts while aiming to reapply to participate in Medicare and/or Medicaid.

On August 16, 2023, California Department of Public Health and the state's Department of Health Care Services approved Laguna Honda's recertification for Medicaid, which means Laguna Honda will continue to receive Medicaid payments to provide health care coverage to low-income people. The reinstatement for Laguna Honda for the federal Medicare program is pending.

## **THE SUCCESSOR AGENCY**

### *Effect of the Dissolution Act*

The San Francisco Redevelopment Agency (the "Former Agency") was organized in 1948 by the Board of Supervisors pursuant to the Redevelopment Law. The Former Agency's mission was to eliminate physical and economic blight within specific geographic areas of the City designated by the Board of Supervisors. The Former Agency had redevelopment plans for nine redevelopment project areas.

As a result of ABx1 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, (collectively, the "Dissolution Act"), redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy "enforceable obligations" of the former redevelopment agencies all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

Pursuant to Ordinance No. 215-12 passed by the Board of Supervisors of the City on October 2, 2012 and signed by the Mayor on October 4, 2012, the Board of Supervisors (i) officially gave the following name to the successor to the Former Agency: the "Successor Agency to the Redevelopment Agency of the City and County of San Francisco," (the "Successor Agency") also referred to as the "Office of Community Investment & Infrastructure" ("OCII"), (ii) created the Successor Agency Commission as the policy body of the Successor Agency, (iii) delegated to the Successor Agency Commission the authority to act to implement the surviving redevelopment projects, the replacement housing obligations of the Former Agency and other enforceable

obligations and the authority to take actions that ABx1 26 and AB 1484 require or allow and (iv) established the composition and terms of the members of the Successor Agency Commission.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, certain major redevelopment projects that were previously administered by the Former Agency. The Successor Agency exercises land use, development and design approval authority for the developed projects. The Successor Agency, in addition to other various City agencies and entities, also may issue community facilities district (“CFD”) bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations. See also, Table A-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.”

## **CITY INFRASTRUCTURE FINANCING DISTRICTS**

San Francisco has formed numerous special financing districts in order to finance infrastructure improvements benefiting the public in newly developing areas of the City. Projects that may be financed by revenues from special finance districts include, but are not limited to streets, water and sewer systems, libraries, parks, and public safety facilities. Pursuant to California Government Code Section 53395 *et seq.* (“IFD Law”), the Board of Supervisors has formed Infrastructure Financing Districts and Infrastructure Revitalization Financing Districts (collectively “IFDs”) within the geographic boundaries of the City.

Under the IFD Law, municipalities may fund improvements within the IFD geographic boundary. IFDs capture increases in property tax revenue stemming from growth in assessed value as a result of new development and use that revenue to finance infrastructure projects and improvements. Each district has its own plan of finance for the allocation and use of tax increment.

## **GENERAL FUND REVENUES**

The revenues discussed below are recorded in the General Fund, unless otherwise noted.

### **PROPERTY TAXATION**

#### **Property Taxation System – General**

The City receives approximately one-third of its total General Fund operating revenues from local property taxes. Property tax revenues result from the application of the appropriate tax rate to the taxable assessed value of property in the City. The City levies property taxes for general operating purposes as well as for the payment of voter-approved bonds. As a county under State law, the City also levies property taxes on behalf of all local agencies with overlapping jurisdiction within the boundaries of the City.

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30, the Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value at the beginning of that fiscal year. The Controller also applies the tax rate factors, including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), and tax factors needed to repay voter-approved general obligation bonds on property located in the City. Typically, the Board of Supervisors approves the schedule of tax rates each year by resolution no later than the last working day of September. The Treasurer



and Tax Collector prepares and mails tax bills to taxpayers and collects the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See “Taxation of State-Assessed Utility Property” below.

### **Assessed Valuations, Tax Rates and Tax Delinquencies**

Table A-6 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. Lingering impacts of the COVID-19 pandemic, which triggered business changes such as extended work-from-home policies that resulted in less demand for office spaces, and the substantial increases in borrowing costs (interest rates) resulted in a reduction in property values for certain asset classes in the City and may result in future reductions, which could be material.

The total tax rate shown in Table A-6 includes taxes assessed on behalf of the City as well as the SFUSD, County Office of Education (“SFCOE”), SFCCD, Bay Area Air Quality Management District (“BAAQMD”), and San Francisco Bay Area Rapid Transit District (“BART”), all of which are legal entities separate from the City. See also, Table A-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.” In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to OCII, the successor agency to the San Francisco Redevelopment Agency, and a number of increment financing districts. Property tax revenues attributable to the growth in assessed value of taxable property (known as “tax increment”) within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations and a portion of administrative costs of the agency, reducing tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. OCII received \$122.6 million of property tax increment in fiscal year 2022-23 for recognized obligations, diverting about \$68.2 million that would have otherwise been apportioned to the City’s General Fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.15% for fiscal year 2022-23.

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TABLE A-6

**CITY AND COUNTY OF SAN FRANCISCO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2008-09 through 2023-24**  
**(000s)**

Fiscal Year	Net Assessed <sup>1</sup> Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
2008-09	\$141,274,628	8.7%	\$1.163	\$1,702,533	\$1,661,717	97.6%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.5%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	98.0%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.2%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479	10.8%	1.163	2,999,794	2,977,664	99.3%
2019-20	281,073,307	8.4%	1.180	3,509,022	3,475,682	99.0%
2020-21	299,686,811	6.6%	1.198	3,823,246	3,785,038	99.0%
2021-22	307,712,666	2.7%	1.182	3,864,100	3,832,546	99.2%
2022-23	331,431,694	7.7%	1.180	4,067,270	4,032,813	99.2%
2023-24	343,913,585	3.8%	N/A	N/A	N/A	N/A

<sup>1</sup> Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

<sup>2</sup> Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.

<sup>3</sup> The Total Tax Levy and Total Tax Collected through fiscal year 2022-23 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as included in the statistical report received from the Office of the Treasurer and Tax Collector, City and County of San Francisco.

Source: Office of the Controller, City and County of San Francisco.

At the start of fiscal year 2023-24, the total net assessed valuation of taxable property within the City was approximately \$343.9 billion. Of this total, \$326.4 billion (94.9%) represents secured valuations and \$17.5 billion (5.1%) represents unsecured valuations. See "Tax Levy and Collection" below for a further discussion of secured and unsecured property valuations.

Proposition 13 limits to 2% per year the increase in the assessed value of property, unless it is sold, or the structure is improved. The total net assessed valuation of taxable property therefore does not generally reflect the current market value of taxable property within the City and is in the aggregate substantially less than the current market value. For this same reason, the total net assessed valuation of taxable property lags behind changes in market value and may continue to increase even without an increase in aggregate market values of property.

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Taxpayers can appeal the Assessor's determination of their property's assessed value, and the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. During the severe economic downturn of fiscal years 2009-10 and 2010-11, partial reductions of up to approximately 30% of the assessed valuations appealed were granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCOE, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In the period following the Great Recession, assessment appeals increased significantly, and a similar trend is developing post-pandemic. For scale, in the wake of the Great Recession, the reductions in residential property assessed value reached upwards of \$2 billion in 2010-11. The number of new assessment appeals filed as of September 30, 2022, which represented approximately 1.0% of all parcels in San Francisco, increased by approximately 10% from the number of new assessment appeals filed during the same period the prior year. As discussed later, the City is currently processing applications filed as of September 30, 2023 and expects that the number of appeal applications received during this most recent filing period will be more than double the amount the City received in the previous fiscal year.

The FY24 & FY25 Original Budget assumes the continuance of work from home patterns and interest rates currently affecting the City's businesses will result in declines in commercial assessed values in the City, and such declines could be material.

Appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2013-14 through 2022-23 are listed in Table A-7 below.

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TABLE A-7

**CITY AND COUNTY OF SAN FRANCISCO**  
**Reduction of Prior Years' Property Tax Revenues**  
**General Fund**  
**Fiscal Years 2013-14 through 2022-23**  
**(000s)**

Fiscal Year	Amount Reduced
2013-14	\$25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397
2017-18	24,401
2018-19	30,071
2019-20	17,900
2020-21*	10,729
2021-22	16,479
2022-23	23,070

Source: Office of the Controller, City and County of San Francisco.

\*Amount Reduced in FY 2020-21 and forward reflects both Teetered and non-teetered property tax amounts.

A property's annual assessed value is determined as of January 1 preceding the start of the fiscal year for which taxes are billed and paid. Under California's Proposition 13, a property's annual assessed value is the lesser of (1) its base year value (fair market value as of the date of change in ownership or completion of new construction), factored for inflation at no more than two percent per year; or (2) its fair market value as of January 1 of the year preceding the fiscal year for which property taxes are billed and paid. If a property's fair market value falls below its factored base year value, the reduced value is enrolled on a temporary basis (for one year) and is commonly referred to as a "Proposition 8" reduction, after the 1978 initiative. If a property receives a temporary "Proposition 8" reduction, the Assessor is required to annually review the property for a decline-in-value reduction for each subsequent January 1 lien date, until the time when the market value exceeds the property's factored base year value, at which point the Assessor reestablishes the factored base year value will be enrolled as the taxable value for that January 1 lien date.

Assessors in California have authority to use Proposition 8 ("Prop 8") criteria to apply reductions in valuation to classes of properties affected by any factors affecting market value. COVID-19's impact on San Francisco real property values first arose on the 2021 Assessment Roll, resulting in an almost 4-times increase in the total count of Prop 8 reductions granted compared to the 2020 Assessment Roll (up from 2,059 to 8,212) and more than 8-times increase in the value of the reductions (up from \$272 million to \$2.18 billion). The total count and value of Prop 8 reductions for the 2023 Assessment Roll were 5,326 and \$1.7 billion, respectively.

The two most significant factors driving these changes for the 2021 and 2022 Assessment Rolls were reductions in value for hotel and condominium properties. In response to COVID-19, the Assessor's Office performed proactive reviews of commercial properties, which resulted in temporary reductions of \$1.01 billion for 26 hotel properties on the 2021 Assessment Roll and \$839 million for 15 hotel properties on the 2022 Assessment Roll. For the 2023 Assessment Roll, the Assessor's Office did not grant temporary

reductions to these hotel properties. Condominiums accounted for the largest share of new reductions since the onset of the pandemic at over 70% of the total value of temporary reductions excluding hotels on the 2021 and 2022 Assessment Rolls and more than half of the total count for these years. For the 2023 Assessment Roll, condominiums accounted for a slightly lower percentage of total value of temporary reductions at 63% while remaining stable as a percentage of total count.

In addition to Prop 8 reductions, qualifying taxpayers seek adjustment of their property assessed values based on a variety of factors. Requests for changes can be motivated by real estate market conditions or other factors.

A qualifying taxpayer can seek assessed value adjustments from the Assessment Appeals Board (“AAB”) or from the Assessor or both. Supplemental and Base Year Appeals are to establish a property’s base value. Escape and Regular Appeals are filed to contest a property’s value as of January 1. The majority of appeals filed are Regular Appeals. For regular, annual secured property tax assessments, the period for property owners to file an appeal is between July 2<sup>nd</sup> and September 15<sup>th</sup>. If September 15<sup>th</sup> falls on a Saturday or Sunday, applications filed or postmarked the next business day are considered timely. The AAB generally is required to resolve appeals applications within two (2) years of filing, unless the applicant signs a waiver to extend the statutory period. Appeals may also be resolved when the Assessor and a property owner stipulate to a corrected value, which the AAB may approve, or reject and require a hearing in which it determines the value. Upon hearing a supplemental or base year appeal to establish a base value, the AAB may decide to increase, decrease, or not change an assessment. In the case of an escape or regular appeal, the AAB may lower the taxable value or maintain the factored base year value but cannot increase the value above the factored base year value. If an escape or regular appeal results in a change in value, the new assessed value will be used to determine the property taxes for the year that was appealed. Subsequently, each year, the Assessor examines the property to see if the market value has risen back to the Proposition 13 base year value, or higher, and if so, restores the Proposition 13 base year value. This does not apply to appeals to establish a property’s base value.

The volume of appeals is not necessarily an indication of how many appeals will be heard or result in a property tax assessment reduction. City revenue estimates take into account projected losses from pending and future assessment appeals that are based on historical results as to appeals.

As of June 30, 2023, the total number of open appeals before the AAB was 2,963 with 2,873 new applications filed in fiscal year 2022-23. As of June 30, 2023, the difference between the assessed value and the taxpayer’s opinion of values for all the open applications was \$56.5 billion. Assuming the City did not contest any taxpayer appeals and the AAB upheld all the taxpayer’s requests, a negative potential total property tax impact of about \$668.4 million would result. The General Fund’s portion of that potential \$668.4 million would be approximately \$314.2 million. As set forth in a November 2022 presentation by the AAB, potential tax impact of total appeal applications received as of September 30, 2022 in the Financial District, South of Market (“SOMA”), and Embarcadero neighborhoods was approximately \$182 million. This describes the worst-case scenario in terms of potential negative revenue impacts for the purposes of illustration based on information as of September 30, 2022. In practice, the City has contested most taxpayer appeals. As such, actual reductions have historically been much lower than values asserted by appellant property owners and a majority of appeals are eventually withdrawn. Of the 2,580 appeals closed during fiscal year 2022-23 as of June 30, 2023, 1,858, or 72% of appeals, were withdrawn.

Nearly all the appeal applications filed during fiscal year 2020-21 challenged the assessed value of

property for fiscal year 2020-21. However, because the assessed value of secured property for fiscal year 2020-21 was determined by the Assessor as of the January 1, 2020, lien date, which predated the COVID-19 pandemic and its related economic effects, the City does not expect a material reduction in assessed values resulting from fiscal year 2020-21 appeal applications. However, there was an increase in the number of appeals for fiscal year 2021-22 and a modest increase for fiscal year 2022-23. Appeals for the January 1, 2023 lien date (current values for fiscal year 2023-24) were due by September 15, 2023. The City is currently processing these applications and expects that the number of appeal applications received during this most recent filing period will be more than double the amount the City received in the previous fiscal year.

As discussed above, under Proposition 8, adopted by California voters in 1978, the Assessor's Office could on its own initiative reduce the assessed value of properties with market values that fall below their values assessed in accordance with Proposition 13. Following a Proposition 8 reduction, the assessed value continues to match the market value until the market value again meets or exceeds the maximum assessed value calculated under Proposition 13, at which point the Proposition 13 factored base year value is restored.

### **Tax Levy and Collection**

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the BAAQMD and BART. The total tax levy for all taxing entities to end fiscal year 2022-23 was \$3.8 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues in fiscal year 2022-23 (including supplemental and escape property taxes) the City received \$2.5 billion in the General Fund and \$330.2 million in special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD received approximately \$250.1 million and \$47.0 million, respectively, and the local ERAF received \$419.1 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency received \$122.6 million. The remaining portion was allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose. The City's General Fund was allocated about 47.2% of total property tax revenue before adjusting for the tax increment financing districts, VLF backfill shift, and excess ERAF.

Generally, property taxes levied by the City on real property become a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City taxing authority. Real property tax liens have priority over all other liens against the same property regardless of the time of their creation by virtue of express provision of law.

Property subject to ad valorem taxes is entered as secured or unsecured on the assessment roll maintained by the Assessor-Recorder. The secured roll is that part of the assessment roll containing State-assessed property and property (real or personal) on which liens are sufficient, in the opinion of the Assessor-Recorder, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

The method of collecting delinquent taxes is substantially different for the two classifications of property. The City has four ways of collecting unsecured personal property taxes: 1) pursuing civil action against the taxpayer; 2) filing a certificate in the Office of the Clerk of the Court specifying certain facts, including the date of mailing a copy thereof to the affected taxpayer, in order to obtain a judgment against the taxpayer;

3) filing a certificate of delinquency for recording in the Assessor-Recorder's Office in order to obtain a lien on certain property of the taxpayer; and 4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer and Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. Additionally, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) in June 2017 (effective fiscal year 2017-18) and for the Bay Restoration Authority Parcel Tax, SFUSD School Facilities Special Tax, SFUSD School Parcel Tax, and City College Parcel Tax in October 2017 (effective fiscal year 2018-19). The Teeter Plan method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-8. The Tax Loss Reserve sets aside 1% of the total of all taxes and assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown.

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TABLE A-8

**CITY AND COUNTY OF SAN FRANCISCO**  
**Teeter Plan**  
**Tax Loss Reserve Fund Balance**  
**Fiscal Years 2013-14 through 2022-23**  
**(000s)**

Year Ended	Amount Funded
2013-14	\$19,654
2014-15	20,569
2015-16	22,882
2016-17	24,882
2017-18	25,567
2018-19	29,126
2019-20	31,968
2020-21	35,298
2021-22	35,951
2022-23	38,041

Source: Office of the Controller, City and County of San Francisco.

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2023 are shown in Table A-9. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-9

**CITY AND COUNTY OF SAN FRANCISCO**  
**Top 10 Parcels Total Assessed Value**  
**July 1, 2023**

Assessee <sup>1</sup>	Location	Parcel Number	Type	Total Assessed Value <sup>2</sup>	% Basis of Levy <sup>3</sup>
SUTTER BAY HOSPITALS <sup>4</sup>	1101 VAN NESS AVE	0695 007	Hospital	\$2,779,736,804	0.807%
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	Office	\$1,876,176,439	0.545%
GSW ARENA LLC	1 WARRIORS WAY A	8722 026	Entertainment Comp	\$1,516,088,360	0.440%
PARK TOWER OWNER LLC	250 HOWARD ST	3718 040	Office	\$1,140,399,718	0.331%
KRE EXCHANGE OWNER LLC	1800 OWENS ST	8727 008	Office	\$1,135,881,100	0.330%
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	Office	\$1,114,464,525	0.324%
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	Office	\$1,080,382,740	0.314%
PPF PARAMOUNT ONE MARKET PLAZA OWNER LP	1 MARKET ST	3713 007	Office	\$912,827,016	0.265%
SHR ST FRANCIS LLC	301 - 345 POWELL ST	0307 001	Hotel	\$785,863,372	0.228%
SUTTER BAY HOSPITALS DBA CA PACIFIC MED <sup>4</sup>	3555 CESAR CHAVEZ ST/555 SAN JOSE	6575 005	Hospital	\$770,059,001	0.224%
				\$13,111,879,075	3.806%

<sup>1</sup> Certain Parcels Fall within RDA Project Areas

<sup>2</sup> Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year, TAV includes land & improvements, personal property, and fixtures. Values reflect information as of January 1, 2023, lien date.

<sup>3</sup> The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g., those that apply to nonprofit organizations).

<sup>4</sup> Nonprofit Organization that is exempt from property taxes

Source: Office of the Assessor-Recorder, City and County of San Francisco



## **Taxation of State-Assessed Utility Property**

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special countywide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formula are generally based on the distribution of taxes in the prior year. The fiscal year 2023-24 valuation of property assessed by the State Board of Equalization in San Francisco is approximately \$4.4 billion.

## **OTHER CITY TAX REVENUES**

In addition to the property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein.

The following section contains a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City. The City's General Fund is also supported by other sources of revenue, including charges for services, fines and penalties, and transfers-in, which are not discussed below.

See Table A-10 below for a summary of revenue source as a percentage of total General Fund revenue based on the Original Budget for fiscal year 2023-24.

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TABLE A-10

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Fund Revenue Overview**  
**Fiscal Year 2023-24**  
**(000s)**

<b>Revenues</b>	<b>FY 2023-24 Original Budget</b>	
Property Taxes	\$2,510,000	39.2%
Business Taxes	851,100	13.3%
Other Local Taxes	1,098,880	17.2%
Licenses, Permits and Franchises	30,291	0.5%
Fines, Forfeitures and Penalties	3,014	0.0%
Interest and Investment Income	121,071	1.9%
Rents and Concessions	14,571	0.2%
Intergovernmental	1,477,115	23.1%
Charges for Services	272,865	4.3%
Other	17,532	0.3%
<b>Total Revenues</b>	<b>\$6,396,439</b>	<b>100.0%</b>

Other Local Taxes includes sales, hotel, utility users, parking, transfer, sugar sweetened beverage, stadium admissions, access line, cannabis, and overpaid executive taxes.

### **Business Taxes**

Through tax year 2014, businesses in the City were subject to payroll expense and business registration taxes. Proposition E (November 2012) changed business registration tax rates and introduced a gross receipts tax which phased in over a five-year period beginning January 1, 2014, intending to replace the then existing 1.5% tax on business payrolls over the same period. Overall, the ordinance increased the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 to 15,000. In November 2020, voters passed Proposition F, which eliminated the payroll tax and modified gross receipt tax rates. Most gross receipt tax rates increased by 40% for tax year 2021 over the prior year. Much smaller increases were scheduled for 2023 and 2024, should the City's taxable gross receipts in 2021 and 2022 reach at least 90% and 95%, respectively, of 2019 taxable gross receipts. The 2023 tax increase is suspended for one year because the City's 2021 taxable gross receipts did not reach the 90% threshold. In some industries that were particularly hurt during the pandemic, such as retail, trade and food services, tax rates were lowered through 2022 for gross receipts under \$25 million. The measure also reduced business registration fees for businesses with less than \$1 million in gross receipts and raised the small business exemption for gross receipts taxes to \$2 million.

Pre-audit business tax revenue (gross receipts, payroll, and business registration) for fiscal year 2022-23 is \$853.2 million for all funds, representing a decrease of \$10.4 million (1.2%) from fiscal year 2021-22. The fiscal year 2023-24 original budget is \$853.6 million, an increase of \$0.5 million (0.1%) from fiscal year 2022-23 pre-audit actuals. The fiscal year 2024-25 original budget is \$943.6 million, an increase of \$90.0 million (10.5%) from the fiscal year 2023-24 budget.

Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The COVID-19 emergency significantly adversely affected employment and wage growth, and the City's economic condition is still weak relative to pre-pandemic levels. The unemployment rate in the City peaked at 13.7% in April 2020. But, after a low of just under 2% in May 2022, the unemployment rate has increased to 3.6% in August 2023. Just prior to the start of the pandemic, there were approximately 580,000 employed residents in the City. After falling to a low of about 480,000 in April 2020, the number of employed residents rose to about 550,000 as of June 2023, which represents a decline of about 10,000 since the peak in November 2022.

Remote work occurring outside the City creates fiscal risk because, for certain categories of businesses, the gross receipts tax is dependent in part on their San Francisco payroll, and the firms only need to calculate their San Francisco payroll expense for employees that physically work within the City's geographic boundaries. Approximately half of the workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Some of the City's largest employers in these sectors have indicated that employees may be able to work from home permanently or with a hybrid schedule.

According to polling data from WFH Research, in August 2023, employees preferred to work at home 2.75 days per week on average while employers' plans were for 2.25 days worked from home. This suggests that a hybrid work arrangement of in-office and at-home will be a permanent fixture of office work. Many major San Francisco employers, such as Salesforce and Google, have long-term plans for hybrid work. This dynamic is reflected in the fiscal year 2022-23 pre-audit actuals and fiscal year 2023-24 and 2024-25 original budget. See "BUDGETARY RISKS – Office Vacancy in San Francisco; Impact on Property Taxes and Other Revenues."

*[Remainder of page intentionally left blank]*

TABLE A-11

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues - All Funds**<sup>1</sup>  
**Fiscal Years 2019-20 through 2024-25**  
**(000s)**

Fiscal Year <sup>2</sup>	Revenue	Change	Change %
2019-20	\$824,670	(\$94,882)	-10.3%
2020-21	724,140	(100,530)	-12.2%
2021-22	863,510	139,370	19.2%
2022-23 pre-audit <sup>3</sup>	853,154	(10,356)	-1.2%
2023-24 budgeted <sup>4</sup>	853,600	446	0.1%
2024-25 budgeted <sup>4</sup>	943,600	90,000	10.5%

<sup>1</sup> Figures exclude Homelessness Gross Receipts, Commercial Rent, and Overpaid Executive taxes.

<sup>2</sup> Figures for fiscal year 2018-19 through fiscal year 2021-22 are actuals. Includes gross receipts and payroll taxes allocated to special revenue funds for the Community Challenge Grant program as well as business registration tax.

<sup>3</sup> Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

<sup>4</sup> Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

### Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators to the City monthly. A quarterly tax-filing requirement is also imposed. Pre-audit hotel tax revenue in fiscal year 2022-23 is \$283.5 million (all funds), an increase of \$104.3 million (58.2%) from fiscal year 2021-22. The fiscal year 2023-24 original budget is \$342.1 million, an increase of \$58.6 million (20.7%) from fiscal year 2022-23. The fiscal year 2024-25 original budget is \$382.5 million, an increase of \$40.4 million (11.8%) from the fiscal year 2023-24 projection. Table A-12 includes hotel tax in all funds. Slightly less than 90% of the City's hotel tax is allocated to the General Fund, with 10.7% allocated to arts and cultural organizations and approximately \$5 million for debt service on hotel tax revenue bonds.

Fiscal year 2022-23 hotel tax revenue performed better than fiscal year 2021-22, as leisure visits and convention activity continue to recover. Fiscal year 2022-23 enplanements at the San Francisco International Airport (SFO) increased by 34.6% from the prior year, as international and domestic enplanements improved by 101.0% and 20.2%, respectively. The return of conferences and conventions has played a key role in the recovery of hotel tax revenues, particularly because conventions drive up hotel tax room rates through compression pricing. In fiscal year 2021-22, a total of 23 conferences with over 126,000 attendees took place at the Moscone Convention Center. In fiscal year 2022-23, there were 33 conferences with over 266,000 attendees.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of occupancy and average daily room rates (ADR). In the first eight months of fiscal year 2019-20, RevPAR declined to \$224.50. Due to the COVID-19 pandemic, associated flight bans, and shelter in place orders, RevPAR reached a historic all-time low of \$14.40 in April 2020. RevPAR has steadily improved over the

years. Annual average RevPAR in fiscal year 2021-22 was \$108.77 and rose to \$154.76 in fiscal year 2022-23 which was an improvement of \$46.60 (or 43.1%). As traffic at SFO improves and conventions return to San Francisco, RevPAR is projected to continue rising. The projections for fiscal years 2023-24 and 2024-25 original budget assume annual average RevPAR will increase to \$178.60 in fiscal year 2023-24 and \$199.83 in fiscal year 2024-25.

TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**Transient Occupancy Tax Revenues - All Funds<sup>1</sup>**  
**Fiscal Years 2019-20 through 2024-25**  
**(000s)**

Fiscal Year <sup>2</sup>	Tax Rate	Revenue	Change	
2019-20	14.0%	281,615	(132,728)	-32.0%
2020-21	14.0%	42,195	(239,420)	-85.0%
2021-22	14.0%	179,134	136,939	324.5%
2022-23 <i>pre-audit</i> <sup>3</sup>	14.0%	283,453	104,320	58.2%
2023-24 <i>budgeted</i> <sup>4</sup>	14.0%	342,067	58,614	20.7%
2024-25 <i>budgeted</i> <sup>4</sup>	14.0%	382,452	40,385	11.8%

<sup>1</sup> Amounts include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds, as well as the portion of hotel tax revenue dedicated to arts and cultural programming reflecting the passage of Proposition E in November 2018, which took effect January 1, 2019.

<sup>2</sup> Figures for fiscal year 2018-19 through fiscal year 2021-22 are actuals.

<sup>3</sup> Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

<sup>4</sup> Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

**Real Property Transfer Tax**

Real property transfer tax (“RPTT”) is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. After the passage of Proposition W on November 8, 2016, transfer tax rates were \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million. After the passage of Proposition I in November 2020, transfer tax rates were doubled for the two highest tiers, to \$55.00 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million and \$60.00 per \$1,000 for properties valued at more than \$25.0 million.

Pre-audit RPTT revenue for fiscal year 2022-23 is \$186.3 million, a \$334.1 million (64.2%) decrease from fiscal year 2021-22. The fiscal year 2023-24 original budget is \$222.0 million, an increase of \$35.7 million (19.2%) from fiscal year 2022-23. The fiscal year 2024-25 original budget is \$269.6 million, an increase of \$47.7 million (21.5%) from prior year budget. The entirety of RPTT revenue is recorded in the General Fund.

Due to the highly progressive nature of the tax, the volatility of RPTT is attributable mainly to the sales of high-value (largely commercial) properties over \$10 million. The overall number of transactions over \$10 million dropped from 101 transfers in fiscal year 2021-22 to 55 transfers in fiscal year 2022-23, a 45.5% decline. Transfers under \$10 million also declined by 33.4% year-over-year. Additionally, fiscal year 2021-22 saw two large, once-in-a-generation transfers in the first six months of 2022, skewing prior year results. The effect of Proposition I in fiscal year 2021-22, which took effect in January 2021, is 47.0 million in fiscal year 2022-23. The fiscal year 2023-24 and 2024-25 forecasts slowly increase from fiscal year 2022-23 pre-audit results, anticipating slow increases in transfers as buyers and sellers begin to come into agreement about market prices of large real estate transactions. However, the interest rate environment and uncertainty around the value of office-based real estate with the shift to hybrid models of work is expected to continue to dampen the City’s transfer tax receipts.

As the City’s most volatile revenue source, RPTT collections can see large year-over-year changes that have exceeded 70% in some instances. The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track closely with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016, and 2020. The volatility of RPTT is attributable mainly to the sales of high-value (largely commercial) properties over \$25 million. In fiscal year 2008-09, transactions above \$25 million would have generated only \$10.6 million under the current rates compared to the peak in fiscal year 2016-17, when these transactions generated \$295.8 million. Since the end of the recession in fiscal year 2009-10, these large transactions made up on average 58.0% of total revenue but only 0.6% of the transaction count. This means that revenue is determined by a small handful of transactions. In the two recessions prior to COVID, the taxes collected on large transactions fell dramatically.

TABLE A-13

**CITY AND COUNTY OF SAN FRANCISCO**  
**Real Property Transfer Tax Receipts - All Funds**  
**Fiscal Years 2019-20 through 2024-25**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2019-20	334,535	(29,509)	-8.1%
2020-21	344,683	10,148	3.0%
2021-22	520,359	175,676	51.0%
2022-23 <i>pre-audit</i> <sup>2</sup>	186,247	(334,112)	-64.2%
2023-24 <i>budgeted</i> <sup>3</sup>	221,960	35,713	19.2%
2024-25 <i>budgeted</i> <sup>3</sup>	269,630	47,670	21.5%

<sup>1</sup> Figures for fiscal year 2019-20 through fiscal year 2021-22 are actuals.

<sup>2</sup> Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

<sup>3</sup> Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

## Sales and Use Tax

The sales tax rate on retail transactions in the City is 8.6250%, of which 1.00% represents the City's local share ("Bradley-Burns" portion). The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City.

The components of San Francisco's 8.6250% sales tax rate are shown in Table A-14. In addition to the 1% portion of local sales tax, the State subvenes portions of sales tax back to counties through 2011 realignment (1.0625%), 1991 realignment (0.5%), and public safety sales tax (0.5%). The subventions are discussed in more detail under "INTERGOVERNMENTAL REVENUES" herein.

TABLE A-14

<b>San Francisco's Sales &amp; Use Tax Rate</b>	
<b>State Sales Tax</b>	<b>6.00%</b>
State General Fund	3.9375%
Local Realignment Fund 2011*	1.0625%
Local Revenue Fund*	0.50%
(to counties for health & welfare)	
Public Safety Fund (to counties & cities)*	0.50%
<b>Local Sales Tax</b>	<b>1.25%</b>
Local Sales Tax (to General Fund)*	1.00%
Local Transportation Tax (TDA)	0.25%
<b>Special District Use Tax</b>	<b>1.375%</b>
2020 Peninsula Corridor Joint Powers	
Board Transactions and Use Tax (JPBF)	0.125%
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
<b>TOTAL Sales Tax Rate</b>	<b>8.625%</b>

\* Represents portions of the sales tax allocated to the City.

Source: Office of the Controller, City and County of San Francisco.

The pre-audit local sales tax (the 1% portion) revenue in fiscal year 2022-23 is \$197.9 million, an increase of \$9.6 million (5.1%) from fiscal year 2021-22. The original budget for fiscal year 2023-24 is \$200.0 million, an increase of \$2.1 million (1.1%) from the fiscal year 2022-23 pre-audit actual. The fiscal year 2024-25 original budget is \$205.2 million, an increase of \$5.2 million (2.6%) from fiscal year 2023-24 original budget. The entirety of sales tax revenue is recorded in the General Fund.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy and spending patterns. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point-of-sale purchases.

TABLE A-15

**CITY AND COUNTY OF SAN FRANCISCO**  
**Sales and Use Tax Revenues**  
**Fiscal Years 2019-20 through 2024-25**  
**General Fund**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	City Share	Revenue	Change	
2019-20	8.50%	1.00%	\$180,184	(\$33,441)	-15.7%
2020-21	8.50%	1.00%	146,863	(33,321)	-18.5%
2021-22	8.625%	1.00%	188,337	41,474	28.2%
2022-23 <i>pre-audit</i> <sup>2</sup>	8.625%	1.00%	197,911	9,574	5.1%
2023-24 <i>budgeted</i> <sup>3</sup>	8.625%	1.00%	200,049	2,138	1.1%
2024-25 <i>budgeted</i> <sup>3</sup>	8.625%	1.00%	205,243	5,194	2.6%

1 Figures for fiscal year 2018-19 through fiscal year 2021-22 are actuals.

2 Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

3 Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

**Other Local Taxes**

The City imposes a number of other general purpose taxes:

- Utility Users Tax (“UUT”) - A 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services.
- Access Line Tax (“ALT”) – As of July 1, 2022, a charge of \$3.80 on every telecommunications line, \$28.58 on every trunk line, and \$514.49 on every high-capacity line in the City. The ALT replaced the Emergency Response Fee (“ERF”) in 2009. The tax is collected from telephone communications service subscribers by the telephone service supplier.
- Parking Tax - A 25% tax for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. In accordance with Charter Section 16.110, 80% of parking tax revenues are transferred from the General Fund to the MTA’s Enterprise Funds to support public transit.
- Sugar Sweetened Beverage Tax – A one cent per ounce tax on the distribution of sugary beverages. This measure was adopted by voters on November 9, 2016 (Proposition V) and took effect on January 1, 2018.
- Stadium Admission Tax – A tax between \$0.25 and \$1.50 per seat or space in a stadium for any event, with some specific exclusions.
- Cannabis Tax – A gross receipts tax of 1% to 5% on marijuana business and permits the City to tax businesses that do not have a physical presence in the City. This measure was adopted by



voters in November 2018 (Proposition D). The tax was originally slated to go into effect on January 1, 2021, but the Board has delayed the imposition of the tax several times. The cannabis tax will now take effect beginning January 1, 2026.

- Franchise Tax – A tax for the use of City streets and rights-of-way on cable TV, electric, natural gas, and steam franchises.
- Overpaid Executives Tax – In November 2020, voters adopted Proposition L, a new tax on businesses in the City, where compensation of the businesses’ highest-paid managerial employee compared to the median compensation paid to the businesses’ employees based in the City exceeds a ratio of 100:1. The measure took effect on January 1, 2022 for tax year 2022, so revenues were first received in fiscal year 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, large annual fluctuations in the value and form of executive compensation, which typically includes equity, and tax-avoidance risk associated with tax increases. Estimates based on prior years’ activity may not be predictive of future revenues. Pre-audit actuals for fiscal year 2022-23 revenue is \$206.0 million and the original budget for 2023-24 and 2024-25 is \$100.0 million per year.

Table A-16 reflects the City’s actual tax receipts for fiscal years 2010-20 through 2022-23 and original budget for fiscal years 2023-24 and 2024-25, respectively.

As with the larger tax revenues described above, the City anticipates these sources will be impacted by the pace of economic recovery. See “CITY BUDGET: Original Budget for Fiscal Years 2023-24 and 2024-25 and Revenue Letter” for a summary of the most recent projections.

TABLE A-16

CITY AND COUNTY OF SAN FRANCISCO						
Other Local Taxes						
Fiscal Years 2019-20 through 2024-25						
General Fund						
(000s)						
Tax	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actuals	Actuals	Actuals	Pre-audit <sup>2</sup>	Budgeted <sup>3</sup>	Budgeted <sup>3</sup>
Utility Users Tax	\$94,231	\$81,367	\$105,225	\$110,615	\$112,544	\$111,529
Access Line Tax	49,570	44,700	55,710	53,171	\$57,210	57,660
Parking Tax	69,461	47,555	71,122	82,716	87,900	90,600
Sugar Sweetened Beverage Tax	13,182	10,435	11,973	12,870	13,740	13,740
Stadium Admissions Tax	2,730	182	4,615	5,984	9,100	10,100
Cannabis Tax	N/A	N/A	N/A	-	-	-
Franchise Tax	16,028	14,898	15,494	15,350	15,620	15,620
Overpaid Executives Tax	N/A	N/A	N/A	206,041	100,000	100,000

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2021-22 are actuals.

<sup>2</sup> Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

<sup>3</sup> Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

## INTERGOVERNMENTAL REVENUES

### State Subventions Based on Taxes

San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment, 2011 Public Safety Realignment, and Prop 172 Public Safety Sales Tax. These subventions fund programs that are substantially supported by the General Fund. See “GENERAL FUND REVENUES – OTHER CITY TAX REVENUES – Sales and Use Tax” above.

- Health and Welfare Realignment, enacted in 1991, restructured the state-county partnership by giving counties increased responsibilities and dedicated funding to administer certain public health, mental health and social service programs.
- Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers.
- State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City’s proportionate share of Statewide sales activity. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above. Disbursements are made to counties based on the county ratio, which is the county’s percent share of total statewide sales taxes in the most recent calendar year.

Table A-17 reflects the City’s actual receipts for fiscal years 2019-20 through 2022-23 and original budget for fiscal years 2023-24 and 2024-25. In fiscal year 2022-23, State-wide sales tax performed better than local sales tax; therefore, formula-driven subventions grew faster than local sales tax. The State temporarily backfilled county realignment revenues by \$28.0 million in fiscal year 2020-21.

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TABLE A-17

**CITY AND COUNTY OF SAN FRANCISCO**  
**Selected State Subventions - All Funds**  
**Fiscal Years 2019-120through 2024-25**  
**(\$millions)**

<b>Tax</b>	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actuals	Actuals	Actuals	Pre-audit <sup>2</sup>	Budgeted <sup>3</sup>	Budgeted <sup>3</sup>
<b>Health and Welfare Realignment</b>						
General Fund	\$219.6	\$188.9	\$283.5	\$290.7	\$281.6	\$290.7
Hospital Fund	54.1	48.1	67.1	67.9	64.4	64.4
<b>Total - Health and Welfare</b>	<b>\$273.7</b>	<b>\$237.1</b>	<b>\$350.6</b>	<b>\$358.6</b>	<b>\$346.0</b>	<b>\$355.1</b>
<b>Backfill Realignment<sup>4</sup></b>						
General Fund		\$22.1				
Non General Fund		6.0				
<b>Total - Backfill Realignment</b>		<b>\$28.0</b>				
Public Safety Realignment (General Fund)	\$41.1	\$38.4	\$52.1	\$58.6	\$51.6	\$53.1
Public Safety Sales Tax (Prop 172) (General Fund)	\$103.9	\$105.0	\$ 93.8	\$ 94.9	\$100.4	\$102.8

1 Figures for fiscal year 2018-19 through fiscal year 2021-22 are actuals.

2 Fiscal year 2022-23 amounts represent pre-audit actuals as of 9/8/2023.

3 Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

4 Backfill Realignment is a one-time State funding to fill the shortfall in Health and Welfare Realignment and Public Safety Realignment due to the decrease of sales tax and vehicle license fees.

Source: Office of the Controller, City and County of San Francisco.

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## CITY GENERAL FUND PROGRAMS AND EXPENDITURES

### General Fund Expenditures by Major Service Area

As a consolidated city and county, San Francisco budgets General Fund expenditures in seven major service areas as described in Table A-18 below:

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO						
Expenditures by Major Service Area						
Fiscal Years 2019-20 through 2024-25						
(000s)						
Major Service Areas	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Final Budget	Final Budget	Final Budget	Original Budget <sup>2</sup>	Original Budget <sup>3</sup>	Original Budget <sup>3</sup>
Public Protection	\$1,493,240	\$1,505,780	\$1,586,264	\$1,675,801	\$1,747,204	\$1,779,540
Human Welfare & Neighborhood Development	1,270,530	218,986	1,571,761	1,576,410	1,604,163	1,615,373
Community Health	1,065,051	1,605,573	1,119,891	1,162,956	1,125,977	1,157,023
General Administration & Finance	332,296	1,158,599	353,518	338,055	345,406	357,335
Culture & Recreation	161,274	147,334	161,417	197,596	201,453	202,539
General City Responsibilities	137,851	332,997	156,892	226,931	184,513	237,146
Public Works, Transportation & Commerce	216,824	126,993	244,365	262,733	242,912	233,446
Total <sup>2</sup>	\$4,677,066	\$5,096,262	\$5,194,108	\$5,440,482	\$5,451,628	\$5,582,402

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2021-22, as reflected in ACFR.

<sup>2</sup> Fiscal year 2022-23 amount represent the Original Budget, adopted July 27, 2022. Final Revised Budget is pending completion of FY 2022-23 ACFR.

<sup>3</sup> Fiscal year 2023-24 and 2024-25 amounts from Original Budget, adopted July 27, 2023.

Source: Office of the Controller, City and County of San Francisco.

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. Human Welfare & Neighborhood Development includes the Department of Human Services' aid assistance, aid payments, and City grant programs. Community Health includes the Public Health Department, which also operates San Francisco General Hospital and Laguna Honda Hospital.

For budgetary purposes, enterprise funds (which are not shown on the table above) are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund, the Gas Tax Fund, the Golf Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. These funds are supported by transfers from the General Fund to the extent their dedicated revenue streams are insufficient to support the desired level of services.

### Voter-Mandated Spending Requirements

The Charter requires funding for voter-mandated spending requirements, which are also referred to as "baselines," "set-asides," or "mandates". The chart below identifies the required and budgeted levels of funding for key mandates. The spending requirements are formula-driven, variously based on projected aggregate General Fund discretionary revenue, property tax revenues, total budgeted spending, staffing levels, or population growth. Table A-19 reflects fiscal year 2023-24 and 2024-25 spending requirements as of the FY24 & FY25 Original Budget. These mandates are generally budgeted as transfers out of the General Fund or allocations of revenue.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO		
Baselines & Set-Asides		
FY 2023-24 and FY 2024-25		
(\$millions)		
	2023-24	2024-25
	Original	Original
	Budget <sup>1</sup>	Budget <sup>1</sup>
<b>Projected General Fund Aggregate Discretionary Revenue (ADR)</b>	<b>\$4,492.4</b>	<b>\$4,633.2</b>
<b>Municipal Transportation Agency (MTA)</b>		
MTA - Municipal Railway Baseline: 6.686% ADR	\$317.9	\$328.1
MTA - Parking & Traffic Baseline: 2.507% ADR	\$112.6	\$116.2
MTA - Population Adjustment	\$82.8	\$91.7
MTA - 80% Parking Tax In-Lieu	\$67.3	\$70.3
<b>Subtotal - MTA</b>	<b>\$580.6</b>	<b>\$606.2</b>
<b>Library Preservation Fund</b>		
Library - Baseline: 2.286% ADR	\$102.7	\$105.9
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	\$79.5	\$79.4
<b>Subtotal - Library</b>	<b>\$182.2</b>	<b>\$185.3</b>
<b>Children's Services</b>		
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	\$217.0	\$223.8
Children's Services Baseline - Eligible Items Budgeted	221.0	244.6
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	26.1	26.9
Transitional Aged Youth Baseline - Eligible Items Budgeted	36.9	39.2
Public Education Services Baseline: 0.290% ADR	13.0	13.4
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	127.2	127.1
<i>Public Education Enrichment Fund: 3.057% ADR</i>	137.3	141.6
1/3 Annual Contribution to Preschool for All	45.8	47.2
2/3 Annual Contribution to SF Unified School District	91.6	94.4
<b>Subtotal - Children's Services</b>	<b>\$535.5</b>	<b>\$565.9</b>
<b>Recreation and Parks</b>		
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	\$79.5	\$79.4
<i>Recreation &amp; Parks Baseline - Requirement</i>	82.2	85.2
Recreation & Parks Baseline - Budgeted	88.5	91.8
<b>Subtotal - Recreation and Parks</b>	<b>\$168.1</b>	<b>\$171.3</b>
<b>Other</b>		
<i>Housing Trust Fund Requirement</i>	\$44.5	\$47.3
Housing Trust Fund Budget	44.5	47.3
Dignity Fund	56.1	59.1
Street Tree Maintenance Fund: 0.5154% ADR	22.8	23.8
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.3	4.4
City Services Auditor: 0.2% of Citywide Budget	26.0	25.8
<b>Subtotal - Other</b>	<b>\$153.7</b>	<b>\$160.3</b>
<b>Recently Adopted Expenditure Requirements</b>		
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	215.0	215.0
Our City, Our Home Budget, Estimated	393.1	388.5
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	93.2	97.1
Early Care and Education Budget	73.8	83.7
<b>Total Baselines and Set-Asides</b>	<b>\$2,087.0</b>	<b>\$2,161.2</b>

<sup>1</sup> Fiscal year 2023-24 and 2024-25 amounts represent the Original Budget, adopted July 25, 2023.

## **EMPLOYMENT COSTS; POST-EMPLOYMENT OBLIGATIONS**

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$6.7 billion and \$6.9 billion in fiscal years 2023-24 and 2024-25 in the Original Budget. For the General Fund, the combined salary and benefits Original Budget is \$3.1 billion in each fiscal year.

This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-employment health and medical benefits. SFUSD, SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

### **Labor Relations**

The City's FY24 & FY25 Original Budget includes 40,453 full-time and part-time budgeted City positions. City workers are represented by 36 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021; the International Federation of Professional and Technical Engineers, Local 21; and the unions representing Police, Fire, Deputy Sheriffs, and Transit Workers.

Wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, including managerial and executive-level employees, are represented by labor organizations.

The City's employee selection procedures are established and maintained through a civil service system. In general, selection procedures and other merit system issues, with the exception of discipline, are not subject to arbitration. Disciplinary actions are generally subject to grievance arbitration, with the exception of sworn police officers and fire fighters.

Further, the City Charter requires binding arbitration to resolve negotiations in the event of an impasse. If an impasse is reached, the parties are required to convene a tripartite arbitration panel, chaired by an impartial third-party arbitrator, which sets the disputed terms of the new agreement. The award of the arbitration panel is final and binding. This process applies to all City employees except Registered Nurses and a small group of unrepresented employees, whose working conditions and compensation are established annually by ordinance. Wages, hours and working conditions of nurses are not subject to interest arbitration but are subject to Charter-mandated economic limits. Since 1976, no City employees have participated in a union-authorized strike, which is prohibited by the Charter.

In 2023, the City negotiated a 2.5% base wage increase with labor organizations representing sworn members of the Police and Fire departments due on July 1, 2023 and 2.25% on January 6, 2024. For fiscal year 2024-2025, the parties agreed to a base wage increase of 3.0% on January 4, 2025 with a provision to delay the increase by six months if the City's budget deficit for fiscal year 2024-25, as projected in the March 2024 Joint Report, exceeds \$300 million. For fiscal year 2025-2026, the parties agreed to a base wage increase of 3.0% on July 1, 2025 with a provision to delay the increase by one year if the City's budget deficit for fiscal year 2025-26, as projected in the March 2025 Joint Report, exceeds \$300 million. See "CITY BUDGET: Five-Year Financial Plan, Mayor's Budget Instructions, and March Joint Report" for a summary of the March Joint Report. For fiscal year 2023-24, the Unrepresented Employee Ordinance was passed approving a wage increase of 2.5% on July 1, 2023 and 2.25% on January 6, 2024.

In May 2022, the City negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with 27 labor unions. For fiscal year 2022-23, the parties agreed to a base wage increase of 5.25% on July 1, 2022. For fiscal year 2023-24, the parties agreed to a base wage increase schedule of 2.5% on July 1, 2023 and 2.25% on January 6, 2024, with a provision to delay the fiscal year 2023-24 increases by six months if the City's budget deficit for fiscal year 2023-24, as projected in the March 2023 Joint Report, exceeds \$300 million. See "CITY BUDGET: Five-Year Financial Plan, Mayor's Budget Instructions, and March Joint Report" for a summary of the March Joint Report.

Also, in May 2022, the MTA negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others, collectively referred to as Service-Critical. The parties agreed to the same wage increase schedule as provided in the City agreements, with the same wage deferral triggers.

In the Fall of 2023, the City and MTA plan to commence bargaining successor MOUs with 27 labor unions potentially with negotiated wage increases coming into effect on July 1, 2024.

On July 24, 2023, the California Public Employment Relations Board ("PERB") ruled in favor of the SEIU and IFPTE, concluding that City Charter sections A8.346 and A8.409 prohibiting strikes by City employees are invalid, affirming an earlier ruling of an administrative law judge that such City Charter provisions violate the Meyers-Milias-Brown Act. The City has filed a notice of appeal to the California Court of Appeal with respect to the PERB decision. The City can give no assurance whether the appeal will be successful.

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TABLE A-20

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)**  
**Employee Organizations as of September 1, 2023**

Organization	City Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	554	30-Jun-24
Bricklayers, Local 3	6	30-Jun-24
Building Inspectors' Association	85	30-Jun-24
Carpenters, Local 22	115	30-Jun-24
Carpet, Linoleum & Soft Tile	4	30-Jun-24
Cement Masons, Local 300	43	30-Jun-24
Deputy Probation Officers' Association (DPOA)	120	30-Jun-24
Deputy Sheriffs' Association (DSA)	793	30-Jun-24
Electrical Workers, Local 6	1,047	30-Jun-24
Firefighters' Association, Local 798	2,028	30-Jun-26
Glaziers, Local 718	14	30-Jun-24
Hod Carriers, Local 36	4	30-Jun-24
Ironworkers, Local 377	14	30-Jun-24
Laborers, Local 261	1,237	30-Jun-24
Municipal Attorneys' Association (MAA)	510	30-Jun-24
Municipal Executives' Association (MEA) Fire	12	30-Jun-26
Municipal Executives' Association (MEA) Miscellaneous	1,752	30-Jun-24
Municipal Executives' Association (MEA) Police	16	30-Jun-26
Operating Engineers, Local 3 Miscellaneous	68	30-Jun-24
Operating Engineers, Local 3 Supervising Probation	28	30-Jun-24
Pile Drivers, Local 34	27	30-Jun-24
Plumbers, Local 38	369	30-Jun-24
Police Officers' Association (POA)	2,399	30-Jun-26
Professional and Technical Engineers, Local 21	7,394	30-Jun-24
Roofers, Local 40	13	30-Jun-24
SEIU, Local 1021, H-1	1	30-Jun-24
SEIU, Local 1021 Misc	13,609	30-Jun-24
SEIU, Local 1021 Nurses	1,868	30-Jun-24
SF City Workers United	145	30-Jun-24
SFDA Investigators Association	44	30-Jun-24
Sheet Metal Workers, Local 104	39	30-Jun-24
Sheriffs' Supervisory and Management Association (MSA)	119	30-Jun-24
Stationary Engineers, Local 39	707	30-Jun-24
Teamsters, Local 853	192	30-Jun-24
Teamsters, Local 856, Multi	102	30-Jun-24
Teamsters, Local 856, Supervising Nurses	136	30-Jun-24
Theatrical Stage Emp, Local 16	34	30-Jun-24
TWU, Local 200	537	30-Jun-24
TWU, Local 250-A, Auto Service Work	134	30-Jun-24
TWU, Local 250-A, Miscellaneous	108	30-Jun-24
TWU, Local 250-A, Transit Fare Inspectors	45	30-Jun-24
TWU, Local 250-A, Transit Operator	2,670	30-Jun-24
Union of American Physicians and Dentists (UAPD)	212	30-Jun-24
Unrepresented Employees	94	30-Jun-24
Other	1,007	
	<b>40,453</b>	



## **San Francisco Employees' Retirement System**

### *History and Administration*

San Francisco Employees' Retirement System ("SFERS" or "Retirement System") is charged with administering a defined-benefit pension plan that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval of City voters on November 2, 1920 and the State Legislature on January 12, 1921 and is currently codified in the City Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election.

The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, at least two of whom must be actively employed, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors.

The Retirement Board appoints an Executive Director and an Actuary to aid in the administration of the Retirement System. The Executive Director serves as Chief Executive Officer and Chief Investment Officer of SFERS. The Actuary's responsibilities include advising the Retirement Board on actuarial matters and monitoring of actuarial service providers. The Retirement Board retains an independent consulting actuarial firm to prepare the annual valuation reports and other analyses. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

### *Membership*

Retirement System members include eligible employees of the City, SFUSD, SFCCD, and the San Francisco Trial Courts. The Retirement System estimates that the total active membership as of July 1, 2022 is 45,284, compared to 44,770 as of July 1, 2021. Active membership as of July 1, 2022 includes 11,066 terminated vested members and 1,019 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as California Public Employees' Retirement System ("CalPERS") and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 31,719 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-21 shows various member counts in the total Retirement System (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2018 through July 1, 2022. The number of retirees supported by each active member can be an important indicator of growing plan maturity and sensitivity to investment returns, assumption changes, and other changes to the System. In particular, if the ratio of retirees to active members grows, it indicates that any actuarial losses on retiree liabilities or assets are likely to place a relatively greater burden on employers and active members. The ratio for SFERS had been relatively stable but increased modestly in 2021 and again in 2022 with the two-year decline in number of active members.

TABLE A-21

<b>City and County of San Francisco                      Employees' Retirement System                      July 1, 2018 through July 1, 2022</b>						
As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees & Continuants	Retiree to Active Ratio
2018	33,946	8,123	1,060	43,129	29,965 *	0.88
2019	34,202	8,911	1,044	44,157	29,490	0.86
2020	34,521	9,478	1,071	45,070	30,128	0.87
2021	33,644	10,066	1,060	44,770	30,854	0.92
2022	33,199	11,066	1,019	45,284	31,719	0.96

Sources: SFERS' annual Actuarial Valuation Report dated July 1st. See the Retirement System's website, mysfers.org, under Publications. The information on such website is not incorporated herein by reference.

Notes: Member counts are for the entire Retirement System and include non-City employees.  
 \* Retiree member counts duplicated for members who have both a Safety and a Miscellaneous benefit.

*Funding Practices*

Employer and employee (member) contributions are mandated by the Charter. Sponsoring employers are required to contribute 100% of the actuarially determined contribution approved by the Retirement Board. The Charter specifies that employer contributions consist of the normal cost (the present value of the benefits that SFERS expects to become payable in the future attributable to a current year's employment) plus an amortization of the unfunded liability over a period not to exceed 20 years. The Retirement Board sets the funding policy subject to the Charter requirements.

The Retirement Board adopts the economic and demographic assumptions used in the annual valuations. Demographic assumptions such as retirement, termination and disability rates are based upon periodic demographic studies performed by the consulting actuarial firm approximately every five years. Economic assumptions are reviewed each year by the Retirement Board after receiving an economic experience analysis from the consulting actuarial firm.

At the December 9, 2020 Retirement Board meeting, the Board adopted all recommended demographic assumptions from the experience study dated August 12, 2020. The most significant adjustment was the update to the new Society of Actuaries public plan mortality tables, Pub-2010, for both general and safety members. The Board also adopted lower price and wage inflation rates, from 2.75% to 2.50% and from 3.50% to 3.25%, respectively. The new assumptions were first effective for the July 1, 2020 actuarial valuation. At the November 10, 2021 Board meeting, the Board lowered the assumed long-term investment earnings assumption from 7.40% to 7.20%, effective for the July 1, 2021 actuarial valuation. In the short term, this decrease is expected to result in increases in City contributions. In the long term, the true cost of a pension plan is determined by actual results and not by assumptions. At the November 17, 2022 Board meeting, the Board voted to maintain the actuarial assumptions at their current levels.

While employee contribution rates are mandated by the Charter, sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each

union or bargaining unit. Since July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

Prospective purchasers of the City's debt obligations should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, [www.mysfers.org](http://www.mysfers.org), under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents and are therefore subject to change.

#### *Employer Contribution History and Annual Valuations*

The fiscal year 2021-22 employer contribution rate was 24.41% (estimated to be 20.88% after cost-sharing). The 2021-22 fiscal year City employer contributions to the Retirement System were \$729.0 million, which includes \$423.4 million from the General Fund. The fiscal year 2022-23 employer contribution rate is 21.35% (estimated to be 18.76% after cost-sharing), with a total budget of \$707.7 million, which includes \$434.3 million in the General Fund. The rate change reflects a reduction of the amortization period from twenty to five years, including investment gains from fiscal year 2020-21, offset by the drop in assumed investment return from 7.4% to 7.2% and the July 1, 2021 supplemental COLA to all retired members and their beneficiaries. Employer contribution rates anticipate annual increases in pensionable payroll of 3.25%. As discussed under "CITY BUDGET – Five-Year Financial Plan and Mayor's Budget Instructions", increases in retirement costs are projected in the City's Five-Year Financial Plan.

Table A-22 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2017-18 through 2021-22. Information is shown for all employers in the Retirement System (City & County, SFUSD, SFCCD and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the sum of mandated employee and employer contributions received by the Retirement System in the fiscal year ended June 30 prior to the July 1 valuation date.

TABLE A-22

**City and County of San Francisco  
Employees' Retirement System  
July 1, 2018 through July 1, 2022  
(Dollar amounts in 000s)**

As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates <sup>1</sup> in prior FY
2018	\$ 27,335,417	\$ 24,557,966	\$ 23,866,028	89.8%	87.3%	\$ 983,763	23.46%
2019	28,798,581	26,078,649	25,247,549	90.6%	87.7%	1,026,036	23.31%
2020	29,499,918	26,620,218	26,695,844	90.2%	90.5%	1,143,634	25.19%
2021	31,905,275	35,673,834	30,043,222	111.8%	94.2%	1,245,957	26.90%
2022	33,591,565	32,798,524	32,275,474	97.6%	96.1%	1,191,934	24.41%

<sup>1</sup> Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C. Employer contribution rates for fiscal years 2022-23 and 2023-24 are 21.35% and 18.24%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information.  
SFERS' annual Actuarial Valuation Report dated July 1st. See the Retirement System's website, mysfers.org, under Publications.  
The information on such website is not incorporated herein by reference.

Note: Information above reflects entire Retirement System, not just the City and County of San Francisco.

As shown in the table above as of July 2022, the market percent funded ratio is slightly higher than the actuarial percent funded ratio, reflecting net asset gains not yet recognized in the smoothed actuarial value of assets. The Retirement System's investment portfolio had a -2.9% return during fiscal year 2021-22 following the 33.7% return during fiscal year 2020-21, the highest fiscal return in the System's history. The July 1, 2022 actuarial value of assets only reflects 20% of the negative 2021-22 return and 40% of the extraordinary 2020-21 return. Global markets remain volatile due to continued uncertainty about tighter monetary policy, rising rates, inflation, and geopolitical risk. Employer contribution rates are anticipated to continue to decline in the next two years.

The actuarial accrued liability is measured by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy. The most recent actuarial audit was completed in July 2023.

#### *Risks to City's Retirement Plan*

In its July 2022 actuarial report, Cheiron identified three primary risks to the System as required by Actuarial Standards of Practice No. 51 (Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions). The material risks identified were as follows: investment risk, interest rate risk, and supplemental COLA risk. Investment risk is the potential for investment returns to be different than expected, while interest rate risk is the potential for longer-term trends to impact economic assumptions such as inflation and wage increases but particularly the discount rate. Supplemental COLA risk is the potential for the cost of future supplemental COLAs to increase contribution rates.

Supplemental COLAs are mandated by the Charter when investment returns exceed expectations. If the pension plan is less than fully funded on a market-value basis, certain groups of retirees may not receive a supplemental COLA at all or their supplemental COLA may be limited. Supplemental COLAs are capped at 3.5% less any basic COLA. As the majority of retirees have annual basic COLAs capped at 2.0%, a supplemental COLA when granted typically represents a 1.5% increase in benefit.

Cheiron’s July 2022 report provides stress testing of the supplemental COLA provision and shows that the current funding policy of amortizing new supplemental COLAs over five years manages the risk with contributions remaining very close to baseline and a relatively stable funded status.

*Governmental Accounting Standards Board (“GASB”) Disclosures*

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In general, the City’s funding of its pension obligations is not affected by the GASB 68 reporting of the City’s pension liability. Funding requirements are specified in the City Charter and are described in “Funding Practices” above.

Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the Actuarial Liability calculated for funding purposes in several ways, including the following differences. First, Total Pension Liability measured at fiscal year-end is a roll-forward of liabilities calculated at the beginning of the year and is based upon a beginning of year census adjusted for significant events that occurred during the year. Second, Total Pension Liability is based upon a discount rate determined by a blend of the assumed investment return, to the extent the fiduciary net position is available to make payments, and a municipal bond rate, to the extent that the fiduciary net position is unavailable to make payments. There have been no differences between the discount rate and assumed investment return at the last five fiscal year-ends. The third distinct difference is that Total Pension Liability includes a provision for supplemental COLAs that may be granted in the future, while Actuarial Liability for funding purposes includes only supplemental COLAs that have already been granted as of the valuation date.

Table A-23 below shows for the five most recent fiscal years the collective Total Pension Liability, Plan Fiduciary Net Position (market value of assets), and Net Pension Liability for all employers who sponsor the Retirement System. The City’s audited financial statements disclose only its own proportionate share of the Net Pension Liability and other required GASB 68 disclosures.

TABLE A-23

<b>City and County of San Francisco                      Employees' Retirement System                      GASB 67/68 Disclosures                      Fiscal Years 2017-2018 through 2021-2022                      (Dollar amounts in 000s)</b>						
As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate %	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2018	\$ 28,840,673	7.50%	\$ 24,557,966	85.2%	\$ 4,993,365	\$ 4,030,207
2019	30,555,289	7.40%	26,078,649	85.3%	4,476,640	4,213,807
2020	32,031,018	7.40%	26,620,218	83.1%	5,410,800	5,107,271
2021	33,088,765	7.40%	35,673,834	107.8%	(2,585,069)	(2,446,563)
2022	35,489,639	7.20%	32,798,524	92.4%	2,691,115	2,552,997

Sources: SFERS fiscal year-end GASB 67/68 Reports as of each June 30

Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Trial Courts)

NPL can be quite volatile. The increase in NPL between fiscal year-ends 2018 and 2019 is attributable to the decline in discount rate from 7.5% to 7.4%, while the increase in NPL at fiscal year-end 2020 is due to lower-than-expected investment returns. The large decline at fiscal year-end 2021 is due to the 33.7% investment portfolio return during that year, while the increase at fiscal year-end 2022 is due to both the -2.9% return and also to a reduction in discount rate from 7.4% to 7.2%.

### *Asset Management*

The assets of the Retirement System, (the “Fund”) are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real assets, absolute return strategies (including hedge funds), and an array of alternative investments including private equity, venture capital limited partnerships, and private credit.

Annualized investment return (net of fees and expenses) for the Retirement System for the five years ending June 30, 2022 was 9.83%. For the ten-year and twenty-year periods ending June 30, 2022, annualized investment returns were 9.90% and 8.28% respectively.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System’s investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5<sup>th</sup> Floor, San Francisco, California 94103, or by calling (415) 487-7000. These documents are not incorporated herein by reference.

### *Voter Approved Changes to the Retirement Plan*

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment.

The most recent amendment, Proposition A, was approved by voters in November 2022. This amendment made certain retirees who commenced benefits before November 6, 1996 eligible for a supplemental COLA even if SFERS is not fully funded. For these retirees, in years when SFERS is not fully funded, the supplemental COLA would be limited to \$200 per month for retirees who have an annual pension of more than \$50,000.

Proposition C was approved by voters in November 2011 to reduce future pension costs and introduced new benefit tiers effective for employees hired on and after January 7, 2012.

In August 2012, then-Governor Brown signed the Public Employee Pension Reform Act of 2012 (“PEPRA”). Current plan provisions of SFERS are not subject to PEPRA although future amendments may be subject to these reforms.

### *Impact on the Retirement System from Changes in the Economic Environment*

As of June 30, 2022, the audited market value of Retirement System assets was \$32.8 billion. As of July 31, 2023, the unaudited value of the System assets was \$34.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be lower or higher. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

A decline in the value of SFERS Trust assets over time, without a commensurate decline in the pension liabilities, will result in an increase in the contribution rate for the City. No assurance can be provided by the City that contribution rates will not increase in the future, and that the impact of such increases will not have a material impact on City finances.

### *Other Employee Retirement Benefits*

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Section A8.510 of the Charter requires the City to pay the full amount required by the actuarial valuations. The actual total employer contributions to CalPERS were \$52.0 million in fiscal year 2021-22. In addition to the required amounts, the City elected to pay an additional amount of \$8.4 million in fiscal years 2017-18, 2018-19 and 2019-2020; \$5.0 million in fiscal year 2021-22; and \$16.7 million in fiscal year 2022-23 in order to reduce its unfunded liability. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – Post-Employment Health Care Benefits" and "GASB 75 Reporting Requirements."

## **Medical Benefits**

### *Administration through San Francisco Health Service System; Audited System Financial Statements*

Medical and COBRA benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the San Francisco Health Service System (the "San Francisco Health Service System" or "SFHSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the SFHSS also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court; however, the City is only required to fund medical benefits for City Beneficiaries.

The San Francisco Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The plans (the "SFHSS Medical Plans") for providing medical care to the City Beneficiaries are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The San Francisco Health Service System oversees a trust fund (the "Health Service System Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the City Beneficiaries are funded. The San Francisco Health Service System issues an annual, publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained through the SFHSS website at sfhss.org, by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103. Audited annual financial statements for prior years are posted to the SFHSS website, however the information available on the SFHSS website is not incorporated in this Official Statement by reference.

Under the City Charter, the Health Service System Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "Other Post-Employment Benefits Trust Fund"). Thus, GASB Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45") and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"), which apply to OPEB trust funds, do not apply to the San Francisco Health Service System Trust Fund. However, the City has been funding the Retiree Health Care Trust Fund for the purpose of prefunding future OPEB payments as described below.

#### *Determination of Employer and Employee Contributions for Medical Benefits*

According to the City Charter Section A8.428, the City's contribution towards SFHSS Medical Plans for active employees and retirees is determined by the results of an annual survey of the amount of premium contributions provided by the ten most populous counties in California (other than the City) for health care. The survey is commonly called the 10-County Average Survey and is used to determine "the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." The "average contribution" is used to calculate the City's required contribution to the Health Service System Trust Fund for retirees.

Unions representing the majority of City employees negotiate through collective bargaining rather than applying the "average contribution" to determine the amount the City is required to contribute for active employees. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits.*"

#### *City Contribution for Retirees*

The City contributes the full employer contribution amount for medical coverage for eligible retirees who were hired on or before January 9, 2009 pursuant to Charter Section A8.428. For retirees who were hired on or after January 10, 2009, the City contributes a portion of the medical coverage costs based on five coverage / employer contribution classifications that reflect certain criteria outlined in the Table below.



<b>Retiree Medical Coverage / Employer Contribution for Those Hired On or After January 10, 2009</b>	
Years of Credited Service at Retirement	Percentage of Employer Contribution Established in Charter Section A8.428 Subsection (b)(3)
Less than 5 years of Credited Service with the Employers (except for the surviving spouses or surviving domestic partners of active employees who died in the line of duty)	No Retiree Medical Benefits Coverage
At least 5 but less than 10 years of Credited Service with the Employers; or greater than 10 years of Credited Service with the Employers but not eligible to receive benefits under Subsections (a)(4), (b)(5) <b>(A8.428 Subsection (b)(6))</b>	0% - Access to Retiree Medical Benefits Coverage. Including Access to Dependent Coverage
At least 10 but less than 15 years of Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	50%
At least 15 but less than 20 years pf Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	75%
At least 20 years of Credited Service with the Employer; Retired Persons who retired for disability; surviving spouses or surviving domestic partners of active employees who died in the line of duty <b>(AB.428 Subsection (b)(4))</b>	100%

### *Health Care Reform*

The following discussion is based on the current status of the Patient Protection and Affordable Care Act (the “ACA”). Many attempts have been made to completely repeal the ACA; however full repeal has been unsuccessful thus far.

Three ACA taxes impact SFHSS rates for medical coverage. The taxes and the current status are as follow:

- Excise Tax on High-cost Employer-sponsored Health Plans**  
 The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. The National Defense Authorization Act for Fiscal Year 2020 repealed the Cadillac tax, effective January 1, 2020.
- Health Insurance Tax (“HIT”)**  
 The ACA also imposed a tax on health insurance providers, which was passed on to employer sponsored fully insured plans in the form of higher premiums. The HIT was in effect in 2020 and substantially impacted rates. The tax was repealed effective January 1, 2021 also by the National Defense Authorization Act for Fiscal Year 2020.

- **Medical Device Excise Tax**

The ACA's medical device excise tax imposes a 2.3 percent tax on sales of medical devices (except certain devices sold at retail). The tax was repealed effective January 1, 2020.

- **Patient-Centered Outcomes Research Institute ("PCORI") Fee**

Congress revived and extended the PCORI fee, which had expired in 2019. The PCORI fee, adopted in the ACA, is paid by issuers of health insurance policies and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee is based on the average number of lives covered under the policy or plan. The fee applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2029.

### *Employer Contributions for San Francisco Health Service System Benefits*

For fiscal year 2021-22, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$861 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$732 million; approximately \$211 million of this \$732 million amount was for health care benefits for approximately 23,395 retired City employees and their eligible dependents, and approximately \$520 million was for benefits for approximately 31,229 active City employees and their eligible dependents.

The 2022 aggregate (employee and employer) cost of medical benefits offered by SFHSS to the City increased by 1.4%, which is below national trends of 4.7% to 5.7%. This can be attributed to several factors including contracting by SFHSS that maintains competition among the health plans, implementing value-based models such as Accountable Care Organizations, use of generic prescription, and implementing flex-funded plans using narrow networks. Flex-funding eliminates the typical margins added by health plans; however, more risk is assumed by the city, and reserves are required to protect against this risk.

### *Post-Employment Health Care Benefits*

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by these employees equal to 2% of their salary, with the City contributing an additional 1%, into a Retiree Health Care Trust Fund.

Under Proposition C, passed by San Francisco voters in November of 2011, employees hired on or before January 9, 2009, were required to contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning in fiscal year 2016-17. This contribution increased to 0.50% in fiscal year 2017-18, 0.75% in fiscal year 2018-19, and reached the maximum contribution of 1.00% in fiscal year 2019-20. These contributions are matched by the City on a one-to-one basis.

Unlike employee pension contributions that are made to individual accounts, contributions to the Retiree Health Care Trust Fund are non-refundable, even if an employee separates from the City and does not receive retiree health care from the City.

Proposition A, passed by San Francisco voters on November 5, 2013, restricted the City's ability to withdraw funds from the Retiree Health Care Trust Fund. The restrictions allow payments from the fund only when certain conditions are met. The balance in the Retiree Health Care Trust Fund as of June 30, 2022 is approximately \$739.9 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 75.

#### *GASB 75 Reporting Requirements*

In June 2015, GASB issued GASB 75. GASB 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEBs. The new standard is effective for periods beginning after June 15, 2017. The City implemented the provisions of GASB 75 in its audited financial statements for fiscal year 2017-18. According to GASB's Summary of GASB 75, GASB 75 requires recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability.

#### *City's Estimated Liability*

The City is required by GASB 75 to prepare a new actuarial study of its postemployment benefits obligation at least once every two years. As of the measurement date of June 30, 2021 (issued January 2023), used in the most recent actuarial valuation report updated to June 30, 2021, the retiree health care fiduciary plan net position as a percentage of the total OPEB liability was 16.3%. This reflects the net position of the Retiree Health Care Trust Fund in the amount of \$718.8 million divided by the total OPEB liability of \$4.4 billion. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$3.96 billion, and the ratio of the Net OPEB liability to the covered payroll was 93.3%.

While GASB 75 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB liability. Five-year trend information is displayed in Table A-24, which reflects the annual OPEB expense and the City's charter mandated payments on a percentage basis. For example, for fiscal year 2021-22 the annual OPEB expense was \$272.0 million, and the City paid \$252.9 million, which includes "pay-as-you-go" benefit payments and contributions to the Retiree Health Care Trust Fund.

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TABLE A-24

**CITY AND COUNTY OF SAN FRANCISCO**  
**Five-year Trend**  
**Fiscal Years 2015-16 to 2021-22**  
**(000s)**

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2015-16	\$326,133	51.8%	\$2,147,434
2016-17	421,402	43.6%	2,384,938
2017-18 <sup>1</sup>	355,186	57.4%	3,717,209
2018-19	320,331	68.2%	3,600,967
2019-20	330,673	71.4%	3,915,815
2020-21	320,684	76.7%	3,823,335
2021-22	272,001	93.0%	3,691,121

<sup>1</sup> Starting in FY2017-18, the liability amount reflects what is referred to as Net OPEB Liability due to the implementation of GASB Statement No. 75.

**Total City Employee Benefits Costs**

Table A-25 provides historical and budget information for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. Historically, approximately 50% of health benefit costs are paid from the General Fund. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table A-25 below provides a summary of the City’s employee benefit actual costs for fiscal years 2018-19 through 2021-22 and budgeted costs for fiscal years 2022-23 through 2023-24.

TABLE A-25

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employee Benefit Costs, All Funds**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

	2018-19 Actual <sup>1</sup>	2019-20 Actual <sup>1</sup>	2020-21 Actual <sup>1</sup>	2021-22 Actual <sup>1</sup>	2022-23 Unaudited <sup>4</sup>	2023-24 Budget <sup>5</sup>
SFERS and PERS Retirement Contributions	\$650,011	\$759,933	\$823,317	\$771,705	\$753,590	\$685,222
Social Security & Medicare	\$219,176	\$231,557	\$229,044	\$241,735	\$259,415	\$289,837
Health - Medical + Dental, active employees <sup>2</sup>	\$522,006	\$555,780	\$564,453	\$570,262	\$582,189	\$644,225
Health - Retiree Medical <sup>2</sup>	\$186,677	\$196,641	\$216,916	\$222,556	\$215,885	\$239,051
Other Benefits <sup>3</sup>	\$26,452	\$28,493	\$24,111	\$20,766	\$19,084	\$76,761
<b>Total Benefit Costs</b>	<b>\$1,604,322</b>	<b>\$1,772,403</b>	<b>\$1,857,841</b>	<b>\$1,827,024</b>	<b>\$1,830,164</b>	<b>\$1,935,097</b>

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are from the Final Budget, July 30, 2022.

<sup>2</sup> Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

<sup>3</sup> “Other Benefits” includes unemployment insurance premiums, life insurance and other miscellaneous employee benefits.

<sup>4</sup> Figures for fiscal year 2022-23 represent pre-audit actuals as of August 22, 2023.

<sup>5</sup> Figures for fiscal year 2023-24 reflect the budget adopted July 25, 2023.

Source: Office of the Controller, City and County of San Francisco.

## **INVESTMENT OF CITY FUNDS**

### *Investment Pool*

The Treasurer of the City (the “Treasurer”) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4. In addition to the funds of the City, the funds of various City departments and local agencies located within the boundaries of the City, including the school and community college districts, airport and public hospitals, are deposited into the City and County’s Pooled Investment Fund (the “Pool”). The funds are commingled for investment purposes.

### *Investment Policy*

The management of the Pool is governed by the Investment Policy administered by the Office of the Treasurer and Tax Collector in accordance with California Government Code Sections 27000, 53601, 53635, et. al. In order of priority, the objectives of this Investment Policy are safety, liquidity and return on investments. Safety of principal is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to meet all expected expenditures for at least the next six months. The Office of the Treasurer and Tax Collector also attempts to generate a market rate of return, without undue compromise of the first two objectives.

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. A complete copy of the Treasurer’s Investment Policy, dated May 2021, is included as an Appendix to this Official Statement.

### *Investment Portfolio*

As of August 31, 2023, the City’s surplus investment fund consisted of the investments classified in Table A-26 and had the investment maturity distribution presented in Table A-27.

TABLE A-26

**City and County of San Francisco  
Investment Portfolio  
Pooled Funds  
As of August 31, 2023**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$3,525,000,000	\$3,520,123,490	\$3,292,257,750
Federal Agencies	7,088,706,000	7,082,860,076	6,864,995,951
Public Time Deposits	40,000,000	40,000,000	40,000,000
Negotiable Certificates of Deposit	2,130,000,000	2,130,000,000	2,128,770,500
Commercial Paper	221,000,000	215,755,293	215,825,060
Money Market Funds	1,688,716,031	1,688,716,031	1,688,716,031
Supranationals	636,156,000	638,346,137	613,707,526
<b>Total</b>	<b>\$15,329,578,031</b>	<b>\$15,315,801,028</b>	<b>\$14,844,272,818</b>

August Earned Income Yield: 3.053%

*Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco  
From Citibank-Custodial Safekeeping, MaxQ Analytics*

TABLE A-27

**City and County of San Francisco  
Investment Maturity Distribution  
Pooled Funds  
As of August 31, 2023**

<u>Maturity in Months</u>			<u>Par Value</u>	<u>Percentage</u>
0	to	1	2,415,339,031	15.76%
1	to	2	715,426,000	4.67%
2	to	3	350,000,000	2.28%
3	to	4	597,000,000	3.89%
4	to	5	637,856,000	4.16%
5	to	6	391,155,000	2.55%
6	to	12	2,708,114,000	17.67%
12	to	24	3,449,645,000	22.50%
24	to	36	2,550,415,000	16.64%
36	to	48	1,412,128,000	9.21%
48	to	60	102,500,000	0.67%
			<b>\$15,329,578,031</b>	<b>100.00%</b>

Weighted Average Maturity: 477 Days

*Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco  
From Citibank-Custodial Safekeeping, Clearwater Analytics-Inventory Control Program*

### *Further Information*

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer's web page: [www.sftreasurer.org](http://www.sftreasurer.org). The monthly reports and annual reports are not incorporated by reference herein.

## **CAPITAL FINANCING AND BONDS**

### **Capital Plan**

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a 10-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC makes recommendations to the Mayor and Board of Supervisors on the City's capital expenditures and plans. The CPC reviews and submits the Capital Plan, Capital Budget, and issuances of long-term debt for approval. The CPC is chaired by the City Administrator and includes the President of the Board of Supervisors, the Mayor's Budget Director, the Controller, the City Planning Director, the Director of Public Works, the Airport Director, the Executive Director of the Municipal Transportation Agency, the General Manager of the Public Utilities Commission, the General Manager of the Recreation and Parks Department, and the Executive Director of the Port of San Francisco. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a 10-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure and other funding needs over 10 years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five-Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year.

The fiscal years 2024-2033 Capital Plan ("Adopted Capital Plan") was approved by the CPC on February 27, 2023 and was adopted by the Board of Supervisors on May 9, 2023. The Adopted Capital Plan contains \$41.4 billion in capital investments over the coming decade for all City departments, including \$5.8 billion in projects for General Fund-supported departments. The Adopted Capital Plan proposes \$2.2 billion for

General Fund pay-as-you-go capital projects over the next 10 years. Major capital projects for General Fund-supported departments included in the Capital Plan consist of critical seismic projects, and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other capital projects. \$2.7 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations, subject to planning policy constraints. The balance is expected to be funded by federal and State funds, the General Fund and other sources.

In addition to the City General Fund-supported capital spending, the Adopted Capital Plan recommends over \$19.0 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as SFMTA facilities, seawall strengthening, terminal 1 and 3 upgrades at San Francisco International Airport, water, sewer, and power enterprise improvements, and building adequate facilities to support the City's growing transit fleet, among others. Approximately \$8.3 billion of enterprise fund department capital projects are anticipated to be financed with revenue bonds. The balance is expected to be funded by general obligation bonds, federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's Adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$6.7 billion in capital needs including enhancements are deferred from the plan's horizon.

Failure to make the capital improvements and repairs recommended in the City's Adopted Capital Plan may have the following impacts: (i) failing to meet federal, State or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of use of the asset; (iv) impairing the value of the City's assets; (v) increasing future repair and replacement costs; and (vi) harming the local economy.

### **Tax-Supported Debt Service – City General Obligation Bonds**

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds" or "GO bonds") can only be authorized with a two-thirds approval of the voters. As of September 15, 2023, the City had approximately \$2.6 billion aggregate principal amount of GO bonds outstanding. In addition to the City's general obligation bonds, BART, SFUSD and SFCCD also have outstanding general obligation bonds as shown in Table A-33.

Table A-28 shows the annual amount of debt service payable on the City's outstanding GO bonds.



TABLE A-28

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds Debt Service**  
**As of September 15, 2023<sup>1 2</sup>**

Fiscal Year	Principal	Interest	Annual Debt Service
2023-24	\$179,681,206	\$104,757,786	\$284,438,992
2024-25	181,456,476	96,440,893	277,897,368
2025-26	168,786,279	88,136,881	256,923,160
2026-27	175,770,840	80,526,427	256,297,268
2027-28	182,379,035	72,846,056	255,225,091
2028-29	184,666,751	65,193,554	249,860,305
2029-30	183,105,095	57,164,224	240,269,319
2030-31	148,541,950	49,359,783	197,901,733
2031-32	154,120,000	43,478,084	197,598,084
2032-33	123,215,000	37,554,013	160,769,013
2033-34	105,695,000	32,904,522	138,599,522
2034-35	99,905,000	29,134,895	129,039,895
2035-36	85,135,000	25,681,630	110,816,630
2036-37	74,915,000	22,738,763	97,653,763
2037-38	66,450,000	20,149,611	86,599,611
2038-39	48,340,000	17,815,652	66,155,652
2039-40	48,355,000	16,131,920	64,486,920
2040-41	43,040,000	14,422,231	57,462,231
2041-42	44,675,000	12,790,188	57,465,188
2042-43	46,380,000	11,078,137	57,458,137
2043-44	48,165,000	9,296,299	57,461,299
2044-45	50,020,000	7,438,235	57,458,235
2045-46	46,575,000	5,506,630	52,081,630
2046-47	13,465,000	3,713,546	17,178,546
2047-48	14,040,000	3,137,495	17,177,495
2048-49	5,345,000	2,535,881	7,880,881
2049-50	5,530,000	2,354,712	7,884,712
2050-51	5,725,000	2,159,925	7,884,925
2051-52	5,935,000	1,950,338	7,885,338
2052-53	6,155,000	1,732,790	7,887,790
2053-54	6,380,000	1,506,973	7,886,973
2054-55	6,610,000	1,272,671	7,882,671
2055-56	6,855,000	1,029,667	7,884,667
2056-57	7,110,000	777,438	7,887,438
2057-58	7,370,000	515,551	7,885,551
2058-59	3,895,000	243,790	4,138,790
2059-60	4,010,000	123,668	4,133,668
<b>TOTAL<sup>4</sup></b>	<b>\$2,587,797,632</b>	<b>\$943,600,858</b>	<b>\$3,531,398,490</b>

<sup>1</sup> This table only includes the City's General Obligation Bonds and does not include any of the overlapping debt as shown in Table A-33.

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of assessed value.

Source: Office of Public Finance, City and County of San Francisco.

## **Authorized but Unissued City GO Bonds**

Certain GO bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

In November 1992, voters approved Proposition A ("1992 Proposition A") which authorized the issuance of up to \$350.0 million in GO bonds to support San Francisco's Seismic Safety Loan Program ("SSLP"), which provides loans for the seismic strengthening of privately-owned unreinforced masonry affordable housing, market-rate residential, commercial and institutional buildings. Between 1994 and 2015, the City issued \$89.3 million of bonds under the original 1992 Proposition A authorization. In November 2016, voters approved Proposition C ("2016 Proposition C"), which amended the 1992 Proposition A authorization (together, the "1992A/2016A Propositions") to broaden the scope of the remaining \$260.7 million authorization by adding the eligibility to finance the acquisition, improvement, and rehabilitation to convert at-risk multi-unit residential buildings to affordable housing, as well as the needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. In 2019 and 2020, the City issued \$175.0 million of bonds across two series under the 1992A/2016A Propositions. Currently \$85.7 million remains authorized and unissued.

In November 2018, voters approved Proposition A ("2018 Embarcadero Seawall Improvement Proposition"), authorizing the issuance of up to \$425.0 million in general obligation bonds for repair and improvement projects along the City's Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. In 2020 and 2023, the City issued the first two series of bonds in the principal amount of \$88.7 million, leaving \$336.3 million authorized and unissued.

In November 2019, voters approved Proposition A ("2019 Affordable Housing Proposition"), which authorized the issuance of up to \$600.0 million in general obligation bonds to finance the construction, development, acquisition, and preservation of affordable housing for certain vulnerable San Francisco residents; to assist in the acquisition, rehabilitation, and preservation of existing affordable housing to prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for SFUSD and City College of San Francisco employees; and to pay related costs. In 2021 and 2023, the City issued the first two series of bonds in the principal amount of \$425.4 million, leaving \$174.6 million authorized and unissued.

In March 2020, voters approved Proposition B ("2020 Earthquake Safety and Emergency Response Proposition") which authorized the issuance of up to \$628.5 million in general obligation bonds to aid fire, earthquake and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. In 2021, the City closed the first four series of bonds with a total principal amount of \$167.8 million, leaving \$460.7 million authorized and unissued.

In November 2020, voters approved Proposition A ("2020 Health and Recovery Bond"), which authorized the issuance of up to \$487.5 million in general obligation bonds to fund permanent investments in transitional supportive housing facilities, shelters, and/or facilities that serve individuals experiencing homelessness, mental health challenges, or substance use; improve the safety and quality of parks; and

improve the safety and condition of streets and other public rights of way. In 2021 and 2023, the City issued the first three series of bonds in an aggregate principal amount of \$287.3 million, leaving approximately \$200.2 million authorized and unissued.

### Refunding General Obligation Bonds

The Board of Supervisors has adopted and the Mayor has approved three different resolutions (the “Refunding Resolutions”) authorizing the issuance of approximately \$3.8 billion in aggregate of general obligation refunding bonds in one or more series. Resolution No. 272-04 (approved in May 2004) authorized the issuance of \$800.0 million to refund all or a portion of the City’s outstanding General Obligation Bonds. Resolution No. 448-11 (approved in November 2011) authorized the issuance of approximately \$1.5 billion for the purpose of refunding certain outstanding General Obligation Bonds of the City. Resolution No. 097-20 (approved in March 2020) authorized the issuance of approximately \$1.5 billion for the purpose of refunding certain outstanding General Obligation Bonds of the City. The refunding bonds outstanding as of September 15, 2023, under the Refunding Resolutions, are shown in Table A-29 below.

TABLE A-29

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Refunding Bonds**  
**As of September 15, 2023**

<b>Series Name</b>	<b>Date Issued</b>	<b>Principal Amount Issued</b>	<b>Amount Outstanding</b>
2015-R1	February 2015	\$293,910,000	\$164,190,000 <sup>1</sup>
2020-R1	May 2020	195,250,000	154,940,000 <sup>2</sup>
2021-R1	May 2021	91,230,000	75,990,000 <sup>3</sup>
2021-R2	September 2021	86,905,000	43,585,000 <sup>4</sup>
2022-R1	May 2022	327,300,000	302,060,000 <sup>5</sup>

<sup>1</sup> Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

<sup>2</sup> Series 2008-R1 Bonds were refunded by the 2020-R1 Bonds in May 2020.

<sup>3</sup> Series 2013A, 2013B, and 2013C Bonds were refunded by the 2021-R1 Bonds in May 2021.

<sup>4</sup> Series 2011-R1 Bonds, which refunded the 2004-R1 Bonds, were refunded by the 2021-R2 Bonds in September 2021.

<sup>5</sup> Series 2012D, 2012E, 2014A, 2014C, and 2014D Bonds were refunded by the 2022-R1 Bonds in May 2022.

Table A-30 on the following page lists for each of the City’s voter-authorized general obligation bond programs, the amounts issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued and does not refer to any particular series. As of September 15, 2023, the City had authorized and unissued general obligation bond authority of approximately \$1.3 billion.

TABLE A-30

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds**  
**As of September 15, 2023<sup>1</sup>**

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	2
			2007A	\$30,315,450	\$12,172,632	
			2015A	\$24,000,000	-	
Reauthorization to Repurpose for Affordable Housing	11/8/16		2019A	\$72,420,000	\$68,700,000	
			2020C	\$102,580,000	\$93,580,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$24,190,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$5,735,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$117,950,000	
			2012D	\$251,100,000	-	
			2014A	\$209,955,000	-	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	-	
			2013B	\$31,020,000	-	
			2014C	\$54,950,000	-	
			2016C	\$25,215,000	\$17,190,000	-
			2012C	\$74,295,000	-	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2013C	\$129,560,000	-	
			2016E	\$44,145,000	\$30,095,000	-
			2013A	\$71,970,000	-	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2016B	\$43,220,000	\$18,620,000	
			2018A	\$76,710,000	\$37,480,000	
			2019B	\$3,100,000	-	-
			2014D	\$100,670,000	-	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2016D	\$109,595,000	\$58,000,000	
			2018C	\$189,735,000	\$116,640,000	-
			2015B	\$67,005,000	\$33,740,000	
Transportation and Road Improvement	11/4/14	\$500,000,000	2018B	\$174,445,000	\$85,235,000	
			2020B	\$135,765,000	\$100,450,000	
			2021C-1	\$104,785,000	\$83,230,000	
			2021C-2	\$18,000,000	-	-
			2016F	\$75,130,000	\$38,780,000	
Affordable Housing Bond	11/3/15	\$310,000,000	2018D	\$142,145,000	\$85,790,000	
			2019C	\$92,725,000	\$21,845,000	-
			2017A	\$173,120,000	\$96,445,000	
Public Health and Safety Bond	6/7/16	\$350,000,000	2018E	\$49,955,000	\$31,030,000	
			2020D-1	\$111,925,000	\$77,650,000	
			2020D-2	\$15,000,000	-	-
			2020A	\$49,675,000	-	-
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2023B	\$39,020,000	-	\$336,305,000
			2021A	\$254,585,000	\$168,425,000	
Affordable Housing Bond	11/5/19	\$600,000,000	2023C	\$170,780,000	\$107,025,000	\$174,635,000
			2021B-1	\$69,215,000	\$64,335,000	
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000	2021B-2	\$11,500,000	-	
			2021E-1	\$74,090,000	\$59,520,000	
			2021E-2	\$13,000,000	-	\$460,695,000
			2021D-1	\$194,255,000	\$164,395,000	
Health and Recovery Bond	11/4/20	\$487,500,000	2021D-2	\$64,250,000	-	
			2023A	\$28,785,000	\$28,785,000	\$200,210,000
<b>SUBTOTAL</b>		<b>\$5,978,700,000</b>		<b>\$4,721,170,450</b>	<b>\$1,847,032,632</b>	<b>\$1,257,529,550</b>
<b>General Obligation Refunding Bonds</b>						
	<b>Dated Issued</b>			<b>Bonds Issued</b>	<b>Bonds Outstanding</b>	
Series 2015-R1	2/25/15			\$293,910,000	\$164,190,000	
Series 2020-R1	5/7/20			\$195,250,000	\$154,940,000	
Series 2021-R1	5/6/21			\$91,230,000	\$75,990,000	
Series 2021-R2	9/16/21			\$86,905,000	\$43,585,000	
Series 2022-R1	5/18/22			\$327,300,000	\$302,060,000	
<b>SUBTOTAL</b>				<b>\$994,595,000</b>	<b>\$740,765,000</b>	
<b>TOTALS</b>		<b>\$5,978,700,000</b>		<b>\$5,715,765,450</b>	<b>\$2,587,797,632</b>	<b>\$1,257,529,550</b>

<sup>1</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

<sup>2</sup> Bonds ."

Source: Office of Public Finance, City and County of San Francisco.

### **General Fund Lease Obligations**

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financings expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-31 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of September 15, 2023.

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TABLE A-31

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of September 15, 2023<sup>1 2</sup>**

Fiscal Year	Principal	Interest <sup>3</sup>	Annual Payment Obligation
2023-24 <sup>4</sup>	\$63,736,503	\$57,417,142	\$121,153,645
2024-25	74,653,037	58,067,122	132,720,159
2025-26	75,198,229	54,445,064	129,643,293
2026-27	75,603,731	50,749,535	126,353,267
2027-28	70,855,000	47,156,600	118,011,600
2028-29	74,115,000	43,689,945	117,804,945
2029-30	77,340,000	40,220,141	117,560,141
2030-31	70,485,000	36,975,914	107,460,914
2031-32	63,590,000	34,282,816	97,872,816
2032-33	64,685,000	31,871,841	96,556,841
2033-34	67,135,000	29,260,160	96,395,160
2034-35	60,275,000	26,761,447	87,036,447
2035-36	60,515,000	24,174,242	84,689,242
2036-37	60,190,000	21,538,229	81,728,229
2037-38	62,625,000	18,910,664	81,535,664
2038-39	65,160,000	16,175,156	81,335,156
2039-40	67,805,000	13,324,472	81,129,472
2040-41	70,555,000	10,357,468	80,912,468
2041-42	56,000,000	7,430,811	63,430,811
2042-43	20,990,000	5,247,200	26,237,200
2043-44	19,855,000	4,388,600	24,243,600
2044-45	20,650,000	3,594,400	24,244,400
2045-46	13,695,000	2,768,400	16,463,400
2046-47	14,245,000	2,220,600	16,465,600
2047-48	13,220,000	1,650,800	14,870,800
2048-49	13,750,000	1,122,000	14,872,000
2049-50	14,300,000	572,000	14,872,000
<b>TOTAL <sup>5</sup></b>	<b>\$1,411,226,500</b>	<b>\$644,372,769</b>	<b>\$2,055,599,269</b>

<sup>1</sup> Includes privately placed lease purchase financings and excludes the 833 Bryant lease and commercial paper.

<sup>2</sup> Actual payment dates are used to project outstanding payment obligations.

<sup>3</sup> Totals reflect rounding to nearest dollar.

<sup>4</sup> Excludes payments made to date in current fiscal year.

<sup>5</sup> For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 6.0%. These bonds are in variable rate mode.

Source: Office of Public Finance, City and County of San Francisco.

## **Voter-Approved Lease Revenue Bonds**

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition F, which authorizes the City to lease finance (without limitation as to maximum aggregate principal amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue additional bonds at this time.

In 1990, voters approved Proposition C ("1990 Proposition C"), which amended the Charter to authorize the City to lease purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. 1990 Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of July 1, 2023, the total authorized and unissued amount for such financings was \$100 million. There is no current plan to issue additional bonds at this time.

In 1994, voters approved Proposition B ("1994 Proposition B"), which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of 1994 Proposition B lease revenue bonds, respectively, leaving \$14.1 million in remaining authorization. There is no current plan to issue additional series of bonds under 1994 Proposition B.

In 2000, voters approved Proposition C ("2000 Proposition C"), which extended a two and one-half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). 2000 Proposition C also authorized the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. In August 2018 the City issued refunding lease revenue bonds to refund Series 2006 and 2007 Open Space Fund lease revenue bonds.

In 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two and one-half cent per \$100.0 in assessed valuation property tax set-aside and established a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. In August 2018 the City issued refunding lease revenue bonds to refund Series 2009A Branch Library Improvement Project lease revenue bonds.

Table A-32 below lists the City's outstanding certificates of participation, lease purchase financings, and voter-authorized lease revenue bonds.

TABLE A-32

**CITY AND COUNTY OF SAN FRANCISCO**  
**Outstanding Certificates of Participation and Lease Revenue Bonds<sup>1</sup>**  
**As of September 15, 2023**

Issue Name	Final Maturity	Original Par	Outstanding Principal
<b>CERTIFICATES OF PARTICIPATION</b>			
Series 2009D - Taxable BABs (525 Golden Gate Avenue)	2041	129,550,000	129,550,000
Refunding Series 2011A (Moscone Center South)	2024	23,105,000	2,340,000
Series 2012A (Multiple Capital Improvement Projects)	2036	42,835,000	27,815,000
Series 2013B - Non-AMT (Port Facilities Project)	2038	4,830,000	4,830,000
Series 2013C - AMT (Port Facilities Project)	2043	32,870,000	19,935,000
Refunding Series 2014-R2 (Juvenile Hall Project)	2034	33,605,000	21,395,000
Series 2015A (War Memorial Veterans Building)	2045	112,100,000	110,250,000
Series 2015B - Taxable (War Memorial Veterans Building)	2024	22,225,000	1,255,000
Refunding Series 2015-R1 (City Office Buildings - Multiple Properties)	2040	123,600,000	97,940,000
Series 2016A (War Memorial Veterans Building)	2032	16,125,000	9,750,000
Series 2017A - Taxable (Hope SF)	2047	28,320,000	24,595,000
Series 2017B (Moscone Convention Center Expansion Project)	2042	412,355,000	358,170,000
Series 2019A (49 South Van Ness Project)	2050	247,810,000	240,545,000
Refunding Series 2019-R1 (Multiple Capital Improvement Projects)	2035	116,460,000	84,870,000
Refunding Series 2020-R1 (Multiple Capital Improvement Projects)	2033	70,640,000	62,785,000
Series 2020 (Animal Care & Control Project)	2041	47,075,000	43,990,000
Series 2021A (Multiple Capital Improvement Projects)	2041	76,020,000	73,440,000
<b>SUBTOTAL CERTIFICATES OF PARTICIPATION</b>		<b>\$1,539,525,000</b>	<b>\$1,313,455,000</b>
<b>LEASE PURCHASE FINANCINGS</b>			
2010 Lease Purchase Financing (SFGH Emergency Backup Generators)	2025	\$22,549,489	\$5,387,856
2016 Lease Purchase Financing (Public Safety Radio Replacement Project)	2026	34,184,136	12,618,644
<b>SUBTOTAL LEASE PURCHASE FINANCINGS</b>		<b>\$56,733,625</b>	<b>\$18,006,500</b>
<b>FINANCE CORPORATION LEASE REVENUE BONDS</b>			
Refunding Series 2008-1 (Moscone Center Expansion Project) - Variable	2030	\$72,670,000	\$25,400,000
Refunding Series 2008-2 (Moscone Center Expansion Project) - Variable	2030	72,670,000	25,400,000
Refunding Series 2010-R1 (Emergency Communications System)	2024	22,280,000	1,985,000
Refunding Series 2018A (Open Space Fund - Various Park Projects)	2029	34,950,000	19,600,000
Refunding Series 2018B (Branch Library Improvement Program)	2028	13,355,000	7,380,000
<b>SUBTOTAL LEASE REVENUE BONDS</b>		<b>\$215,925,000</b>	<b>\$79,765,000</b>
<b>TOTAL GENERAL FUND OBLIGATIONS</b>		<b>\$1,812,183,625</b>	<b>\$1,411,226,500</b>

<sup>1</sup> Excludes commercial paper and California HFA Revenue Bonds (San Francisco Supportive Housing - 833 Bryant Apartments) (\$26,985,000)



## **Board Authorized and Unissued Long-Term Certificates of Participation**

Certain issuances below have been authorized as supplements to a lease (“Master Lease”), which currently supports the City’s outstanding Certificates of Participation (“COPs”), Series 2012A, Series 2019-R1, Series 2020-R1, and Series 2021A, by and between the City and a third-party trustee, currently U.S. Bank National Association. Properties leased pursuant to the Master Lease currently include the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard, San Francisco, and the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno.

*Treasure Island Improvement Project:* In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. At this time there is not an expected timeline for the issuance of these certificates.

*Housing Trust Fund Project:* In April 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$95.0 million of City and County of San Francisco Certificates of Participation (Affordable Housing Projects) authorized under the Master Lease to provide funds to assist in the development, acquisition, construction or rehabilitation of affordable rental housing projects. The City has issued commercial paper to finance these projects and is paying down its commercial paper balance rather than issuing long-term certificates at this time.

*Hall of Justice Relocation Projects:* In October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$62.0 million principal amount of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) authorized under the Master Lease to finance or refinance tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. The City funded \$4.6 million in project fund and related financing costs related to this authorization for the 444 Sixth Street acquisition as part of the Certificates of Participation, Series 2021A. The City expects to issue the remainder of the long-term COPs in fiscal year 2024-25 or later.

*HOPE SF Project:* In December 2019, the Board authorized, and the Mayor approved the issuance of not to exceed \$83.6 million of City and County of San Francisco Certificates of Participation authorized under the Master Lease to finance or refinance certain capital improvements, including but not limited to certain properties generally known as Hunters View, Sunnysdale, and Potrero Terrace and Annex housing developments. The City anticipates issuing the first long-term COPs under this authorization in fiscal year 2024-25.

*Department of Public Health Facilities Improvements:* In November 2020, the Board authorized and the Mayor approved the issuance of not to exceed \$157.0 million of City and County of San Francisco Certificates of Participation authorized under the Master Lease, to finance projects for the Department of Public Health (“DPH”), including but not limited to certain projects generally known as the Homeless Services Center, Laguna Honda Hospital Wings Reuse Project, AITC Immunization and Travel Clinic Relocation, and San Francisco General Hospital Chiller and Cooling Tower Replacement Project. The City anticipates issuing the long-term COPs in fiscal year 2024-25.

*Critical Repairs and Recovery Stimulus (FY2022):* In July 2021, the Board authorized and the Mayor approved the issuance of not to exceed \$67.5 million of City and County of San Francisco Certificates of

Participation authorized under the Master Lease, to finance and refinance certain capital improvements generally consisting of critical repairs, renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and local economic stimulus projects. The City is issuing the first series of long-term COPs under the authorization in fiscal year 2023-24 as part of the 2023 COPs.

*Critical Repairs, Recovery Stimulus and Street Repaving Projects (FY2023):* In July 2022, the Board authorized and in August 2022 the Mayor approved the issuance of not to exceed \$140.0 million of City and County of San Francisco Certificates of Participation authorized under the Master Lease, to finance and refinance certain capital improvements generally consisting of (a) street repaving and reconstruction, (b) critical repairs, including renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and (c) local economic stimulus projects. The City is issuing the first series of long-term COPs under the authorization in fiscal year 2023-24 as part of the 2023 COPs.

*Affordable Housing and Community Development Projects:* In May 2023 the Board authorized and in June 2023 the Mayor approved the issuance of not to exceed \$146.8 million of City and County of San Francisco Certificates of Participation authorized under the Master Lease, to finance and refinance certain capital improvement, affordable housing and community facility development projects. The City is issuing the first series of long-term COPs under the authorization in fiscal year 2023-24 as part of the 2023 COPs.

*Refunding Certificates of Participation:* In May 2023 the Board authorized and in June 2023 the Mayor approved the issuance of not to exceed \$275 million of City and County of San Francisco Refunding Certificates of Participation authorized under the City's Master Lease, to refund the following outstanding COP series: i) Series 2012A (Multiple Capital Improvement Project) COPs, currently outstanding in the aggregate principal amount of \$27,815,000 under the Master Lease; ii) Refunding Series 2014-R2 (Juvenile Hall Project) COPs, currently outstanding in the aggregate principal amount of \$21,395,000; iii) Series 2015A (War Memorial Veterans Building) COPs, currently outstanding in the aggregate principal amount of \$110,250,000; and iv) Refunding Series 2015-R1, currently outstanding in the aggregate principal amount of \$97,940,000. The Refunding COPs may refund one or more series of the authorized outstanding COPs, subject to market conditions and the City's ability to achieve minimum savings thresholds.

*Critical Repairs and Street Repaving Projects (FY2024):* In September 2023 the Board authorized and [the Mayor approved] the issuance of not to exceed \$77.2 million of City and County of San Francisco Certificates of Participation authorized under the Master Lease, to finance and refinance certain capital improvements generally consisting of critical repairs, renovations and improvements to City-owned buildings, facilities, streets, and works utilized by various City departments. The City anticipates beginning to issue commercial paper to finance the projects in fiscal year 2023-24.

### **Commercial Paper Program**

In March 2009, the Board authorized and the Mayor approved a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "Original CP Program"). In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the "Second CP Program" and together with the Original CP Program, the "City CP Program") that increased the total authorization of the City CP Program to \$250.0 million.

Commercial Paper Notes (the “CP Notes”) are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project.

The Series 1 and 1-T and Series 2 and 2-T CP notes are secured by a \$150 million revolving credit agreement with Wells Fargo, which expires in March 2026.

The Series 3 and 3-T and 4 and 4-T are secured by a \$100 million revolving letter of credit issued by Bank of the West, which expires in April 2026.

As of September 15, 2023, the outstanding principal amount of CP Notes is \$40.5 million. The interest rate for the \$20.1 million outstanding tax-exempt CP Notes is 2.95%. The interest rate for the \$20.3 million outstanding taxable CP Notes is 5.50%. The projects with Board Authorized and Unissued Certificates of Participation currently utilizing the CP Program includes the Housing Trust Fund, HOPE SF, DPH Facilities Improvements, Critical Repairs & Recovery Stimulus, and Hall of Justice Relocation Project - Tenant Improvements. Additionally, there is a short-term financing for Police Vehicle acquisition utilizing the City’s CP Program and is expected to be paid down over time. The following is a summary of the outstanding liability by project associated with the CP Notes outstanding.

<b>Project</b>	<b>CP Notes Liability as of 9/15/2023</b>
Housing Trust Fund	\$16,886,789
HOPE SF	3,398,233
DPH Facilities Improvements	14,620,365
Critical Repairs & Recovery Stimulus	4,796,306
Police Vehicle Acquisition	684,793
HOJ Relocation – Tenant Improvements	93,424
<b>TOTAL</b>	<b>\$40,480,000</b>

### **Overlapping Debt**

Table A-33 shows bonded debt and long-term obligations as of September 15, 2023, sold in the public capital markets, except for those financings otherwise noted in the table, by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City’s outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-33

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Direct and Overlapping Debt and Long-Term Obligations**  
**As of September 15, 2023**

<u>2023-24 Assessed Valuation</u> (includes unitary utility valuation):	\$344,487,688,208 <sup>1</sup>
<b><u>GENERAL OBLIGATION BONDED DEBT</u></b>	
San Francisco City and County	\$2,587,797,632
San Francisco Unified School District	1,028,650,000
San Francisco Community College District	396,900,000
<b>TOTAL GENERAL OBLIGATION BONDED DEBT</b>	<b>\$4,013,347,632</b>
<b><u>LEASE OBLIGATIONS BONDS</u></b>	
San Francisco City and County	\$1,411,226,503
<b>TOTAL LEASE OBLIGATION BONDED DEBT</b>	<b>\$1,411,226,503 <sup>2</sup></b>
<b>TOTAL COMBINED DIRECT DEBT</b>	<b>\$5,424,574,135</b>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT</u></b>	
Bay Area Rapid Transit District General Obligation Bond (33.728%)	\$824,843,536
San Francisco Community Facilities District No. 6	106,937,949
San Francisco Community Facilities District No. 7	29,215,000
San Francisco Community Facilities District No. 2009-1, Improvement Areas 1 and 2	2,198,152
San Francisco Community Facilities District No. 2014-1 Transbay Transit Center	569,220,000
San Francisco Community Facilities District No. 2016-1 Treasure Island, Improvement Areas 1 and 2	83,025,000
San Francisco Special Tax District No. 2020-1 Mission Rock Facilities	106,230,000
City of San Francisco Assessment District No. 95-1	205,000
ABAG Community Facilities District No. 2004-1 Seismic Safety Improvements	8,175,000
ABAG Community Facilities District No. 2006-1 San Francisco Rincon Hill	4,475,000
ABAG Community Facilities District No. 2006-2 San Francisco Mint Plaza	2,595,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>	<b>\$1,737,119,637</b>
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>	
Successor Agency to the San Francisco Redevelopment Agency	\$783,288,007
Transbay Joint Powers Authority	234,035,000
<b>TOTAL OVERLAPPING INCREMENT DEBT</b>	<b>\$1,017,323,007</b>
<b><u>OVERLAPPING TAX INCREMENT REVENUE DEBT:</u></b>	
San Francisco Infrastructure and Revitalization Financing District No. 1	\$28,925,000
<b>TOTAL OVERLAPPING INCREMENT DEBT</b>	<b>\$28,925,000</b>
<b>TOTAL DIRECT AND OVERLAPPING BONDED DEBT</b>	<b>\$8,207,941,779 <sup>3</sup></b>
<b><u>Ratios to 2023-24 Assessed Valuation (\$344,487,688,208)</u></b>	
Direct General Obligation Bonded Debt (\$4,013,347,632)	1.17% <sup>4</sup>
Combined Direct Debt (\$5,424,574,135)	1.57%
Total Direct and Overlapping Bonded Debt	2.38%
<b><u>Ratio to 2023-24 Redevelopment Incremental Valuation (\$44,580,507,946)</u></b>	
Total Overlapping Tax Increment Debt	2.28%

<sup>1</sup> Includes \$574,103,600 homeowner's exemption for FY23-24.

<sup>2</sup> Excludes 833 Bryant lease.

<sup>3</sup> Excludes tax and revenue anticipation notes, enterprise revenue bonds and airport improvement corporation bonds, as well as issue to be sold.

<sup>4</sup> The Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City. The City's general obligation debt as a percentage of FY22-23 AV is 0.75%.

Source: California Municipal Statistics Inc., City and County of San Francisco

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds were authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

### Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

## **Article XIII B of the California Constitution**

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's average revenues over two consecutive years exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the following two years. With voter approval, the appropriations limit can be raised for up to four years.

## **Articles XIII C and XIII D of the California Constitution**

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness, and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See "GENERAL FUND REVENUES — CITY TAX REVENUES" herein, for a discussion of other City taxes that could be affected by Proposition 218.

With respect to the City's general obligation bonds (City bonds secured by *ad valorem* property taxes), the State Constitution and the laws of the State impose a duty on the Board of Supervisors to levy a property tax sufficient to pay debt service coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the City's general obligation bonds or to otherwise interfere with performance of the duty of the City with respect to such taxes which are pledged as security for payment of those bonds.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement

purposes and community benefit purposes and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

### **Proposition 1A**

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues, subject to certain exceptions. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years. If the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

### **Proposition 22**

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increases a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment

agencies to shift funds to schools or other agencies (but see “San Francisco Redevelopment Agency Dissolution” above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

### **Proposition 26**

On November 2, 2010, the voters of the State approved Proposition 26 (“Proposition 26”), revising certain provisions of Articles XIII A and XIII C of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption was repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances and parking violations; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not “imposed by a local government” are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.



If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

### **Future Initiatives and Changes in Law**

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time-to-time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City. See “LEGAL MATTERS AND RISK MANAGEMENT – Initiative Measure Qualified for November 2024 Ballot – Taxpayer Protection and Government Accountability Act.”

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

### **LEGAL MATTERS AND RISK MANAGEMENT**

#### **Pending Litigation**

There are a number of lawsuits and claims routinely pending against the City. Included among these are a number of actions which if successful would be payable from the City’s General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

#### **Ongoing Investigations**

Public Works Investigation. In January 2020, the City’s former Director of Public Works, Mohammad Nuru, was criminally charged with public corruption, including honest services wire fraud and lying to Federal Bureau of Investigation (“FBI”) agents. In February 2020, then-City Attorney Dennis Herrera and Controller Ben Rosenfield announced the initiation of a joint investigation stemming from the federal criminal charges against Mr. Nuru. The City Attorney’s Office focused on holding public officials and City vendors accountable. The Controller undertook a public integrity review of contracts, purchase orders, and grants to the City.

Mr. Nuru resigned from employment with the City in January 2021. In January 2022, Mr. Nuru pled guilty to taking bribes from contractors, developers, and entities he regulated, including bribes from Walter

Wong, a San Francisco construction company executive and permit expediting consultant, who ran or controlled multiple entities doing business with the City. In August 2022, the district court judge sentenced Mr. Nuru to 84 months in prison.

Mr. Wong was criminally charged in June 2020 with conspiring with City officials and laundering money. As part of the criminal investigation into Mr. Nuru and Mr. Wong, the SFPUC received a federal, criminal, grand jury subpoena in June 2020 for the production of documents, communications, contracts and records, including the complete personnel file of the SFPUC's former General Manager, Harlan L. Kelly, Jr.

In November 2020, Mr. Kelly was charged in a criminal complaint with one count of honest services wire fraud. The complaint alleged that Mr. Kelly also engaged in a long-running bribery scheme and corrupt partnership with Mr. Wong. The complaint further alleged that as part of the scheme, Mr. Wong provided items of value to Mr. Kelly in exchange for official acts by Mr. Kelly that benefited or attempted to benefit Mr. Wong's business ventures. According to the criminal complaint against Mr. Kelly, Mr. Wong bribed Mr. Kelly with thousands of dollars in airfare, meals, jewelry, and travel expenses, as well as by making improvements to Mr. Kelly's home.

Mr. Wong pled guilty in July 2020 and continues to cooperate with the ongoing federal criminal investigation. Mr. Wong has not been sentenced. Mr. Wong settled civilly with the City in May 2021. As part of his civil settlement, he and his companies agreed to pay the City more than \$300,000 in ethics fines and more than \$1 million in restitution. The total restitution amount to the City includes \$73,000 that he received through the SFPUC when Mr. Kelly was General Manager.

Mr. Kelly resigned from employment with the City, effective November 30, 2020. Michael Carlin, former-Deputy General Manager of the SFPUC, then served as the Acting General Manager of the SFPUC through October 31, 2021. Mr. Herrera began serving as General Manager of the SFPUC on November 1, 2021.

Since Mr. Nuru's arrest in January 2020, the Controller's Office, in consultation with the City Attorney, has issued 11 public integrity reviews, all of which can be found on the Controller's website. Ten of the 11 reports focus primarily on City departments other than the SFPUC. The Controller's Office's December 9, 2021, Public Integrity Audit looked specifically at SFPUC's Social Impact Partnership Program and made seven recommendations to strengthen internal controls and oversight. The SFPUC concurred with all seven of those recommendations, and as of December 2022, five of the seven recommendations had been implemented and two were in progress.

In October 2021, a criminal grand jury returned an indictment against Mr. Kelly and Victor Makras, a San Francisco real estate broker and property developer. Mr. Makras formerly served on a number of City boards and commissions, including the Port Commission, Police Commission, Public Utilities Commission, and Retirement Board. In addition to the original charges against Mr. Kelly of conspiracy with Mr. Wong, the indictment added charges of bank fraud and bank fraud conspiracy related to a \$1.3 million loan Mr. Kelly obtained from Quicken Loans.

Mr. Makras' case was severed from Mr. Kelly's, and in August 2022, a jury convicted Mr. Makras of bank fraud for his role in making false statements to the bank in support of the loan to Mr. Kelly. In December 2022, Mr. Makras was sentenced to three years of probation and fined \$15,200. Mr. Kelly's trial is set to begin on June 26, 2023. The FBI investigation is ongoing, and the City can give no assurance when the FBI will complete its investigation.

Community Challenge Grant Program Investigation. On August 29, 2023, the San Francisco District Attorney charged Lanita Henriquez, who served as the director of the San Francisco Community Challenge Grant Program under the Office of the San Francisco City Administrator, and Rudolph Dwayne Jones, a former City official who occasionally served as a prime contractor and a subcontractor to the SFPUC, with counts of misappropriation of public monies, bribery, and financial conflict of interest in a government contract. It is alleged that Ms. Henriquez and Mr. Jones misappropriated public money between 2016 and 2020, that Mr. Jones wrote Ms. Henriquez multiple checks in 2017 and 2018 totaling \$25,000, while Ms. Henriquez directed government grant contracts exceeding \$1.4 million to entities controlled by Mr. Jones, in which entities Ms. Henriquez also had a financial stake, between 2016 and 2020.

The San Francisco District Attorney has not alleged any impropriety in connection with the sole grant program Ms. Henriquez administered for the SFPUC and the SFPUC has confirmed that there are no active direct contracts between the SFPUC and Mr. Jones or his affiliated entities. The SFPUC has, however, identified four subcontracts between Mr. Jones or his affiliated entities and other SFPUC prime contractors that were effective on the date that Mr. Jones was charged, and directed each of the four prime contractors retaining Mr. Jones and/or any entities affiliated with Mr. Jones, to terminate or cancel any subcontract, service order, or other contractual arrangement such parties.

The FBI investigation is ongoing, and the City can give no assurance when the FBI will complete its investigation. The San Francisco District Attorney's Office Public Integrity Task Force has also independently investigated certain of the matters described here, and the City can give no assurance when this task force will complete its investigation.

Recology Settlement. On March 4, 2021, the City Attorney announced an approximately \$100 million settlement with Recology San Francisco ("Recology"), the contractor handling the City's waste and recycling collection. The settlement arose from overcharges that were uncovered as part of the continuing public integrity investigation tied to Mr. Nuru and others. As part of the Settlement, Recology was required to lower commercial and residential rates starting April 1, 2021 and make a \$7 million settlement payment to the City under the California Unfair Competition Law and the San Francisco Campaign and Governmental Conduct Code. In addition, Recology will be enjoined for four years from making any gift to any City employee or any contribution to a nonprofit at the behest of a City employee. The comprehensive settlement agreement with Recology was approved by the Board of Supervisors. The bribery and corruption public integrity investigation related to the Nuru matter is ongoing.

On May 16, 2022 the Controller's Office released a public integrity assessment report on the review of rate-setting and rate reporting processes, and profits earned by Recology that were over and above allowed profit margins. The report found that Recology netted profits of \$23.4 million over and above the allowed profit margin set in the 2017 Rate Application. Even after taking into account the 2021, \$101 million settlement in restitution, penalties, and interest to ratepayers affected by the erroneous calculation of revenues in the rate application, Recology consistently exceeded their allowable operating profits.

On June 7, 2022, the voters of San Francisco passed Proposition F, a ballot measure that allows the City to oversee Recology more closely, including certain changes to the composition of the Refuse Rate Board. The changes are intended to provide more oversight with respect to monitoring rates to residential and commercial customers.

In addition to the ongoing joint investigation by the City Attorney's Office and the Controller's Office into City contracting policies and procedures, the City's Board of Supervisors has conducted a series of public hearings before its Government Audit and Oversight Committee to examine issues raised by the federal complaints. That committee also considered the Controller's periodic reports. The City can give no assurance regarding when the City's investigation will be completed or what the outcome will be. The criminal investigation by the Federal Bureau of Investigation and the United States Attorney's office is ongoing.

### **Risk Retention Program**

Citywide risk management is coordinated by the Risk Management Division of the City Administrator's Office. With certain exceptions, it is the general policy of the City to first evaluate self-insurance and not purchase commercial liability insurance for the risks of losses to which it is exposed. The City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's decision to obtain commercial insurance depends on various factors. For property insurance, these factors include whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory limits. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (i.e. the Airport, MTA, the PUC, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement. In recent years, the City has purchased Cyber Liability insurance for departments and certain enterprise fund departments providing critical City services and/or managing high volumes of confidential/personal data.

Through coordination between the City Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through appropriations in the City's budget and also reflected in the ACFR. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City is self-insured for the financial risk and liability to provide workers' compensation benefits to its employees. The administration of workers' compensation claims and disbursement of all benefit payments is managed by the Workers' Compensation Division of the City's Department of Human Resources and its contracted third-party claims administrator. Estimates of future workers' compensation costs are based on the following criteria: (i) the frequency and severity of historical claim filings; (ii) average claim losses by expense category; (iii) gross payroll and workforce composition; (iv) benefit cost inflation, including increases to the statewide average weekly wage, and medical cost growth; and (v)

regulatory developments that impact benefit cost and delivery. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual claim benefit expenditures and an allocated share of overhead expenses for self-insurance administration. The City continues to develop and implement programs to lower or mitigate workers' compensation costs.

### **Initiative Measure Qualified for November 2024 Ballot – Taxpayer Protection and Government Accountability Act**

On February 1, 2023, the California Secretary of State announced that a ballot initiative known as the "Taxpayer Protection and Government Accountability Act" ("Initiative 1935"), received the required number of signatures to appear on the November 5, 2024 ballot. If approved by a majority of voters casting a ballot at the November 5, 2024 Statewide election, Initiative 1935 would make numerous significant changes to Articles XIII, XIII A, XIII C and XIII D of the California Constitution to further limit the authority of local governments, and electors via the initiative process, to adopt and impose taxes and fees. The full text of Initiative 1935 may be viewed at the website of the California Attorney General.

Among other things, Initiative 1935 would amend the definition "tax" in Article XIII C to include "every levy, charge, or exaction of any kind imposed by a local law that is not an exempt charge." Initiative 1935 defines "exempt charge" to mean a "reasonable charge for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the actual costs as opposed to the reasonable costs of providing the service or product to the payor." "Exempt charges" also encompass existing exceptions from the definition of "tax" added to Article XIII C by Proposition 26, including property-related fees imposed in accordance with Article XIII D (see "—Articles XIII C and XIII D of the California Constitution – Proposition 218," above). "Actual costs" is defined as "the minimum amount necessary to reimburse the government for the cost of providing the service or product less all other sources of revenue including, but not limited to taxes, other exempt charges, grants, and state or federal funds received to provide such service or product." Initiative 1935 further provides that the local government adopting an exempt charge would bear the burden of proving by clear and convincing evidence (as opposed to a preponderance of the evidence) that: (a) a levy, charge or exaction is an exempt charge and not a tax; and (b) the amount of the exempt charge is reasonable and that the amount charged does not exceed the actual cost of providing the service or product to the payor. Initiative 1935 would also amend Article XIII C to provide that no local law, whether proposed by the governing body or by an elector, may impose any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote. The full definitions of the terms referenced above, along with the full text of Initiative 1935, may be viewed at the website of the California Attorney General.

Initiative 1935 is retroactive, and provides that any tax or exempt charge adopted after January 1, 2022 but prior to the effective date of Initiative 1935, which was not adopted in compliance with the requirements thereof, would be void 12 months after the effective date of Initiative 1935, unless the tax or exempt charge is reenacted in compliance with the provisions of Initiative 1935. The City cannot predict whether Initiative 1935 will be approved at the November 5, 2024 Statewide election. If Initiative 1935 is approved, the City cannot provide any assurances that it will not have a material adverse effect on the City's ability to adopt or increase rates, fees, and charges for the various services provided by the City.