City & County of San Francisco

FY 2025-26 and FY 2026-27 Revenue Letter

Controller's Discussion of the Mayor's Proposed Budget

Prepared by

OFFICE OF THE CONTROLLER

BUDGET AND ANALYSIS DIVISION

June 10, 2025

About the Controller's Office

The Controller is the chief financial officer and auditor for the City and County of San Francisco. We produce regular reports on the City's financial condition, economic condition, and the performance of City government. We are also responsible for key aspects of the City's financial operations — from processing payroll for City employees to processing and monitoring the City's budget.

Our team includes financial, tech, accounting, analytical and other professionals who work hard to secure the City's financial integrity and promote efficient, effective, and accountable government. We strive to be a model for good government and to make the City a better place to live and work.

About Budget & Analysis Division

The Budget and Analysis Division (BAD) manages the technical development of the City's annual budget, including forecasting tax revenues, costing and budgeting labor and benefit costs, and assisting the Mayor and Board of Supervisors with costing and budgeting of policy initiatives. The group manages the City's adherence to voter-approved spending requirements and financial policies and produces a variety of reports, including quarterly budget status updates and various fee-related reports. Additionally, the division manages property tax apportionment, rate setting, and reporting to the state, places special assessments on property tax bills, and processes the Assessor's changes to prior and current year property tax rolls.

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Executive Summary

The Charter and other local laws require the Controller to comment on the reasonableness of the revenues assumed in the Mayor's proposed budget, as well as whether various other financial requirements are met. **We find revenue assumptions to be reasonable**, but caution they are highly dependent on conditions in the greater economy as well as administrative and legislative changes at the state and federal levels. The proposed budget makes meaningful progress toward closing the structural deficit and grows reserves. However, there are continuing challenges ahead. The budget will require frequent monitoring and is subject to updates as conditions change.

Key economic and financial highlights in the Mayor's proposed budget:

- **Tax revenue. Overall General Fund tax revenue grows by $138.8 million (or 3.1%) in FY 2025-26 compared to the FY 2024-25 Nine Month Report and $291.3 million (or 6.4%) in FY 2026-27.** Business tax grows significantly in this period, reflecting overall strength in the technology and professional services sectors, as well as administrative changes related to November 2024 Proposition M. The tax forecast assumes the pace of the City's commercial real estate "reset" accelerates, resulting in transfer tax growth that triggers a deposit to the Budget Stabilization Reserve and related declines in property tax given market values below assessed values for most sales. The pace and volume of assessment appeals decisions and refunds will also continue to grow, putting downward pressure on revenues. Other economically sensitive taxes, such as sales and hotel taxes, are projected to grow during the coming two years but remain below pre-pandemic levels.

- **Public health revenue. The budget significantly increases public health-related revenues, growing by $259.1 million in FY 2025-26 and $313.9 million in FY 2026-27.** Strength in public health revenue is primarily driven by changes in state funding formulas, increases in service volume and census, and various revenue improvement initiatives. Shifts in state funding allocations include two supplemental Medi-Cal payment programs – the Enhanced Payment Program (EPP) and Quality Incentive Pool Program (QIPP) – as well as rate changes for Distinct Part/Nursing Facility for skilled nursing facilities. DPH revenue includes increases in patient census at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital, as well as increases in billable encounters in Whole Person Integrated Care and Primary Care. Finally, the expansion of electronic health records to Behavioral Health Services is anticipated to improve revenue capture.

- **Ongoing solutions. The proposed budget makes meaningful progress toward closing the structural deficit, with approximately $250 to $300 million in ongoing savings; however, hard choices remain.** The March 2025 Five Year Plan Update forecasted a structural gap of $959 million in FY 2027-28. Our preliminary review of the mix of ongoing and one-time solutions indicates the shortfall is likely to be approximately $650 to $700 million in FY 2027-28, growing in subsequent years. Roughly half of the ongoing solutions are comprised of increased tax and public health revenue while the remaining are driven by reductions to grants to community-based organizations (CBOs), reductions in citywide personnel costs, and other initiatives.

  The Mayor's proposed budget reduces 1,237 and an additional 25 authorized full-time equivalent (FTE) positions in FY 2025-26 and FY 2026-27, respectively, in all funds, including 394 and an additional 11

FTE in FY 2025-26 and FY 2026-27, respectively, in the General Fund. The budget reduces funded FTE by 470 and additional four in FY 2025-26 and 2026-27, respectively, including 237 in FY 2025-26 and additional 14 in FY 2026-27 in the General Fund. These reductions reverse more than a decade-long trend of increasing budgeted and funded positions. Despite position cuts, however, overall salary and fringe benefits costs are growing due to negotiated wage increases and health and retirement benefit obligations. Labor agreements include raises of 4.5% for miscellaneous employees in FY 2025-26 and 4.5% in FY 2026-27 and 3% for public safety in FY 2025-26. Health rates are increasing by 7.7% in FY 2025-26 and 7.8% in FY 2026-27 and employer contributions to retirement are growing from 14.9% in the current year to 16.5% in FY 2025-26 and 16.4% in FY 2026-27.

Continued improvement in the structural deficit will require further citywide expenditure reductions in future years.

- **One-time solutions. The proposed budget assumes the use of $571.5 million of General Fund one-time sources over the two budget years, $126.7 million more than assumed in the March 2025 Update to the Five-Year Financial Plan. We find the use of one-time funds to increase reserve balances to be prudent and commensurate with known financial risks.** These sources include the draw down of $377.5 million in prior year fund balance, $105.3 million of reserves, and $88.7 million of Federal Emergency Management Agency (FEMA) reimbursements. Consistent with the March 2025 Update to the Five-Year Financial Plan, the budget maintains $139.9 million of fund balance designated for FY 2027-28 and other future year budgets. This budget complies with the City's nonrecurring revenue policy in Administrative Code Section 10.61, which requires that one-time sources be spent on one-time uses.

- **Reserve deposits. The proposed budget creates a Federal and State Revenue Risk reserve of approximately $400 million, increases economic stabilization reserves to $419.7 million, and makes required deposits to the General Reserve. We find the use of one-time funds to increase reserve balances to be prudent and commensurate with known financial risks.** In addition to using $105.3 million of reserve to balance (including $62.8 million included in the previous year's adopted FY 2024-25 and FY 2025-26 budget and an additional $42.5 assumed in the current proposed budget),, the proposed budget makes deposits to several reserves. The new Federal and State Revenue Risk Reserve consolidates remaining balances of the Federal and State Emergency Grant Disallowance Reserve and Fiscal Cliff Reserve with anticipated future revenue escheated from City Option Medical Reimbursement Accounts for a total expected balance of $408.4 million. Given revenue uncertainty and the one-time nature of escheatment revenue, it is prudent to reserve these funds for a known risk rather than appropriate them for on-going costs. The level of reserve is commensurate to risk; the projected balance of the Federal and State Revenue Risk Reserve represents approximately 10% of the City's annual operating federal and state pass-through revenues and could be used to temporarily backstop cuts in both state and federal budgets.

  Additionally, the proposed budget makes a required $30.0 million deposit to the Budget Stabilization Reserve in FY 2026-27, triggered by the expectation that transfer tax will exceed the prior five-year average. The City is not eligible to withdraw from Economic Stabilization Reserves. The proposed budget also makes required General Reserve deposits of $27.6 million and $22.9 million in FY 2025-26 and FY 2026-27. These deposits to the Budget Stabilization Reserve and General Reserve are required by Financial Policies previously adopted by the Mayor and Board of Supervisors.

- **The final adopted budget will require active monitoring and management by departments, the Mayor, and the Board of Supervisors given economic and financial risks.** These risks include the possibility of a slowing local economic recovery or a recession, as well as risks associated with both state and federal revenue streams. Additionally, close management and monitoring of personnel spending will be required for departments to stay within budgets as the budget deletes many vacant positions while maintaining or increasing expected attrition savings.

Other key requirements and legislative proposals:

- **Except for the Transitional Aged Youth (TAY) Baseline in FY 2026-27, the Mayor's proposed budget adheres to voter-adopted spending mandates, provided modifications are adopted by the Board of Supervisors.** With the adoption of budget trailing legislation to temporarily amend the Early Care and Education baseline and Our City, Our Home spending categories, nearly all voter-adopted spending requirements would be met, or exceeded at a direct General Fund cost of at least $1.2 billion in each of the two fiscal years. The Transitional Aged Youth (TAY) baseline is underfunded by $150,000 in FY 2026-27; however, this may be rectified through collaboration between the Mayor's Office and Board of Supervisors while the proposed budget sits with the Board. All other programs are funded at or very slightly above required levels.

  The baselines include mandated spending on transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. The budget also funds the new Affordable Housing Opportunity Fund adopted in November 2024 (Proposition G). The March 2025 Update to the Five-Year Financial Plan forecasted a FY 2025-26 deficit of $272.3 million, resulting in the suspension of growth in the Student Success Fund, Early Care and Education, Street Tree Maintenance Fund, and Dignity Fund baselines in FY 2025-26.

- **Minimum Compensation Rate**. The Minimum Compensation Ordinance (MCO), Article 111 of the Labor and Employment Code, sets a minimum compensation rate for employees at public entities and nonprofit organizations that have contracts with the City. The Code specifies that for nonprofit organizations, if the increases are fully funded in the budget, the rate would be $21.55 on July 1, 2025 and $23.00 on January 1, 2026. For public entities, the rate would be $22.00 on January 1, 2025, $22.50 on July 1, 2025, and $23.00 January 1, 2026. The Mayor's budget appropriates $7.6 million and $9.9 million in FY 2025-26 and FY 2026-27, respectively, to support the MCO, which is sufficient to fund the direct wage impacts of the minimum compensation increases. These compensation increases, therefore, will be effective July 1, 2025.

Key financial risks:

- While we find the revenue assumptions in the Mayor's proposed budget to be reasonable, we believe the City faces several key financial risks in coming fiscal years. These risks include (1) the projected structural budget gap following depletion of one-time funds, (2) federal budget risk and potential disallowance of claims for reimbursement of emergency response costs, (3) economic risk, and (4) state budget revenue risk.

- **Structural gap.** The proposed budget continues to use one-time sources to balance the budget while operating costs are growing, resulting in a continued structural shortfall, although the reliance on one-time sources to balance the budget is less than prior years. To close the gap, policymakers will need to consider options for constraining cost growth. Strategies employed in prior periods with significant budget shortfalls include reductions in the number of full time equivalent positions, reductions in contract and grant spending, depletion of reserves, negotiation of furlough days and wage freezes, further deferral of capital, IT, and equipment investments, and service reductions in all major service areas.

- **Federal revenue risk.** The proposed budget assumes Federal Emergency Management Agency (FEMA) reimbursements of $80.0 million for COVID-19 and $7.0 million for 2023 winter storm emergency response costs in FY 2025-26, which is $7.0 million, or 8.8 percent, more than what was budgeted in FY 2024-25. In FY 2026-27, 2023 winter storm cost reimbursements are budgeted at $1.7 million. In late May, San Francisco received emails from FEMA indicating disallowance of 97% of the $415.0 million in COVID-19 non-congregate shelter (i.e., Shelter-in-Place hotel) costs submitted for reimbursement, for which the City has already received $148.0 million. The City plans to appeal such determinations, however, the timing and outcome are currently unknown.

  The budget does not assume changes related to the fiscal year 2025 federal budget, which could be significant. Among other things, the House of Representative's budget reconciliation bill that advanced to the Senate on May 22, 2025 seeks to cut hundreds of billions in Medicaid spending. Under the bill, states would lose Medicaid funding for adults who do not meet work requirements; the federal matching rate for Medicaid expansion would be reduced from 90% to 80% for states that use their own funds to provide coverage to certain immigrants; enrollment periods would be shortened and eligibility determinations more frequent; and states would be prevented from financing a portion of Medicaid spending through taxes collected from health care providers. The Congressional Budget Office estimates these changes would increase the number of uninsured people by 10.9 million in 2034, and that, while federal costs would decrease, state costs to implement and administer the new requirements would increase substantially. Reduced funding for Affordable Care Act (ACA) expansion and changes to ACA Health Insurance Marketplaces would add to the uninsured population.

  This bill represents the biggest set of cuts to Medicaid since inception and could result in thousands of San Francisco residents disenrolling from the Medi-Cal program and reduced funding for the Department of Public Health.

- **Economic risk.** The budget assumes very modest national and economic growth that will drive tax revenue increases of $117.0 million in FY 2025-26 and $291.3 million in FY 2026-27 and are subject to significant uncertainty. Locally, although unemployment rates are stable and office attendance is up, job losses in hospitality and tech heavy industries have continued in 2025, and job postings continue to decline. Nationally, the inflationary effects of shifts in immigration and trade policy are likely to create upward pressure on interest rates, curtailing business investment, job growth, and consumer spending, and resulting in GDP growth estimates barely above zero and heightened levels of economic and policy uncertainty. The most recent survey of Federal Reserve banks indicates declining economic activity in half of the twelve districts, including the district that includes California. Key factors to monitor include interest rates, office attendance, trends in convention and international travelers, and federal fiscal and economic policy changes. Modest changes in these key factors could drive significant variances in actual revenue performance.

- **State revenue risk.** The Governor's budget proposes changes to Medi-Cal that would increase the amount of uncompensated care provided by the Department of Public Health to undocumented individuals, including a freeze on new enrollment and elimination of long-term care benefits effective January 1, 2026 and new $100 monthly premiums effective January 1, 2027. While the effect of the proposals on Medi-Cal enrollment is not yet known, and the legislature may amend them before its June 15 budget deadline, the potential revenue loss is estimated in the tens of millions annually and is not assumed in the Mayor's proposed budget. The Governor's proposal to not fund a seventh round of Homeless Housing, Assistance, and Prevention (HHAP) grant funding is reflected in the Mayor's proposed budget, which assumes $39.9 million of HHAP 6 funding in FY 2025-26 and none in FY 2026-27.

  Given the possibility of changes in federal funding that affect the state government, it is possible the state legislature may take mid-year action on its budget.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines, Set-Asides, Special Taxes and Other Requirements

Appendix 1. General Fund Sources

The Mayor's proposed budget for FY 2025-26 includes $7.0 billion in General Fund sources and $15.9 billion in All Funds sources, representing an increase from the FY 2024-25 original budget of 2.4 percent in the General Fund and 0.2 percent in All Funds. The Mayor's proposed budget for FY 2026-27 includes $7.4 billion in General Fund sources and $16.3 billion in All Funds sources, representing an increase from the FY 2025-26 proposed budget of 5.0 percent in the General Fund and 2.1 in All Funds.

Exhibit 1. Overview of Budget Sources ($ million)

General Fund

	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed
Fund Balance	$ 226.7	$ 157.2	$ 220.3
Use of Reserves	75.2	34.4	70.9
Regular Revenues	6,350.6	6,574.0	6,808.3
Transfers In to the General Fund	206.5	259.3	279.8
Total GF Sources	**$ 6,858.9**	**$ 7,024.9**	**$ 7,379.3**
Change from Prior Year		***$ 165.9***	***$ 354.4***
Percentage Change		***2.4%***	***5.0%***

All Funds

	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed
Fund Balance	$ 1,098.9	$ 472.8	$ 444.1
Use of Reserves	85.3	45.6	70.9
Regular Revenues	14,733.7	15,429.1	15,760.8
Total All-Funds Sources	**$ 15,917.9**	**$ 15,947.5**	**$ 16,275.8**
Change from Prior Year		***$ 29.6***	***$ 328.3***
Percentage Change		***0.2%***	***2.1%***

Note: Totals may appear to differ from sum of line items due to rounding

Exhibit 1-1 provides a summary of the General Fund sources in the Mayor's proposed budget.

Exhibit 1-1. General Fund Sources ($ millions)

Sources of Funds	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed	Notes
FUND BALANCE & RESERVES				
Prior Year Fund Balance	$ 226.7	$ 157.2	$ 220.3	1
Use of Reserves	75.2	34.4	70.9	2
Subtotal	**301.9**	**191.6**	**291.2**	
REGULAR REVENUES				
Property Taxes	**2,469.6**	**2,437.0**	**2,422.2**	3
Traditional Property Tax	2,158.0	2,164.0	2,152.0	
Excess ERAF	311.6	273.0	270.2	
Business Taxes	1,023.0	1,139.6	1,371.5	4
Sales Tax (Bradley Burns 1%)	193.7	189.6	195.3	5
Hotel Room Tax	285.2	265.2	277.4	6
Utility Users Tax	110.7	116.4	117.5	7
Parking Tax	86.9	88.8	90.6	8
Real Property Transfer Tax	218.9	267.6	316.3	9
Stadium Admissions Tax	7.4	8.6	8.6	10
Cannabis Tax	-	-	3.7	11
Sugar Sweetened Beverage Tax	12.7	11.6	11.6	12
Access Line Tax	53.7	54.5	55.4	13
Licenses, Permits & Franchises	31.8	23.1	23.1	14
Fines and Forfeitures	3.9	6.0	3.6	15
Interest & Investment Income	146.7	151.9	132.7	16
Rents & Concessions	14.1	17.7	24.4	17
Intergovernmental - Federal	**436.1**	**459.7**	**386.2**	18
Federal Emergency Management Agency	1.5	87.0	1.7	
Other	434.6	372.7	384.5	
Intergovernmental - State	**881.3**	**910.3**	**936.3**	
Public Safety Sales Tax	99.6	97.2	100.5	19
Health & Welfare Realignment (1991)	283.6	272.8	279.3	20
Public Safety Realignment (2011)	55.4	53.5	54.9	21
Other	442.7	486.8	501.7	22
Intergovernmental Revenues - Other	4.0	3.4	4.9	
Charges for Services	323.8	382.9	386.8	23
Recovery of General Government Costs	27.7	22.3	22.3	
Other Revenues	19.4	17.9	17.9	24
Subtotal Regular Revenues	***$ 6,350.6***	***$ 6,574.0***	***$ 6,808.3***	
Transfers In to the General Fund	206.5	259.3	279.8	25
TOTAL SOURCES	**$ 6,858.9**	**$ 7,024.9**	**$ 7,379.3**	

NOTES

1. Prior Year Fund Balance

As shown in Exhibit 1-2 below, a total of $517.4 million of fund balance is available for appropriation. In May 2025, the Controller's Nine Month Report projected fund balance of $483.4 million, $53.9 million more than reported in the March 2025 Five Year Plan Update.

Exhibit 1-2. General Fund Use of Prior Year Fund Balance ($ millions)

Projected Fund Balance, May 2025 Nine Month Report	**483.4**
(+) Additional Current Year De-Appropriations After Nine-Month Report ("Project Closeouts")	11.8
(+) Additional Operating Savings	22.2
Fund Balance Available for Appropriation	**517.4**
Fund Balance Appropriated in Budget	**377.5**
Fund Balance Designated for Future Budgets	**139.9**

After the issuance of the Nine Month Report, the Mayor's Office identified an additional $34.0 million of current year savings. These savings include $11.8 million of additional de-appropriations from continuing funds (detailed in Exhibit 1-3 below) and $22.2 million of operating savings. About half of the operating savings are due to underspending the Cost of Doing Business (CODB) budget and the other half from the impact of Ordinance 74-25, which among other things, increased the Sheriff's Department overtime budget, fully offsetting the negative variance previously reported in the Nine-Month Report.

In total, the proposed budget appropriates $377.5 million of the $517.4 million in available unassigned General Fund balance to support spending in the budget years. The remaining unappropriated fund balance of $139.9 million is designated for balancing future budgets, as specified in section 32.1 of the administrative provisions of the Annual Appropriations Ordinance.

A total of $31.7 million of General Fund de-appropriations ($19.9 million from the Six- and Nine-Month Reports and an additional $11.8 million identified through the Mayor's budget process) are assumed to support the FY 2025-26 and FY 2026-27 budget. Details of the de-appropriations are shown in Exhibit 1-3 below.

Exhibit 1-3. FY 2024-25 General Fund De-Appropriations

Dept	Authority Title	Project Title	Amount Assumed in Six & Nine Month Reports	Additional De-Appropriations	Total
ART	AR Bos Funding	AR Special Projects Funding	200,000	-	200,000
CHF	CH FY25-BOS Allocation	Bos Allocations	10,500,000	(2,000,000)	8,500,000
CPC	CP Development Agreements	CP Development Agreements	-	458,000	458,000
DEM	EM Public Safety Radio Syst &	EM Radio Replacement Project	-	1,059,974	1,059,974
DPH	HB Managed Care	HB Managed Care	-	494,833	494,833
DPH	HB Managed Care	HB Managed Care	-	113,273	113,273
DPH	HB Managed Care	HB Managed Care	-	3,503,473	3,503,473
DPH	HB Managed Care	HB Managed Care	-	1,605,433	1,605,433
DPH	HB Managed Care	HB Managed Care	-	1,942,645	1,942,645
DPW	WI Infrastructure Debt Service	Infrastructure Debt Service	-	1,500,000	1,500,000
DPW	PW Citywide Projects	PW AB Pit Stop 24 hr Locations	400,000	-	400,000
ECN	EW City Economic Development P	EW 24-25 Board Addbacks	2,465,500	-	2,465,500
HOM	Housing for Homeless	HO Transitional-Aged Youth Bas	1,000,000	-	1,000,000
HRC	HRC CBO Grant Pool	HRC Add-backs	945,000	(400,000)	545,000
HRC	HRC CBO Grant Pool	HRC Add-backs	170,000	-	170,000
HRC	HRC CBO Grant Pool	HRC Add-backs FY24	47,487	-	47,487
HRC	HRC CBO Grant Pool	HRC Add-backs FY24	1,145,000	-	1,145,000
HSS	Reinvestment Initiatives	Reinvestment Initiatives	-	1,000,000	1,000,000
MOHCD	GE Public Housing Rebuild Fund	Public Housing Rebuild Fund	-	2,500,000	2,500,000
MYR	Board Enhancements	Board Enhancements	3,000,000	-	3,000,000
MYR	MO MOHCD District Allocations	MO MOHCD District Allocations	25,000	-	25,000
		Total General Fund De-Appropriations	**19,897,987**	**11,777,631**	**31,675,618**

2. Use of Reserves

The Mayor's budget proposes uses of $105.3 million in prior year reserves. See Appendix 2 for more details.

Exhibit 1-4. General Fund Use of Prior Year Reserves ($ millions)

General Fund - Use of Prior Year Reserves	FY 2025-26 Proposed Budget	FY 2026-27 Proposed Budget
Fiscal Cliff Reserve	25.0	15.0
Budget Stabilization Reserve, One-Time	-	54.8
Free City College Reserve	8.4	-
Federal and State Emergency Revenue Reserve	1.1	1.1
Total Use of Prior Year Reserves	**34.4**	**70.9**

3. Property Tax

Taxable property valuations remain in flux for properties recently built or sold due to elevated vacancy rates and a significant increase in interest rates compared to the recent historic average. Office transactions are increasing and interest among institutional investors has begun to return, as reflected in the positive outlook for the City's transfer tax. However, the average reduction in sale values versus currently assessed values points to both property tax refunds for those properties with open appeals for prior years' assessments awaiting decisions from the Assessment Appeals Board (AAB) and also high levels of appeals for years going forward for those that do not transact. These sale values will also result in a downward reset in assessed values that will limit roll growth for the medium term. Interest rates and high costs continue to constrain construction of entitled development projects, which would otherwise contribute to growth in the tax base. The FY 2025-26 General Fund share of property tax revenue is budgeted at $2,437.0 million, which is $32.6 million (1.3 percent), less than the FY 2024-25 budget. The FY 2026-27 General Fund share of property tax revenue is budgeted at $2,422.2 million, which is $14.8 million (0.6 percent), less than the proposed FY 2025-26 budget.

The budget assumes secured roll growth of 3.0% in FY 2025-26 and 2.0% in FY 2026-27, including the 2.0% inflation allowed under the state constitution; unsecured values are projected to remain at current levels. Approximately $110.0 million is assumed diverted from the General Fund to tax increment financing districts in FY 2025-26, increasing to $122.9 million in FY 2026-27. Of these totals, approximately $18.3 million per year is diverted to tax increment financing districts such as the Treasure Island and Mission Rock projects, and the remainder to projects of the former redevelopment agency.

The budget assumes current year secured roll corrections of $2.5 billion in each of the two budget years, which translates to approximately $14.0 million in General Fund property tax revenues refunded annually. Additionally, the budget assumes refunds of $129.1 million in General Fund revenue from appeals of assessed values filed in FY 2025-26 and $188.5 million from appeals filed in FY 2026-27, which will be paid at such time as the Assessment Appeals Board determines reductions.

Supplemental assessments capture changes in value for the portion of the tax year remaining after an assessable event—a change in ownership or new construction—results in a change in the base year assessed value of a property. Supplemental property taxes are estimated at $20.0 million in FY 2025-26 and $31.0 million in FY 2026-27. The implementation of a new real property assessment software system in the first quarter of FY 2025-26 is anticipated to slow issuance of new supplemental assessments for several months as staff transition to the new system. Escape assessments capture a full year's increase in assessed value up to four years after the event trigger date and are estimated to generate $5.0 million in FY 2025-26 and $8.0 million in FY 2026-27.

Excess Educational Revenue Augmentation Fund (ERAF) revenue represents the amount of property tax revenues initially diverted from the City to help the state meet its funding obligations for K-14 education. The amount that exceeds these entities' revenue limits is returned to the City. Excess ERAF revenues are budgeted at $273.0 million in FY 2025-26 and $270.2 million in FY 2026-27, based on current state law.

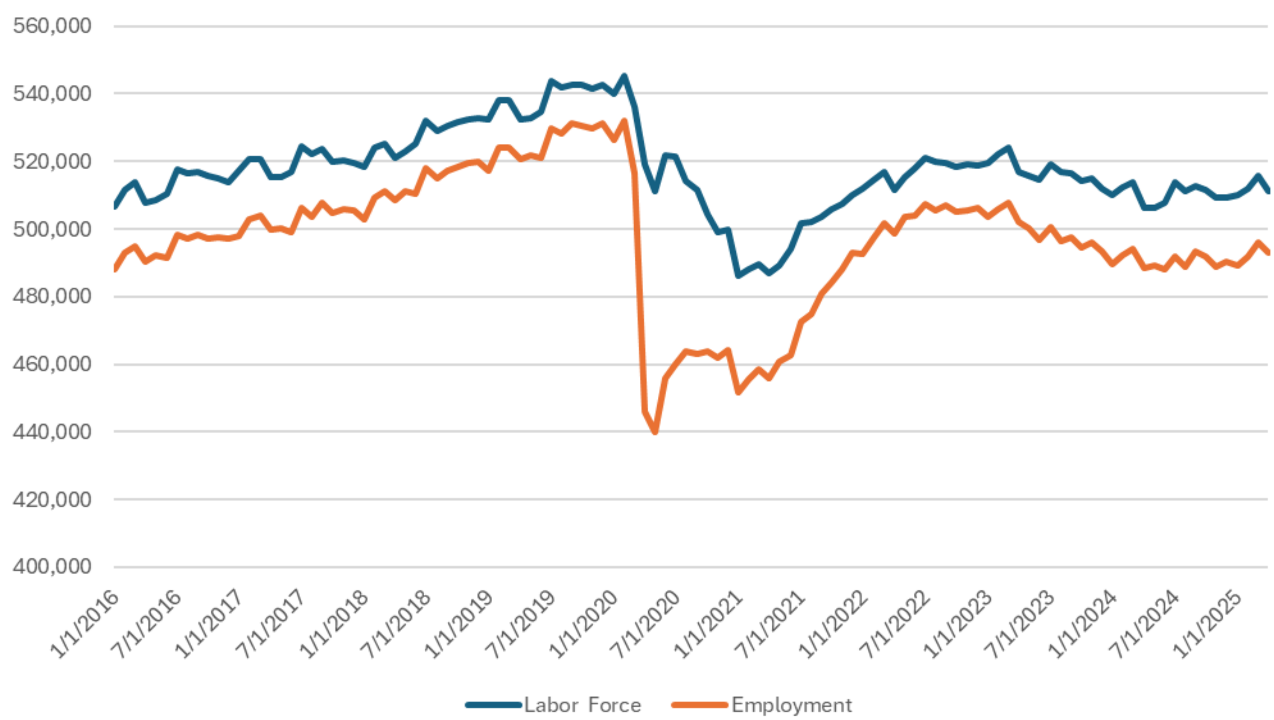
4. Business Tax

General Fund business tax revenue is comprised of business registration fees, administrative office tax, gross receipts tax, and overpaid executive tax. FY 2025-26 business tax revenue is budgeted at $1,139.6 million, which is $116.6 million (11.4 percent) more than the FY 2024-25 budget. FY 2026-27 business tax revenue is budgeted at $1,371.5 million, which is $231.9 million (20.3 percent) more than the FY 2025-26 proposed budget.

San Francisco's economy continues to slowly improve. Office vacancy rates have remained stable for the past few quarters, with a vacancy rate of 35.4% in the first quarter of 2025. The number of people coming into the City as workers and visitors continues to improve. From April 2024 to April 2025, average weekday MUNI train boardings increased 17% to reach a post-pandemic high of 105,600, or 64% of the ridership in April 2019. Exits at downtown BART stations increased 13% between April 2024 and April 2025, also reaching a post-pandemic high of 56,000 average weekday exits, or 39% of the ridership in April 2019. Although office attendance in the Bay Area, as measured by the security firm Kastle Systems, has remained stable in the past year at about 42% of pre-pandemic levels, downtown foot traffic, as measured by the analytics firm Placer.ai, has increased. Employee foot traffic was 58% of pre-pandemic levels in April 2025, up from 55% in April 2024, and visitor foot traffic is 75%, up from 69%.

In contrast to these metrics of activity, the number of workers in the City has declined since 2022. Exhibit 1-5 shows the monthly labor force, which is the number of people employed or seeking work, and employment from 2016 through April 2025 from the California Employment Development Department. The decline in labor force and employment in conjunction with the increases in the metrics of people coming into the City suggest that though there may be fewer workers, those workers are coming into the office more often.

Exhibit 1-5. San Francisco Labor Force and Employment, January 2016 through April 2025



The measured labor force is well below the long-term trajectory from pre-pandemic trends. If it had continued to grow at the same pre-pandemic rate, the labor force would now be approximately 590,000, versus its current level of 493,000. The unemployment rate has fallen for four consecutive months to 3.6% in April 2025.

In November 2020, voters restructured business taxes with Proposition M, which made five major changes: it decreased the Overpaid Executive Tax by 80%, approximately doubled the small business tax exemption, changed tax rates to shift the tax burden across a greater number of taxpayers, increased the importance of sales in the City over payroll in the City to calculate gross receipts, and initially lowered total business tax rates while the economy continues to recover before raising rates in 2027 and 2028. We projected that these changes would reduce business tax revenue by approximately $40 million annually from FY 2024-25 to FY 2026-27 and then increase taxes thereafter, with the initial revenue reduction offset by FY 2029-30.

Proposition M also changed when business tax filings are due. The initial deadline remains on February 28, and the full amounts owed are expected on that date. The filing extension deadline was moved from April 30 to November 30, which will delay when the City has taxpayers' full filing information into the following fiscal year, meaning that the first year of Proposition M is 2025 but we will not know its true impact until November 2026, which is in FY 2026-27.

The increases in budgeted business tax revenue are driven by significant growth in taxpayers' gross receipts. Tax filings show that for taxpayers that filed in both 2023 and 2024, payments increased approximately 14%. A small portion of the increase is due to a tax rate increase in 2024 as set by Proposition F (2020). The increase is predominately due to increases in worldwide gross receipts that are allocated to San Francisco rather than an increase in economic activity in the City itself. For taxpayers with at least $100 million in gross receipts, approximately 80% of the year-over-year increase was due to increases in worldwide sales, 15% to increases in San Francisco sales, and 5% to increases in the proportion of taxpayers' worldwide payroll located in the City.

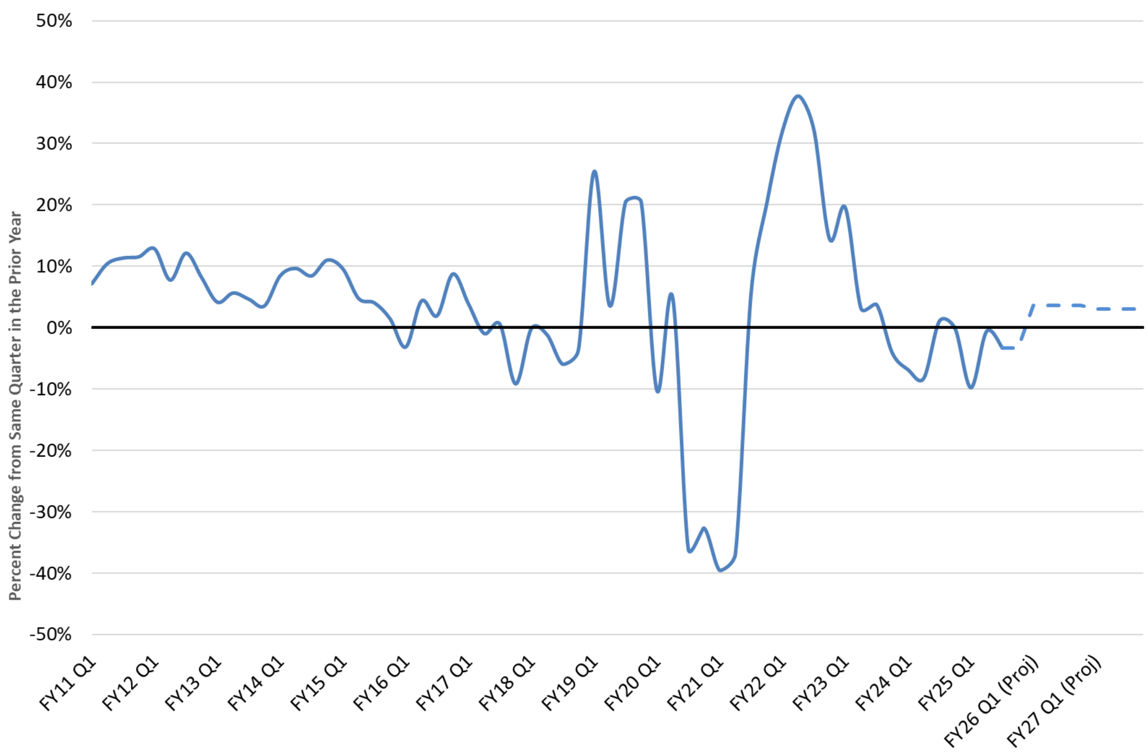
Business tax litigation is an important factor affecting revenue. Although some claims for refunds have settled, the City continues to receive new claims. The net FY 2024-25 increase in gross receipts tax litigation liability is expected to be at least $150 million, for a total expected balance of approximately $415 million. To manage litigation-related revenue volatility across fiscal years, in FY 2024-25, the City reduced the amount held in reserve to 75% of the total liability. This amount will be replenished in FY 2025-26, reducing forecasted revenue by approximately $105 million in that fiscal year. In anticipation of additional litigation, budgeted revenue is reduced by $12.5 million in FY 2025-26 by $12.5 million and $25 million in FY 2026-27.

5. Sales Tax

In FY 2025-26, local sales tax revenue is budgeted at $189.6 million, which is $4.1 million (2.1 percent), lower than what was budgeted in FY 2024-25. FY 2026-27 local sales tax revenue is budgeted at $195.3 million, which is $5.7 million (3.0 percent), higher than the proposed FY 2025-26 budget.

Sales tax experienced significant losses during the COVID-19 public health emergency closures. Although revenue rebounded through FY 2022-23, it did not reach pre-pandemic levels. Revenue then declined in FY 2023-24 and is projected to decline further in FY 2024-25. The budget assumes sales tax revenues will increase in both FY 2025-26 and FY 2026-27 but will not exceed pre-pandemic levels until FY 2029-30. Economic headwinds of the pandemic era continue to impact local sales tax recovery: current population is still below the pre-pandemic population; office vacancy rates remain very high and there are fewer employees going into the offices that are occupied; and tourism and business travel have not yet recovered. These factors are expected to improve over the coming years. Exhibit 1-6 below shows actual and projected rates of change in the budget.

Exhibit 1-6. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2010-11 to FY 2026-27



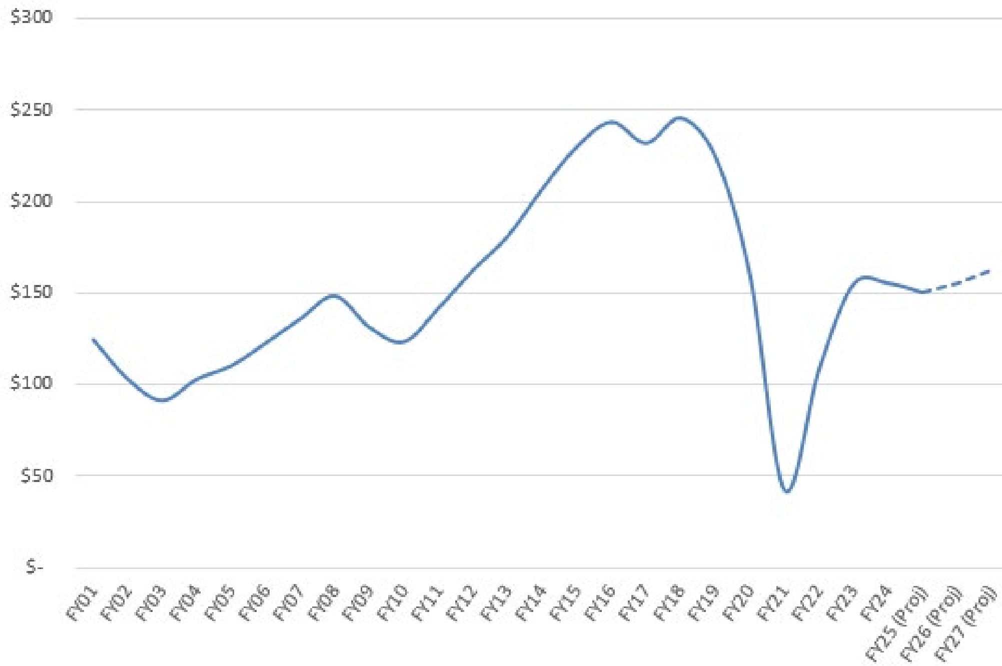
6. Hotel Tax

The FY 2025-26 General Fund share of hotel tax revenue is budgeted at $265.2 million, which is $20.0 million (7.0 percent), less than what was budgeted in FY 2024-25. FY 2026-27 revenue is budgeted at $277.4 million, an increase of $12.2 million (4.6 percent), from the proposed FY 2025-26 budget. Hotel tax revenues are projected to improve year over year but will not reach pre-pandemic levels until after FY 2029-30. November 2018 Proposition E allocated 1.5 percentage points of the 14 percent hotel tax rate (or approximately 10.7 percent of the total hotel tax revenue) to arts programs outside of the General Fund. Due to changes in hotel tax revenues described below, these allocations are budgeted at $33.0 million in FY 2025-26 and $34.5 million in FY 2026-27, meeting Proposition E requirements. See Appendix 4 for more detail.

Hotel tax is highly correlated with the hotel industry indicator revenue per available room (RevPAR), which is the combined effect of occupancy and average daily room rates. RevPAR in the first three quarters of FY 2024-25 averaged $146.27, a decline of 7.3 percent versus the same period in FY 2023-24, and 28.7% lower than 2019. Annual average RevPAR in the budget is expected to be $155.62 in FY 2025-26 and $162.77 in FY 2026-27.

Because conventions drive up hotel room rates through compression pricing, the return of conferences and conventions play a key role in the recovery of hotel tax revenues. For example, RevPAR during the NBA All-Star weekend in February 2025 was 176% higher than the same weekend in 2024. In the first three quarters of FY 2024-25, San Francisco hosted 25 conferences with about 240,000 attendees. An additional ten conferences are planned in the fourth quarter, for a total estimated attendance of almost 360,000 this fiscal year. This is compared to 54 events with over 723,000 attendees in FY 2018-19. The number of events and attendees for FY 2025-26 and FY 2026-27 is expected to grow.

Exhibit 1-7. Average Annual Revenue Per Available Room (RevPAR) FY 2000-01 to FY 2026-27



* Data from FY 2001-12 to FY 2017-18 from CBRE, FY 2018-19 to FY 2026-27 from SF Travel.

7. Utility Users Tax

Utility user tax revenue is budgeted at $116.4 million in FY 2025-26, which is $5.6 million (5.1 percent) higher than what was budgeted in FY 2024-25. The increase is due to higher overall utility tax collections in the current year. FY 2026-27 revenue is budgeted at $117.5 million, which is $1.2 million (1.0 percent) higher than the proposed FY 2025-26 budget.

8. Parking Tax

Parking tax revenue is budgeted at $88.8 million in FY 2025-26, which is $1.9 million (2.2 percent) more than what was budgeted in FY 2024-25. FY 2026-27 revenue is budgeted at $90.6 million, which is $1.8 million (2.0 percent) more than the proposed FY 2025-26 budget. Although remote work is expected to persist, commuters have shifted more of their trips from public transit to automobiles, which supports parking tax revenue. The budgeted amount for FY 2025-26 is approximately at pre-pandemic levels. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the Municipal Transportation Agency for public transit as mandated by Charter Section 8A.105.

9. Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is budgeted at $267.6 million in FY 2025-26, which is $48.7 million (22.3 percent) more than what was budgeted in FY 2024-25. In FY 2026-27, revenue is budgeted at $316.3 million, an increase of $48.7 million (18.2 percent) more than proposed FY 2025-26 budget. The effect of

November 2020 Proposition I is estimated to be $86.2 million and $101.9 million in FY 2025-26 and FY 2026-27, respectively, or approximately $69.0 million and $81.5 million after baselines.

Transfer tax revenue dropped to $186.2 million in FY 2022-23 and $177.7 million in FY 2023-24, levels not seen since the recessionary lows of FY 2003-04 and FY 2009-10, even without adjusting for rate increases. The budget assumes transfer taxes increase to a new long-term average by FY 2028-29. Considering the highly volatile nature of this revenue source, the Controller's Office monitors collections throughout the fiscal year and provides regular updates to the Mayor and Board of Supervisors.

Exhibit 1-8 shows unadjusted revenue collections beginning in FY 2000-01. As the City's most volatile revenue source, collections can see large year-over-year changes that have exceeded 60 percent. The volatility is seen with month-to-month revenue as well: in the past ten years, the lowest monthly revenue total was in January 2024 ($5.4 million) and the highest was in September 2021 ($95.7 million). 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 well with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016 and 2020.

Exhibit 1-8. Historical Real Property Transfer Tax Revenue ($ millions), FY 2000-01 through FY 2026-27

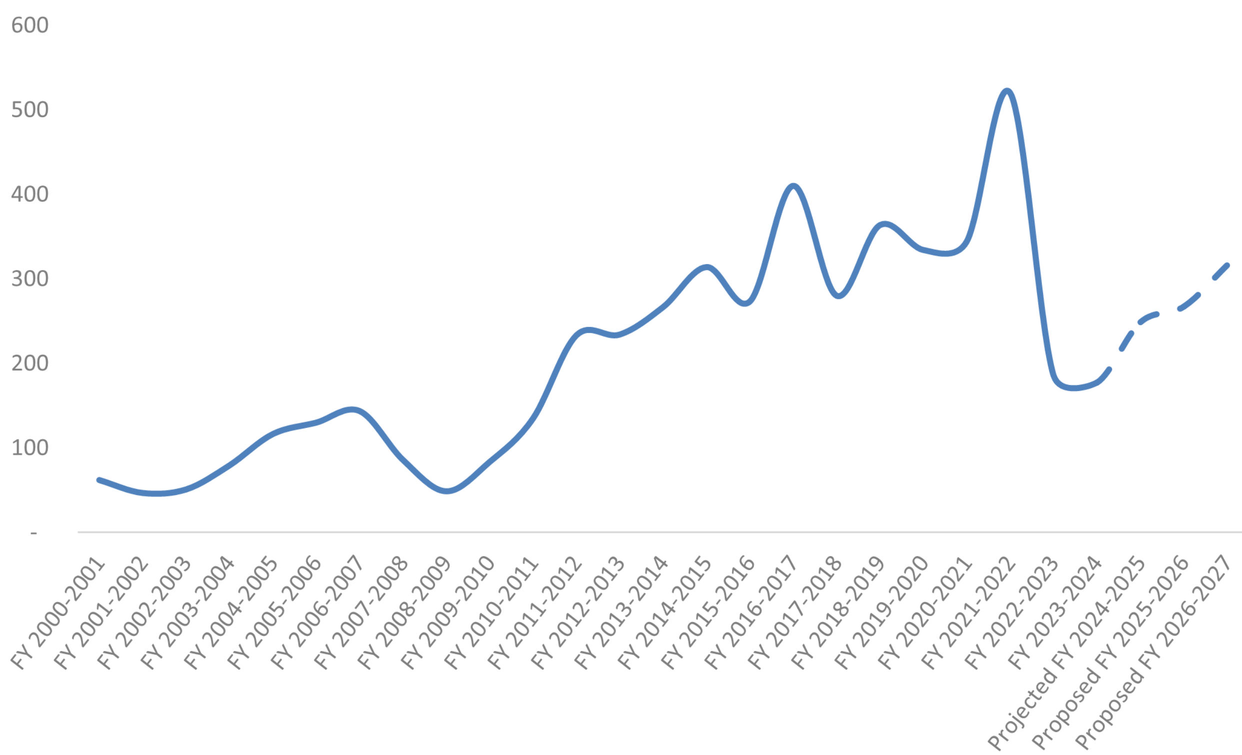
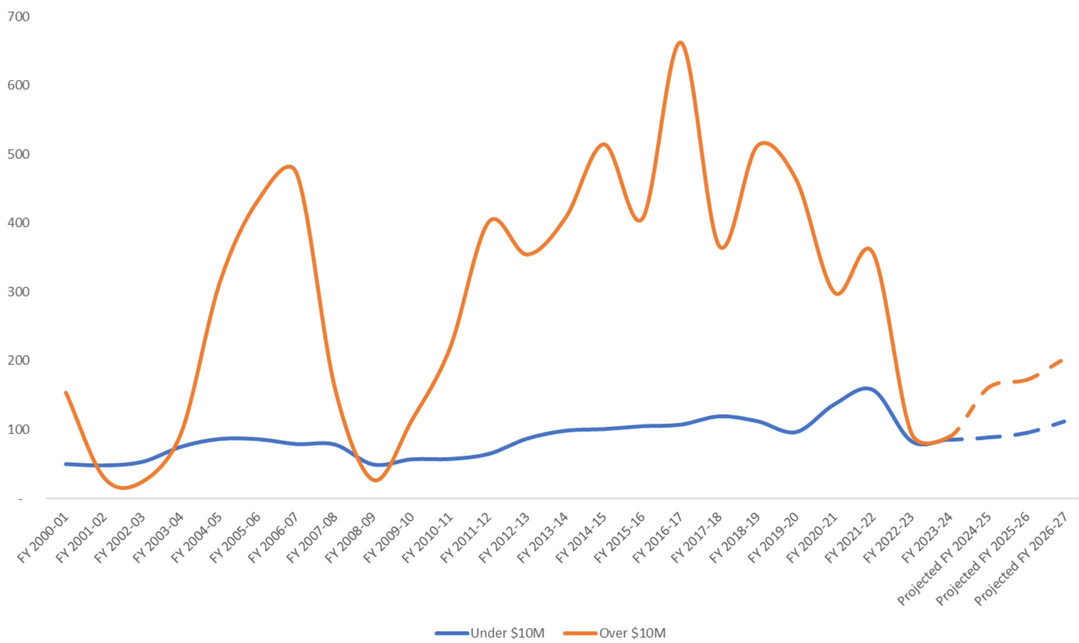


Exhibit 1-9 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Proposition I (November 2020), Proposition W (November 2016), Proposition N (November 2010), and Proposition N (November 2008), and demonstrates how RPTT is driven by the sale of high-value (largely commercial) properties over $10 million. The exhibit shows the drastic reduction in transfer tax in FY 2022-23 and FY 2023-24, driven by high interest rates and the lack of large transactions. In the current fiscal year, with somewhat lowered interest rates and commercial properties selling at significant discounts from prior prices, the number of high value transfers has increased, leading to improved RPTT revenue in the current year.

Exhibit 1-9. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-01 through FY 2026-27 Projected ($ millions)



Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. A $30.0 million deposit is expected in FY 2026-27 as RPTT revenue is projected to exceed the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve.

10. Stadium Admissions Tax

Stadium admissions tax revenue is budgeted at $8.6 million in FY 2025-26 and FY 2026-27, $1.2 million (16.2 percent) more than the FY 2024-25 budget. The increase is due to higher-than-expected attendance at stadium events in FY 2024-25. The budget assumes that attendance at events, and thus revenue, will remain at levels observed in FY 2024-25. Under Proposition M, businesses are given a credit toward their gross receipts taxes worth 50% of their stadium admissions tax.

11. Cannabis Tax

No cannabis tax revenue is budgeted in FY 2025-26 and $3.7 million is budgeted in FY 2026-27. In November 2018, voters approved a new gross receipts tax (Proposition D) of between 1 percent to 5 percent on cannabis businesses and allowed the City to tax businesses that do not have a physical presence in the city. The excise tax on cannabis was initially set to take effect on January 1, 2021. However, in November 2020, the Mayor and Board of Supervisors delayed the imposition of the tax to January 1, 2022. In December 2021, the Mayor and Board of Supervisors delayed the imposition of the tax for another year, to January 1, 2023. In December 2022, the Mayor and Board of Supervisors further delayed the imposition of the local cannabis excise tax by three more years, to January 1, 2026. The first collection of cash and recognition of revenue will occur in FY 2026-27.

12. Sugar Sweetened Beverage Tax

Sugar Sweetened Beverage Tax revenue is budgeted at $11.6 million in each fiscal year, FY 2025-26 and FY 2026-27, $1.1 million (8.4 percent) less than the FY 2024-25 budget. The City's one cent per ounce tax on sugar sweetened beverages became effective January 1, 2018. After reduced collections during the pandemic when restaurants had restricted operations, revenue increased through FY 2022-23, though not to pre-pandemic levels. The City expects the source to plateau in the current and future years.

13. Access Line Tax

FY 2025-26 access line tax revenue is budgeted at $54.5 million, or $0.8 million (1.4 percent) more than the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $55.4 million, or $0.9 million (1.7 percent) higher than the proposed FY 2025-26 budget. Budgets in both years incorporate inflationary increases of 2.4 percent to the access line tax rate as described in Business and Tax Regulations Code Section 784.

14. Licenses, Permits and Franchises

License, permit, and franchise fee revenue for FY 2025-26 is budgeted at $23.2 million, a decrease of $8.7 million (27.3 percent) from the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $23.1 million, or $0.1 million (0.3 percent) lower than the proposed FY 2025-26 budget. The decrease is largely attributable to Ordinance 279-24, which eliminated various fees, licenses and permits for small businesses in the event November 2024 Proposition M passed. The ordinance has an overall fiscal impact of $10.0 million.

15. Fines, Forfeitures, and Penalties

Fine, forfeiture, and penalty revenue for FY 2025-26 is budgeted at $6.0 million, an increase of $2.1 million (54.0 percent) from the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $3.6 million, or $2.4 million (40.2 percent) lower than the proposed FY 2025-26 budget. The change is related to anticipated one-time escheatment revenue of $2.4 million from unclaimed payments at Zuckerburg San Francisco General Hospital, San Francisco International Airport, Public Utilities Commissions, and other city departments.

16. Interest & Investment Income

Interest and investment income for FY 2025-26 is budgeted at $151.9 million, an increase of $5.2 million (3.5 percent) from the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $132.7 million, or $19.2 million (12.7 percent) lower than the proposed FY 2025-26 budget. Between September and December of 2025, the Federal Reserve lowered the federal funds interest rate to promote growth given slowed inflation. The interest rate has not changed since December 2025. The budget assumes earned income yields of 3.91 and 3.74 percent in the two budget years. The budget also assumes additional interest earnings of $3.3 million and $3.0 million in FY 2025-26 and FY 2026-27, respectively, from the allocation of projected negative interest earnings from the General Fund to other funds related to the General Fund's annual prepayment of citywide employee retirement contribution costs.

17. Rents and Concessions

FY 2025-26 rent and concession revenue is budgeted at $17.7 million, or $3.5 million (24.9 percent) more than the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $24.4 million, or $6.8 million (38.3 percent) higher than the proposed FY 2025-26 budget. Changes in rents and concessions are primarily driven by parking revenue in Golden Gate Park.

In 2024, management and operation of the Music Concourse Garage was transferred to City, bringing an additional $3.5 million of parking revenue in both budget years for annual Music Concourse Garage revenue of $3.6 million.

Beginning January 1, 2027, the Mayor's proposed budget assumes $6.4 million for paid street parking in Golden Gate Park. A proposed resolution would permit San Francisco Municipal Transportation Agency (SFMTA) and Recreation and Park Department to implement parking rates on all surface parking lots and streets in Golden Gate Park open to private vehicle traffic (excluding Highway 1). The Mayor's proposed budget assumes this resolution is adopted.

18. Intergovernmental – Federal

Federal support in the General Fund is budgeted at $459.7 million for FY 2025-26, which represents an increase of $23.6 million (5.4 percent) from the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $386.2 million, which is $73.5 million (16.0 percent) less than the proposed FY 2025-26 budget. These changes are largely driven by increases of $8.8 million for Welfare to Work reimbursements and $14.0 million for In-Home Support Services (IHSS) reimbursements. The budget assumes Federal Emergency Management Agency (FEMA) reimbursements of $80.0 million for COVID-19 and $7.0 million for 2023 winter storm emergency response costs in FY 2025-26, which is $7.0 million more than what was budgeted in FY 2024-25. In FY 2026-27, 2023 winter storm cost reimbursements are budgeted at $1.7 million, which is $85.3 million less than the proposed FY 2025-26 budget. In late May, San Francisco received emails from FEMA indicating disallowance of 97% of the $415 million in pandemic non-congregate shelter (i.e., Shelter in Place hotel) costs submitted for reimbursement. The City plans to appeal such determinations, however, the timing and outcome are unknown at this time.

19. Intergovernmental – State – Public Safety Sales Tax

Public safety sales tax revenue is budgeted at $97.2 million in FY 2025-26, a decrease of $2.3 million (2.3 percent) from the FY 2024-25 budget. FY 2026-27 revenue is budgeted at $100.5 million, which is $3.2 million (3.3 percent) greater than the proposed FY 2025-26 budget. Public safety sales tax revenue is based on two factors: statewide sales tax revenue and the County's portion of statewide sales tax in the most recent calendar year. The County allocation factor is anticipated to slightly decrease in FY 2025-26 and increase in FY 2026-27. Although San Francisco County sales tax revenues lagged statewide revenues post-pandemic, San Francisco's performance is expected to improve, as reflected in the changes in the County's allocation factor. After declines in the two previous fiscal years, statewide sales tax is also anticipated to grow modestly.

20. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2025-26, the General Fund share of 1991 realignment revenue is budgeted at $272.8 million, or $10.8 million (3.8 percent) less than the FY 2024-25 budget. The FY 2026-27 revenue is budgeted at $279.3 million, which is $6.5 million (2.4 percent) more than the proposed FY 2025-26 budget. The budget period changes follow anticipated changes in statewide sales tax.

21. Intergovernmental – State – Public Safety Realignment

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. This revenue is budgeted at $53.5 million in FY 2025-26, a $2.0 million (3.5 percent) decrease from the FY 2024-25 budget. The FY 2026-27 proposed budget is $54.9 million, a $1.5 million (2.7 percent) increase from the proposed FY 2025-26 budget. Similar to 1991 Health and Welfare Realignment, the budget period changes follow anticipated changes in statewide sales tax.

22. Intergovernmental – State – Other

Other state intergovernmental revenue is budgeted at $486.8 million in FY 2025-26, a $44.2 million (10.0 percent) increase from the FY 2024-25 budget. The FY 2026-27 proposed budget is $501.7 million, a $14.8 million (3.0 percent) increase from the proposed FY 2025-26 budget. Increases in other state intergovernmental revenue is driven by increases in State IHSS reimbursements at the Human Services Agency and increases to Medi-Cal revenue at the Department of Public Health.

23. Charges for Services

Revenue from charges for services is budgeted at $382.9 million in FY 2025-26, an increase of $59.1 million (18.3 percent) from the FY 2024-25 budget. In FY 2026-27, charges for services revenue is budgeted at $386.8 million, an increase of $4.0 million (1.0 percent) from the FY 2025-26 budget. The increase is primarily due to a change in revenue within the Department of Public Health (DPH). CalAIM payment reform and eligible service expansion is projected to increase billing and administrative claiming related to behavioral health and community support services. Additionally, starting in April 2025, the Jail Health program's health care and pharmacy services provided to Medi-Cal eligible individuals will be billable to Medi-Cal.

Finally, many fee budgets are authorized to be adjusted for inflation without further approval by the Board of Supervisors, or 2.76 percent in FY 2025-26 based on information published by the U.S. Bureau of Labor Statistics in January 2025. The Controller's Office forecasts a 2.82 percent increase in the Consumer Price Index (CPI) for FY 2026-27. There are also several new and modified fees that have been introduced this fiscal year, assumed in the budget or are part of budget trailing legislation, including:

- Standardization of fees in the City Administrator's Office,
- Adjustments of Department of Building Inspection fees to align with a recent fee study,
- Vehicle registration fees to fund the Police Fingerprint Identification Fund,
- Recreation and Park tennis and pickleball court fees, parking fees in Golden Gate Park, surcharges for stormwater impacts on outdoor facilities, and setting recreation program fees at, or close to, cost recovery
- Changes to various DPH fees including eliminating permit requirements for veterinary hospitals and laundry facilities and food facilities surcharges; creating new fees for waste facility licensing and food facility examinations; and increasing fees for agricultural products and non-compliance penalties
- Public Works street permit and subdivision fees increases above CPI and fee waivers for café tables and chairs

The proposed budget assumes these fees are adopted by the Mayor and Board of Supervisors.

24. Other Revenues

Other revenues are budgeted at $17.9 million in each of fiscal year FY 2025-26 and FY 2026-27, a decrease of $1.5 million (7.9 percent) from the FY 2024-25 budget. The decrease in FY 2025-26 is largely driven by a reduction in the Health Service System's non-operating revenue from FY 2024-25 levels.

25. Operating Transfers In

Transfers into the General Fund are budgeted at $259.3 million in FY 2025-26, which is $52.8 million, or 20.3 percent, more than what was budgeted in FY 2024-25. In FY 2026-27, transfers-in are budgeted at $279.8

million, which is $20.5 million, or 7.3 percent, more than the proposed FY 2025-26 budget. These transfers include a portion of Airport concessions revenue, 15 percent of commercial rent tax collections authorized by June 2018 Proposition C, and transfers from the General Hospital Fund to support increased General Fund-backed intergovernmental payments required to draw down increased state and federal funding.

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor's proposed budget includes the use of $34.4 million and $70.9 million from non-operating reserves in FY 2025-26 and FY 2026-27, respectively. The Mayor's proposed budget includes $27.6 million and $52.9 million in deposits to General and Budget Stabilization reserves in FY 2025-26 and FY 2026-27, respectively.

Exhibit 2-1. Proposed General Fund Reserve Uses and Deposits ($ millions)

	FY 2024-25	FY 2025-26			FY 2026-27			
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Note
General Reserve	**$ 136.8**	**$ 27.6**	**-**	**$ 164.3**	**$ 22.9**	**-**	**$ 187.2**	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	275.2	-	-	275.2	30.0	-	305.2	3
Economic Stabilization Reserves	**389.7**	**-**	**-**	**389.7**	**30.0**	**-**	**419.7**	
Percent of General Fund Revenues	***6.1%***			***5.9%***			***6.2%***	
Budget Stabilization One Time Reserve	54.8	-	-	54.8	-	(54.8)	-	3
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Federal and State Emergency Grant Disallowance Reserve	2.1	-	(1.1)	1.1	-	(1.1)	-	4
Fiscal Cliff Reserve	40.0	-	(25.0)	15.0	-	(15.0)	-	5
Federal and State Revenue Risk Reserve	183.4	225.0	-	408.4	-	-	408.4	6
Public Health Revenue Management Reserve	148.9	-	-	148.9	-	-	148.9	7
Free City College Reserve	0.1	8.6	(8.4)	0.3	-	-	0.3	8
Student Success Fund Reserve	1.5	-	-	1.5	-	-	1.5	9
Other Reserves	**431.9**	**233.6**	**(34.4)**	**631.1**	**-**	**(70.9)**	**560.2**	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	10
Technical Adjustment Reserve	-	2.5	(2.5)	-	2.5	(2.5)	-	11
Salary and Benefits Reserve	0.0	20.8	(20.8)	0.0	21.3	(21.3)	0.0	12
Annual Operating Reserves	**0.0**	**34.3**	**(34.3)**	**0.0**	**34.8**	**(34.8)**	**0.0**	
TOTAL, General Fund Reserves	**958.4**	**295.5**	**(68.7)**	**1,185.1**	**87.7**	**(105.8)**	**1,167.1**	

NOTES

1. General Reserve

The General Reserve, established in Administrative Code Section 10.60, is intended to address revenue and expenditure issues not anticipated during budget development and is typically used to fund supplemental appropriations or to offset significant revenue losses following the adoption of the budget.

The Administrative Code required the General Reserve to increase to 3.0 percent of General Fund revenue by FY 2020-21, with unused General Reserve carried forward from the prior year into the new budget year. However, in years when the City withdraws from the Rainy Day reserves, as it did in FY 2020-21 and FY 2021-22, the required balance of the General Reserve is reset to 1.5 percent of General Fund revenue, growing to 3.0 percent of General Fund revenues in 0.25 percent annual increments thereafter. In FY 2025-26, the General Reserve required funding level is 2.5 percent of General Fund revenue, growing to 2.75 percent in FY 2026-27. The deposit amounts are $27.6 million and $22.9 million for FY 2025-26 and FY 2026-27, respectively, given budgeted revenue levels and replenishment of current year withdrawals.

2. Rainy Day Reserves

The Rainy Day Reserve is established in Charter Section 9.113.5 and is funded by excess revenue growth during periods of economic expansion. During a recession, the maximum allowable withdrawal from the City's Rainy Day Economic Stabilization Reserve is 50 percent of the balance in each year. Rainy Day Reserve balances are comprised of three separate reserves: City Rainy Day Economic Stabilization Reserve, SFUSD Rainy Day Economic Stabilization Reserve, and the City's Rainy Day One-Time Reserve.

The City is ineligible to make withdrawals from the Rainy Day funds in either budget year, and no deposits are projected. As a result, the proposed budget maintains balances in the City Rainy Day Reserve of $114.5 million, $0 in the City Rainy Day One-Time Reserve, and $1.0 million in the SFUSD's Rainy Day Economic Stabilization Reserve.

3. Budget Stabilization Reserve

Established by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by 75 percent of three volatile sources: real property transfer tax revenue adjusted for rate increases, the portion of ending unassigned fund balance above what was assumed in the budget, and certain asset sales. The City is ineligible to make withdrawals in either budget year but will make a $30.0 million deposit of excess transfer tax revenue in FY 2026-27, bringing the Mayor's proposed budget up to a balance of $305.2 million in that fiscal year.

When the combined balance of the Budget Stabilization Reserve and Rainy Day Reserve exceeds 10 percent of General Fund revenues, the excess is deposited in the Budget Stabilization One-Time Reserve. While the $54.8 million balance of this reserve was budgeted in FY 2022-23, stronger than anticipated performance through year-end meant the reserve was ultimately not needed that year. The entire $54.8 million balance of this reserve was previously budgeted in the FY 2025-26 budget, and the Mayor's proposed budget pushes out the depletion of this reserve into FY 2026-27.

4. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the FY 2021-22 Annual Appropriation Ordinance established a Federal and State Emergency Grant Disallowance Reserve for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies.

The FY 2024-25 budget spent $38.2 million of this reserve, leaving a balance of $43.1 million. The Mayor's budget proposes spending $1.1 million of this reserve in each year of the budget to fund City Attorney costs associated with federal revenue risk. The remaining $40.1 million balance would be moved into a proposed Federal and State Revenue Risk Reserve authorized by Section 32.3 of the administrative provisions of the FY 2025-26 Annual Appropriations Ordinance, as described in note 6 below.

5. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the FY 2021-22 Annual Appropriation Ordinance established a Fiscal Cliff Reserve for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. The Mayor's FY 2024-25 and FY 2025-26 proposed budget amended this reserve to include managing business tax revenue shortfalls as an additional eligible use.

The Mayor's budget proposes spending $25.0 million of the reserve in FY 2025-26 and $15.0 million in FY 2026-27 and shifting the remaining $142.4 million balance of this reserve into a newly created Federal and State Revenue Risk Reserve through Section 32.3 of the administrative provisions of the Annual Appropriations Ordinance. See note 6 below for more information.

6. Federal and State Revenue Risk Reserve

Section 32.3 of the administrative provisions of the FY 2025-26 Annual Appropriation Ordinance establishes the Federal and State Revenue Risk Reserve for the purpose of managing revenue shortfalls related to changes in federal and state funding. This reserve is funded by combining the $40.1 million balance of the Federal and State Emergency Grant Disallowance Reserve, the $142.4 million balance of the Fiscal Cliff Reserve, and all revenue escheated to the General Fund from City Option Medical Reimbursement Accounts in FY 2025-26, which is estimated to be $225.0 million, for a starting balance of $408.4 million.

7. Public Health Revenue Management Reserve

The Public Health Management Reserve is authorized under Section 12.6 of the administrative provisions of the FY 2013-14 Annual Appropriation Ordinance, authorizing the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors after the passage of the Affordable Care Act to smooth volatile state and federal revenues.

In July 2022, the Department of Public Health established a methodology to set targeted reserve levels at 10% of budgeted net patient revenue in each two-year budget, as well as specific deposit and withdrawal rules. The FY 2024-25 ending balance of the reserve is projected to be the maximum allowable level of $148.9 million, as reported in the Nine-Month Report. Due to the increase in budgeted Medi-Cal and patient revenues in the Mayor's FY 2025-26 and FY 2026-27 proposed budget, the maximum reserve level is expected to grow. There are no anticipated deposits to or withdrawals from this reserve assumed in the budget.

8. Free City College Reserve

The Free City College Reserve was authorized by Administrative Code Section 10.100-288 in November 2016 to provide a degree of funding stability to the Free City College Program. The initial deposit of $1.0 million was made in FY 2017-18. By the end of FY 2018-19, the ending balance of this reserve was $2.0 million. In September 2019, Ordinance 175-19 revised the funding mechanism for this reserve. From FY 2019-20 to FY 2022-23, any unspent funds for the Free City College Program for that year shall be deposited in the reserve. From FY 2023-24 to FY 2028-29, 50 percent of unspent funds shall be deposited in the reserve. A deposit of $8.6 million in FY 2025-26 is anticipated for the completion of the 2022-23 and 2023-24 school year audits. This reserve will mostly be spent down in FY 2025-26 with projected uses of $8.4 million.

9. Student Success Fund Reserve

Charter Section 16.131 requires deposits to the Student Success Fund reserve for any monies appropriated but not committed. In FY 2023-24, a deposit of $1.5 million was made to this reserve. The Mayor's proposed budget makes no withdrawals or deposits to the Student Success Fund Reserve.

10. Litigation Reserve

The Mayor's proposed budget includes $11.0 million for the litigation reserve in each budget year. The reserve provides funding for judgments and claims paid out during the budget period based on historical experience and consistent with the level adopted in the Five-Year Financial Plan. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City.

11. Reserve for Technical Adjustments

Reserves of $2.5 million in each budget year allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

12. Salary & Benefits Reserve

The Mayor's proposed budget includes $20.8 million and $21.3 million in FY 2025-26 and FY 2026-27, respectively, to cover costs of adopted MOUs with labor organizations not directly tied to job class rates in departmental budgets, as well as other salaries and benefits-related costs not budgeted elsewhere.

Appendix 3. Nonrecurring Revenue Policy

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance is budgeted at $157.2 million for FY 2025-26 and $220.3 million for FY 2026-27 for a total of $377.5 million in the two budget years. This amount is $28.2 million below the prior five-year (FY 2019-20 through FY 2023-24) average of year-end fund balance of $405.7 million. Thus, the proposed use of fund balance is not considered a one-time source in this budget. As shown in Exhibit 3-1, the budget contains $105.3 million of budgeted nonrecurring sources and at least $131.7 million in nonrecurring, capital expenditures. Therefore, the Controller's Office certifies compliance with the policy.

Exhibit 3-1. General Fund Nonrecurring Sources & Uses ($ millions)

One-Time Sources	FY 2025-26 Proposed	FY 2026-27 Proposed	Total
Use of Prior Year Reserves			
Fiscal Cliff Reserve	25.0	15.0	40.0
Budget Stabilization Reserve, One-Time	-	54.8	54.8
Free City College Reserve	8.4	-	8.4
Federal and State Emergency Revenue Reserve	1.1	1.1	2.1
Total One-Time Sources	**$ 34.4**	**$ 70.9**	**$ 105.3**
One-Time Uses			
Capital	74.9	56.8	131.7
Total One-Time Uses	**$ 74.9**	**$ 56.8**	**$ 131.7**

Appendix 4. Baselines, Set-Asides, Special Taxes, and Other Mandates

Voter-approved levels of funding for baselines, set-asides, special taxes and other spending mandates are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines, Set-Asides, Special Taxes, and Other Mandated Funding Requirements ($ millions)

		FY2024-25 Original Budget	FY2025-26 Proposed Budget	FY2026-27 Proposed Budget	
	General Fund Aggregate Discretionary Revenue (ADR)	*4,532.2*	*4,660.0*	*4,935.2*	
1	**MUNICIPAL TRANSPORTATION AGENCY**				
	Municipal Railway Baseline - 7.0675% ADR - GF Transfer	320.3	329.4	348.8	a
	Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	113.6	116.8	123.7	a
	Population Adjustment - GF Transfer	74.5	90.5	92.4	a
	Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	69.5	71.0	72.5	a
	Traffic Congestion Mitigation Fund - Special Tax (50%)	8.4	9.9	9.9	c
	Subtotal Municipal Transportation Agency	**577.9**	**607.7**	**637.4**	
2	**LIBRARY PRESERVATION FUND**				
	Library Preservation Fund Baseline - 2.2858% ADR - GF Transfer	103.6	106.5	112.8	a
	Library Preservation Fund Property Tax - $0.025 per $100 NAV	79.3	79.3	78.4	c
	Subtotal Library	**182.9**	**185.9**	**191.2**	
3	**RECREATION & PARKS**				
	Open Space Property Tax - $0.025 per $100 NAV	79.3	79.3	78.4	c
	Recreation & Parks Baseline MOE Required GF Support	*85.2*	*88.2*	*93.2*	
	Recreation & Support GF Support Budgeted	87.2	91.0	96.1	a
	Subtotal Recreation and Park	**166.6**	**170.4**	**174.5**	
	CHILDREN'S SERVICES				
4	**Children & Youth Fund**				
	Property Tax - $0.4 per $100 NAV	126.9	126.9	125.4	c
	Children's Services Baseline Requirement - 4.8296% ADR	*218.9*	*225.1*	*238.4*	
	Children's Services Baseline Expenditures Budgeted	220.4	245.4	241.8	b
	Transitional Aged Youth Baseline Requirement - 0.5800% ADR	*26.3*	*27.0*	*28.6*	
	Transitional Aged Youth Baseline Expenditures Budgeted	37.9	28.1	28.5	b
5	**Babies & Families First Fund**				
	Commercial Rents Tax (85%)	159.2	156.7	157.1	c
	Early Care and Education Baseline Requirement	*76.6*	*76.9*	*82.4*	
	Early Care and Education Expenditures Budgeted	*77.3*	*78.0*	*83.0*	b

		FY2024-25 Original Budget	FY2025-26 Proposed Budget	FY2026-27 Proposed Budget	
	General Fund Aggregate Discretionary Revenue (ADR)	***4,532.2***	***4,660.0***	***4,935.2***	
6	**Public Education Enrichment Fund - 3.0567% ADR**				
	Public Education Enrichment Fund Total - GF Transfer	138.5	142.5	150.9	a
	1/3 Annual Contribution to Preschool for All	46.2	47.5	50.3	
	2/3 Annual Contribution to SFUSD	92.4	95.0	100.6	
	Public Education Services Baseline - 0.2898% ADR - GF (50%) and CYF (50%) Transfer	13.1	13.5	14.3	a
7	**Student Success Fund (SFUSD)** - GF Transfer	35.0	35.0	45.0	a
8	**Fair Wages for Educators Fund (SFUSD)** - Parcel Tax	53.0	54.0	54.0	c
	Subtotal Children and Youth Services	**861.3**	**880.2**	**899.9**	
	HOMELESSNESS & HOUSING				
9	**Our City, Our Home Fund**				
	Homelessness Gross Receipts Tax	*274.1*	*335.9*	*359.9*	c
	Our City, Our Home Baseline Requirement	*215.0*	*215.0*	*215.0*	
	Our City, Our Home Baseline Expenditures Budgeted	422.6	366.0	382.2	b
10	Housing Trust Fund - GF Transfer	47.3	48.8	51.9	a
11	Affordable Housing Opportunity Fund - GF Transfer	-	-	8.3	a
12	Housing Activation Fund - Empty Homes Tax	-	-	-	c
	Subtotal Homelessness and Housing	**743.9**	**750.7**	**802.3**	
	ARTS				
13	Hotel Tax for Arts Fund - Hotel Tax	35.8	33.0	34.5	c
14	Property Tax - Municipal Symphony - $0.00125 per $100 NAV	4.4	4.5	4.6	c
	Subtotal Arts	**40.2**	**37.5**	**39.1**	
	OTHER				
15	Small Business Assistance Fund - Commercial Vacancy Tax	1.0	2.0	2.0	c
16	Dignity Fund - GF Transfer	59.1	59.1	62.1	a
17	Street Tree Maintenance Fund - GF Transfer	23.0	23.0	24.4	a
18	City Services Auditor - 0.2% of Citywide Budget - Work Order	26.8	26.3	26.6	b
	Subtotal Other	**109.9**	**110.4**	**115.1**	
	Total Baselines, Set Asides and Special Taxes	**2,682.8**	**2,742.8**	**2,859.4**	
	[a] General Fund Supported Spending Mandate	1,084.8	1,127.2	1,203.1	
	[b] Expenditure Requirement	784.9	743.9	762.1	
	[c] Special Tax or Tax Dedication	821.4	881.6	904.0	

NOTES

1. Municipal Transportation Agency (MTA)

The Mayor's proposed budget includes funding for MTA baselines and special purpose taxes at the required levels of $607.7 million in FY 2025-26 and $637.4 million in FY 2026-27.

Municipal Railway Baseline. In 1999, voters adopted Proposition E, which created the Municipal Transportation Agency (MTA), combining the Municipal Railway (Muni) and the Department of Parking and Traffic. Charter section 8A.105 establishes a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. In FY 2000-01, a base amount of funding was established, known as the "Municipal Railway Baseline." Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). The City is also required to adjust the baseline for significant service increases. Beginning in FY 2021-22, the City adjusted the Municipal Railway Baseline due to the opening of the Central Subway, increasing the baseline from 6.6856% to 7.0675% of ADR.

Parking & Traffic Baseline. For FY 2002-03 and beyond, this Charter section also establishes a minimum level of funding equivalent to 2.5070% of ADR, for the Parking and Traffic Commission based upon FY 2001-02 appropriations, known as the "Parking & Traffic Baseline."

Population Adjustment to Baselines. November 2014 Proposition B requires that in addition to adjusting annually for the change in ADR, the Municipal Railway and Parking & Traffic baselines' amounts increase to account for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. The budgeted amount for FY 2024-25 of $74.5 million was based on a population growth estimate of 1.2%. However, when data for 2023 became available in the fall of 2024, the actual daytime population growth was 4.5%. The difference between the projected and actual population growth was primarily due to a higher number of commuters into the City than previously expected. The higher population growth rate raised the transfer in FY 2024-25 to $88.7 million, an increase of $14.2 million. Because the budgeted baseline builds from the prior year actual amount, budgeted amounts in FY 2025-26 and FY 2026-27 also increased with the upward revision of population growth.

Parking Tax In-Lieu. November 2007 Proposition A, amended Charter section 8A.105(f) to require 80 percent of parking tax revenue to be allocated to the MTA, an increase from the prior 40 percent established in 1999 Proposition E.

Traffic Congestion Mitigation Fund and Tax. In November 2019, voters adopted Proposition D, a traffic congestion mitigation tax on rides facilitated by commercial ride-share companies, autonomous vehicles, or private transit services to support spending on transit and infrastructure improvements. Proceeds are deposited in the Traffic Congestion Mitigation Fund and allocated primarily between MTA and the San Francisco County Transportation Authority (SFCTA). A lower tax rate for electric vehicles expired on January 1, 2025, leading to increases in the forecasts that stabilize in future fiscal years. The Traffic Congestion Mitigation Tax is expected to be $20.0 million in FY 2025-26 and FY 2026-27.

Exhibit 4-2. Traffic Congestion Mitigation Fund Sources and Uses ($ millions)

	FY 2024-25 Budget	FY 2025-26 Proposed	FY 2026-27 Proposed
Traffic Congestion Mitigation Tax	$ 17.0	$ 20.0	$ 20.0
USES			
County Transportation Agency	8.4	9.9	9.9
Municipal Transportation Agency	8.4	9.9	9.9
Interdepartmental Services	0.3	0.3	0.3
Total Uses	**17.0**	**20.0**	**20.0**

2. Library Preservation Fund

The Mayor's proposed budget includes funding for the Library Preservation Fund baseline and property tax set aside at the required levels of $185.9 million in FY 2025-26 and $191.2 million in FY 2026-27.

Library Baseline. Charter Section 16.109 establishes a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. In FY 2006-07, a base amount of funding was established, equivalent to 2.2858% of ADR. The City adjusts the funding amount for the Library Preservation Fund baseline annually by the percent increase or decrease in ADR. The Library Preservation Fund was renewed by voters in November 2022. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is lower than the threshold of $323.4 million for FY 2025-26, resulting in no pause to growth in baseline funding

Property Tax Set-Aside. Charter Section 16.109 dedicates property tax of $0.025 for each $100 valuation of taxable property to the Library Preservation Fund.

3. Recreation and Parks

The Mayor's proposed budget includes funding to the Recreation and Park Department for the Open Space Fund property tax set aside and the General Fund Baseline Maintenance of Effort at the level of $170.4 million in FY 2025-26 and $174.5 million in FY 2026-27.

Property Tax Set-Aside. Charter Section 16.107 dedicates property tax of $0.025 for each $100 valuation of taxable property to the Park, Recreation, and Open Space Fund.

General Fund Baseline Maintenance of Effort. June 2016 Proposition B amends Charter Section 16.107 to require baseline levels of General Fund support to the Recreation and Park Department, increasing by $3.0 million per year from FY 2015-16 through FY 2025-26 and adjusting by changes in ADR thereafter. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is lower than the threshold of $273.1 million for FY 2025-26, resulting in no pause to growth in baseline funding. The baseline requirement is $88.2 million and $93.2 million in FY 2025-26 and FY 2026-27, respectively. The Mayor's proposed budget includes General Fund appropriations of $91.0 million and $96.1 million, in FY 2025-26 and FY 2026-27, respectively, exceeding the minimum requirement by $2.9 million in each fiscal year.

CHILDREN'S SERVICES

4. Children and Youth Fund

Charter Section 16.108 governs the Children and Youth Fund and dedicates $0.0400 for each $100 valuation of taxable property to this fund. The Mayor's proposed budget includes funding at the required level of $126.9 million in FY 2025-26 and $125.4 million in FY 2026-27.

In addition to the Children and Youth Fund, Charter Section 16.108 also governs the Children and Transitional Aged Youth (TAY) baselines. These are minimum appropriation requirements that ensure the Children and Youth Fund (property tax set-aside) supplements – instead of supplants – previously existing funding for children and TAY.

Children's Baseline. November 2000 Proposition D set FY 2000-01 as the base year and budget as the minimum floor for appropriations on children's services. This base budget is adjusted annually by the percentage increase or decrease in ADR. November 2014 Proposition C amended the Charter to exclude medical health services as an eligible service and established the Disconnected Transitional-Aged Youth Baseline. The Controller recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate of 4.8296% of ADR. Since the most recent reauthorization of the Children's Baseline in 2014, San Francisco voters have approved multiple ballot measures affecting funding for children's services. In FY 2024-25, the Controller's Office convened City departments to begin a re-evaluation of the methodology for determining which expenditures should be counted toward the Children's Baseline. Following critical feedback on the proposed methodology from governmental and community stakeholders, the parties agreed that further discussion is required in the coming year. During FY 2025-26, the Controller's Office will continue this work by conducting multiple convenings with City departments and community stakeholders to discuss administration of the baseline, including how Charter-mandated expenditures and special tax revenues are treated in baseline calculations. The required Children's Baseline amounts for FY 2025-26 and FY 2026-27 are $225.1 million and $238.4 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of $245.4 million and $241.8 million, exceeding the minimum requirement.

Transitional Aged Youth Baseline. November 2014 Proposition C amended Charter Section 16.108 to increase the Children's Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. While the Charter combines the TAY and Children's baselines, the City tracks them separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 as 0.5800% of ADR. Like the Children's Baseline, it is adjusted annually by the percent increase or decrease in ADR. The required amounts for FY 2025-26 and FY 2026-27 are $27.0 million and $28.6 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of $28.1 million and $28.5 million, exceeding the minimum requirement in FY 2025-26 and not meeting the requirement in FY 2026-27 by $150,000.

5. Babies and Families First Fund

June 2018 Proposition C established the Babies and Families First Fund. The ordinance imposes a special purpose tax on businesses leasing commercial space in the City, the commercial rents tax. The tax rate is one percent on the amounts a business receives from the lease or sublease of warehouse space and 3.5 percent on amounts a business receives from the lease or sublease of other commercial spaces. Uses of these funds are restricted to early care and education for children under six years old.

Total commercial rents tax is budgeted at $184.4 million and $184.8 million in FY 2025-26 and FY 2026-27, respectively. Eighty-five percent of tax proceeds, or $156.7 million and $157.1 million in FY 2025-26 and FY 2026-27, respectively, are dedicated to the Babies and Families First Fund. Fifteen percent is transferred to the General Fund. The commercial rents tax is expected to be a relatively stable source because commercial rent agreements tend to be several years in duration. However, office vacancies in San Francisco are expected to remain high. As businesses relinquish their office space over time, rents are expected to fall, reducing the tax base.

Early Care and Education Baseline. In addition to a new funding source, June 2018 Proposition C established a requirement to maintain prior spending levels on early childhood care and education at FY 2017-18 budgeted levels, adjusted annually by the percent increase or decrease in ADR. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is higher than the threshold of $208.9 million for FY 2025-26, resulting in a third year's pause in early childhood and education baseline funding. Additionally, an ordinance submitted as part of trailing legislation to modify the baseline funding requirements for early care and education programs in FY 2025-26 and FY 2026-27 enables the City to temporarily use interest earned from the Babies and Families First Fund as credit toward the baseline amount. The credited amount is $16.9 million for both FY 2025-26 and FY 2026-27, resulting in an adjusted baseline requirement of $76.9 million in FY 2025-26 and $82.4 million in FY 2026-27. The proposed budget appropriates $78.0 million in FY 2025-26 and $83.0 million in FY 2026-27 of baseline-eligible spending, slightly exceeding the minimum requirement assuming passage of trailing legislation.

Exhibit 4-3. Adjustments to Early Care and Education Baseline Requirements ($ millions)

	FY2025-26 Proposed Budget	FY2026-27 Proposed Budget
Baseline Requirement	96.7	99.3
(-) Adjustment Due to Deficit Trigger	(2.9)	0.0
(-) Credit Against Requirement From Interest	(16.9)	(16.9)
Final Baseline Requirement Amount	**76.9**	**82.4**

6. Public Education Enrichment Fund

Charter Section 16.123-2 created the Public Education Enrichment Fund (PEEF), which requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes $142.5 million and $150.9 million for the PEEF Annual Contribution in FY 2025-26 and FY 2026-27, respectively. One-third of the contribution supports the Preschool for All program at the Department of Early Childhood and two-thirds of the contribution supports programming at the San Francisco Unified School District (SFUSD).

Public Education Services Baseline. In addition to an annual dedication of funding, Charter Section 16.123-2 establishes a baseline to ensure that prior funding for SFUSD is not displaced by new funding to SFUSD. In FY 2001-02, a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required $13.5 million in FY 2025-26 and $14.3 million in FY 2026-27 for this baseline.

7. Student Success Fund

November 2022 Proposition G added Charter Section 16.131, which established a Student Success Fund to provide grants to the San Francisco Unified School District (SFUSD) and schools in the District to implement programs that improve academic achievement and social/emotional wellness. The measure requires an annual appropriation in a designated amount to the Fund for 15 years. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is higher than the threshold of $208.2 million for FY 2025-26, resulting in a pause of growth in baseline funding. The required contribution amounts of $35.0 million in FY 2025-26 and $45.0 million in FY 2026-27 are appropriated in the proposed budget.

8. Fair Wages for Educators Fund

In November 2020, voters adopted a City parcel tax to support the San Francisco Unified School District (SFUSD). Although there are two other parcel taxes supporting SFUSD, they are levied under the District's taxing authority. This tax is reported in the Revenue Letter as it uses the City and County of San Francisco's taxing authority and requires appropriation by the Mayor and Board of Supervisors. The proposed budget appropriates $54.0 million each year.

HOMELESSNESS & HOUSING

9. Our City, Our Home Fund

In November 2018, voters adopted Proposition C, which created the Our City, Our Home Fund (OCOH). The ordinance imposes a special purpose tax of varying rates by industry, on businesses with gross receipts of more than $50 million. Uses of these funds are restricted by formula to four major categories: permanent housing, mental health, prevention, and shelter and hygiene. The allocation methodology among the permanent housing, prevention, and shelter categories was temporarily altered in the prior two budgets by ordinance. Additional budget trailing legislation further reallocates $90.0 million of funding from housing and prevention toward shelters and hygiene.

The City budgeted $335.9 million in FY 2025-26 for homelessness gross receipts tax revenue, which is $61.8 million (22.5 percent) more than the FY 2024-25 budget. The City budgeted $359.9 million in FY 2026-27 for homelessness gross receipts tax revenue, which is $24.0 million (7.1 percent) more than the proposed FY 2025-26 budget. The original homelessness gross receipts tax was highly progressive and only applied to gross receipts above $50 million. This structure resulted in a highly volatile tax that was dependent on a few large payers. In 2024, the top ten payers accounted for 48.2% of total revenue. Furthermore, unlike the General Fund, the OCOH Fund's primary revenue source is homelessness gross receipts tax, which makes this fund more susceptible to volatility. To address this, Proposition M (2024) reduced the exemption from $50 million to $25 million and restructured tax rates to lower the degree of concentration. Overall, Proposition M was expected to be revenue neutral for the homelessness gross receipts tax. The homelessness gross receipts tax forecast largely shares the same underlying economic assumptions as the General Fund business tax forecast discussed in Appendix 1.

Our City, Our Home Baseline. In addition to imposing the homelessness gross receipts tax, November 2018 Proposition C also established a requirement to maintain homelessness spending at FY 2017-18 budgeted levels to ensure that the new homelessness gross receipts tax does not displace previously existing support for homelessness. The base amount of funding is calculated to be $215.0 million, including expenditures in the General Fund, various special revenue funds, and other funds. The proposed budget appropriates $366.0 million in FY 2025-26 and $382.2 million in FY 2026-27 of baseline-eligible spending, exceeding the requirement.

10. Housing Trust Fund

Charter section 16.110 establishes the Housing Trust Fund, which requires an annual contribution from the General Fund to the Housing Trust Fund of $20.0 million beginning in FY 2013-14, increasing annually by $2.8 million through FY 2024-25, and changing with ADR in FY 2025-26 and thereafter. In FY 2021-22, the City transferred $60.0 million to the Housing Trust Fund, $17.6 million more than the required amount. FY 2021-22 Administrative provision Section 11.25 of the Annual Appropriations Ordinance directs the Controller to credit the $17.6 million as an advance against required appropriations of the Housing Trust Fund, with a required annual repayment to the General Fund of $3.52 million beginning in FY 2023-24 for five years. This has the effect of lowering the required funding amount by $3.52 million in each year, from FY 2023-24 through FY 2027-28. The Mayor's proposed budget meets required funding levels, net of the annual repayment, of $48.8 million and $51.9 million in FY 2025-26 and FY 2026-27, respectively.

11. Affordable Housing Opportunity Fund

In November 2024, voters adopted Proposition G, which created the Affordable Housing Opportunity Fund. The proposed budget makes the required deposit of $8.25 million in FY 2026-27. Thereafter, the City's annual deposits to the fund will increase by the annual percentage change in ADR or 3.0%, whichever is smaller. However, the City may temporarily suspend increases in any year in which a General Fund deficit of $250 million is forecasted.

12. Housing Activation Fund

In November 2022, voters adopted Proposition M, which imposed a tax on vacant homes. The tax was scheduled to take effect in tax year 2024, with revenues first impacting FY 2024-25. The City budgeted $20.0 million of tax revenue in FY 2024-25, balanced with $20.0 million of housing-related expenditures. However, a lawsuit filed in 2023 challenged the validity of the tax on the grounds that it violates state law and the federal and state constitutions. In late 2024, a trial court struck down the tax in its entirety and prohibited the City from collecting it. The City has appealed the trial court's ruling. Ordinance 41-25 was passed by the Board of Supervisors in March 2025 and signed by the Mayor in April 2025 to suspend the tax until the year after a final court ruling in the City's favor, should it occur. Consistent with the legal status and policy direction, no appropriations of this source are in the Mayor's proposed budget.

ARTS

13. Hotel Room Tax Fund

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

Exhibit 4-4. Hotel Tax Dedication to Arts ($ millions)

		FY 2025-26	FY2026-27
ADM	Grants For the Arts	16.8	17.6
ART	Arts Impact Endowment	2.6	2.7
	Cultural Centers	3.9	4.1
	Cultural Equity Endowment	6.6	6.9
MYR	Cultural Districts	3.1	3.2
	Total, Hotel Tax for Arts	**33.0**	**34.5**

As described in Appendix 1, FY 2024-25 hotel room tax performance is weak, leading to overall downward revisions versus previously budgeted or projected FY 2025-26 and FY 2026-27 levels. As business travel, tourism, and population growth improve, hotel room tax is expected to grow but not recover to pre-pandemic levels until after FY 2029-30.

14. Municipal Symphony Baseline

Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of $0.01 of each $100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. The required funding for the Municipal Symphony Baseline is $4.5 million in FY 2025-26 and $4.6 million in FY 2026-27.

OTHER

15. Small Business Assistance Fund

In March 2020, voters adopted a tax on keeping certain commercial spaces vacant for more than 182 days in a calendar year. Proceeds from the commercial vacancy tax are deposited in the Small Business Assistance Fund and allocated primarily to the Office of Economic and Workforce Development. The tax took effect in tax year 2022. Commercial vacancy tax is budgeted at $2.0 million in each of FY 2025-26 and FY 2026-27.

16. Dignity Fund

In November 2016, voters approved Proposition I, establishing the Dignity Fund to support programming for seniors and adults with disabilities. Charter section 16.128-3 establishes a baseline contribution from the General Fund to the Dignity Fund of $38.1 million beginning in FY 2016-17, increasing by $6.0 million in FY 2017-18 and by $3.0 million per year from FY 2018-19 through FY 2026-27. In FY 2027-28 and beyond, the baseline is adjusted by the percentage increase or decrease in ADR. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is higher than the threshold of $252.4 million for FY 2025-26, resulting in a pause in baseline funding increases. The Mayor’s proposed budget includes the required General Fund appropriations of $59.1 million and $62.1 million in FY 2025-26 and FY 2026-27, respectively.

17. Street Tree Maintenance Fund

In November 2016, voters approved Proposition E, establishing the Street Tree Maintenance Fund to maintain the City's street trees. Charter section 16.129 establishes a baseline contribution from the General Fund to the Street Tree Maintenance Fund of $19.0 million in FY 2017-18 and adjusted by the percentage increase or decrease in ADR every year thereafter. The City may suspend growth in baseline funding when it forecasts a budget deficit exceeding an annually calculated threshold. The March 2025 Update to the Five-Year Financial Plan forecasted a deficit of $272.3 million in FY 2025-26, which is higher than the threshold of $208.9 million for FY 2025-26, resulting in a third year's pause in street tree baseline funding increases. The Mayor's proposed budget includes the required General Fund appropriations of $23.0 million and $24.4 million in FY 2025-26 and FY 2026-27, respectively.

18. City Services Auditor Baseline

Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget to fund audits of City services. The Mayor's proposed budget includes the required $26.3 million in FY 2025-26 and $26.6 million in FY 2026-27 for the City Services Auditor baseline.