

FY 2024-25 and FY 2025-26 Revenue Letter

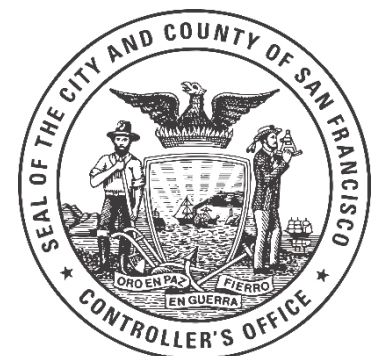
Controller's Discussion of the Mayor's Proposed Budget



Prepared by

**OFFICE OF THE CONTROLLER
BUDGET AND ANALYSIS DIVISION**

June 10, 2024



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 tax revenue assumptions to be reasonable, but caution they are highly dependent on conditions in the local economy, will require frequent monitoring, and are subject to updates as conditions change.

The budget relies heavily on one-time funds to support operations during the two-year budget period, and a large structural gap will persist following the exhaustion of those funds.

Overview of key economic and financial trends in the Mayor's proposed budget:

- **Tax revenue projections generally assume a continuing but slow economic recovery from the pandemic, with a significant drag created by the continuing effect of remote office work on economic activity in the City.** Most economically sensitive taxes, such as sales and hotel taxes, are projected to grow slowly during the coming two years, but in most cases remain below pre-pandemic levels. Remote work and high interest rates are projected to continue to have significant impacts on the City's property, business, and property transfer taxes. Tax increases adopted by the voters in recent years are projected to contribute to modest overall General Fund tax revenue growth of 2.2% in FY 2024-25 compared to the FY 2023-24 Nine Month Report and 3.5% in FY 2025-26 compared to FY 2024-25 projection.
- **The proposed budget assumes \$1 billion of General Fund-related one-time solutions over the two budget years.** These include drawdown of \$445.5 million in prior year fund balance, including \$106.1 million in prior year General Fund appropriations the Mayor's budget proposes to close. While deficit forecasts in the most recent update to the Five-Year Financial Plan assumed available fund balance to be used evenly across the first three years of the forecast, the proposed budget accelerates the use of fund balance, spending \$45.2 million previously held to address the FY 2026-27 shortfall. It also assumes \$235.7 million of FEMA reimbursement for previously incurred emergency response costs; \$138.3 million of reserve drawdowns; and at least \$82.5 million of other one-time revenue in General Fund-supported funds. Additionally, the budget proposes at least \$137.6 million of short-term cost shifts in other funds, with a significant portion designed to achieve General Fund savings.
- **The budget draws on available reserves but maintains the City's economic stabilization reserves.** The proposed budget uses \$138.3 million of reserves funded in prior years and maintains the current balance of \$389.7 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"), as the City is not expected to be eligible to withdraw from or deposit to these reserves. Required General Reserve funding levels are maintained in the proposed budget.

Excluding economic stabilization reserves, by the end of the two-year budget period, the City is expected to have \$304.6 million (or 38%) of its roughly \$800 million of pre-pandemic reserves available to support on-going operations.

- **The proposed budget makes minimal progress towards closing projected structural budget gaps in years beyond the coming two-year budget period.** As one-time solutions are depleted, the structural budget gap will become larger, making future budgets more difficult to close. The March 2024 Joint report forecasted a structural budget gap of \$927 million in FY 2026-27, growing in subsequent years, absent ongoing corrective action by policy makers. Given our preliminary review of the mix of ongoing and one-time solutions proposed in the Mayor’s budget, as well as known labor contract costs above the previously assumed levels in FY 2026-27, the shortfall likely remains more than \$800 million in FY 2026-27, growing in subsequent years.
- **The final adopted budget will require active monitoring and management by the Mayor and Board of Supervisors given a number of economic and financial risks.** These risks include the possibility of a slowing economic recovery or a recession, risks associated with both State and Federal revenue streams, and financial impacts of potential November 2024 ballot measures.

Other key requirements and legislative proposals:

- **The Mayor’s proposed budget adheres to voter-adopted spending mandates, provided modifications to two requirements 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, voter-adopted spending requirements would be met, or exceeded, at a total cost of \$2.1 billion and \$2.2 billion in the two fiscal years. The baselines include mandated spending for transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. Several programs are funded above the required levels, including the Children’s Services baseline, Transitional Aged Youth baseline, Recreation and Parks baseline, and Our City, Our Home baseline (November 2018 Prop C). The March 2024 Update to the Five-Year Financial Plan forecasted a FY 2024-25 deficit of \$235.9 million, resulting in the suspension of required growth to the Early Care and Education and Street Tree Maintenance Fund baselines in FY 2024-25.
- **The proposed budget does not assume voter approval of potential measures on the November 2024 ballot.** As of the publication of this report, various measures are in different stages of the certification process, and the ballot is not yet final. Proposals with major fiscal impacts appear to include retirement plan changes for public safety employees, baseline funding for seniors and family housing, a new business tax on transportation network companies and autonomous vehicle businesses, and a local small business tax cut ordinance. Depending on which are placed on the ballot and approved by voters, these measures could significantly increase future deficits.
- **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 Mayor introduced legislation with the prior year’s budget that would increase the minimum compensation rate in steps. For nonprofit organizations, the rate would be set at \$20.25 on July 1, 2024, \$21.55 on July 1, 2025, and \$23.00 on January 1, 2026. For public entities, the rate would be \$21.50 on July 1, 2024, \$22.00 on January 1, 2025, \$22.50 on July 1, 2025, and \$23.00 January 1, 2026. The Mayor’s budget appropriates \$9.9 million and \$16.2 million in FY 2024-25 and FY2025-26, 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, 2024.

Overview of 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) economic risk, (3) funding uncertainty at Laguna Honda Hospital, (4) State budget revenue risk, and (5) disallowance of claims for federal revenues assumed in the City's emergency response budgets.
 - **Structural gap.** As noted above, the proposed budget relies heavily on one-time sources to balance the budget at the same time that operating costs are growing, resulting in an estimated structural shortfall. To close the gap, policymakers will need to consider options for constraining cost growth. Strategies employed in prior periods with significant budget shortfalls include 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. In the coming months the Mayor and Board will also make decisions about submitting measures to the voters that could significantly increase the cost of government.
 - **Economic risk.** The budget assumes economic growth will drive tax revenue increases of \$95.9 million in FY 2024-25 and \$156.0 million in FY 2025-26. While these assumptions track to our economic and financial projections, they are subject to significant uncertainty. Key factors to monitor include whether conditions in the City will remain relatively favorable and continue to permit a growing amount of economic activity to resume; whether the impact of hybrid and remote work on office values will play out as expected in the coming two fiscal years; and whether the local hospitality and convention industry, as well as international travel, will recover at the pace underpinning these tax revenue projections. Modest changes in these key factors would drive significant variances in actual revenue performance.
 - **Laguna Honda Hospital.** The Centers for Medicare and Medicaid Services (CMS) has determined the City must reestablish its eligibility to participate in these federal programs for services provided at Laguna Honda Hospital (LHH). While LHH has received Medi-Cal certification, its Medicare certification is still pending. In addition, the State is expected to develop a new program for Medi-Cal supplemental payments, phasing it in with an interim payment program before final rates are established. The rates for the interim program are expected to be finalized in the fall of 2024 and will include retroactive payments for services going back to January 2023. Other than the retroactive payment, there are no other adjustments to the LHH revenue budget until further details on certification and the payment rates for the new supplemental payment program become available. The City maintains a Public Health Revenue Reserve that would be utilized to offset any revenue deficits at the department at year end. The projected FY 2023-24 ending balance of the reserve is \$130.3 million.
 - **State budget revenue risk.** The Governor's budget proposes to increase the amount of Educational Revenue Augmentation Fund (ERAF) funds sent to school districts to distribute to charter schools beginning in FY 2025-26. This would decrease the City's excess ERAF revenues by \$43.0 million annually from what is currently assumed in the second year of the budget. The

\$43.1 million balance remaining in the Federal and State Emergency Grant Disallowance Reserve after FY 2024-25 uses proposed by the Mayor would offset this risk for a single fiscal year. Additional State budget reductions including to those that would impact social services and workforce programs provided through the Human Services Agency, would require additional actions to balance the City's budget.

- **Federal revenue risk.** The City anticipates \$572.3 million of reimbursements from the Federal Emergency Management Agency (FEMA) for public health emergency response costs paid by the General Fund beginning in March 2020, as well as \$21.8 million of reimbursements for the 2023 winter storms. The proposed budget assumes reimbursements of \$80.0 million in FY 2024-25 and \$155.7 million in FY 2025-26. The City and other peer jurisdictions in the state are in discussions with the California Office of Emergency Services (CalOES) regarding the FEMA Region 9 Administrator's October 2023 guidance on eligible costs for non-congregate shelter (NCS) services, which San Francisco provided through the Shelter in Place (SIP) hotel program through May 11, 2023. This new guidance caps reimbursement for stays in SIP hotels to 20 days after June 11, 2021, and states that unoccupied rooms are generally ineligible for reimbursement. The City has reported to the California Office of Emergency Services (CalOES) that the new guidance could potentially place \$114.0 million of claimed FEMA reimbursement at risk and will continue working with CalOES and FEMA representatives on next steps.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines & Mandated Funding Requirements
5. Other Funds

Appendix 1. General Fund Sources

As shown in Exhibit 1, the Mayor’s proposed budget for FY 2024-25 includes \$6.9 billion in General Fund sources and \$15.9 billion in All Funds sources, representing an increase from the FY 2023-24 original budget of 0.4 percent in the General Fund and 8.6 percent in All Funds. The Mayor’s proposed budget for FY 2025-26 includes \$7.1 billion in General Fund sources, a 3.6 percent increase from the FY 2023-24 proposed budget, and \$15.5 billion in All Funds sources, a 2.4 percent decrease from the FY 2024-25 proposed budget.

Exhibit 1. Overview of Budget Sources (\$ million)

General Fund			
	FY 2023-24	FY 2024-25	FY 2025-26
	Budget	Proposed	Proposed
Fund Balance	\$ 122.7	\$ 225.9	\$ 219.6
Use of Reserves	101.5	75.2	62.8
Regular Revenues	6,396.4	6,350.0	6,617.6
Transfers In to the General Fund	211.3	206.9	203.9
Total GF Sources	\$ 6,832.0	\$ 6,857.9	\$ 7,103.9
Change from Prior Year		\$ 25.9	\$ 246.0
Percentage Change		0.4%	3.6%
All Funds			
	FY 2023-24	FY 2024-25	FY 2025-26
	Budget	Proposed	Proposed
Fund Balance	\$ 353.8	\$ 1,107.4	\$ 491.9
Use of Reserves	120.9	85.4	73.7
Regular Revenues	14,157.0	14,690.5	14,943.8
Total All-Funds Sources	\$ 14,631.7	\$ 15,883.3	\$ 15,509.4
Change from Prior Year		\$ 1,251.6	\$ (373.9)
Percentage Change		8.6%	-2.4%

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 2023-24 Budget	FY 2024-25 Proposed	FY 2025-26 Proposed	Notes
FUND BALANCE & RESERVES				
Prior Year Fund Balance	\$ 122.7	\$ 225.9	\$ 219.6	1
Use of Reserves	101.5	75.2	62.8	2
Subtotal	224.2	301.0	282.4	
REGULAR REVENUES				
Property Taxes	2,510.0	2,469.6	2,465.8	3
Traditional Property Tax	2,144.9	2,158.0	2,171.0	
Excess ERAF	365.1	311.6	294.8	
Business Taxes	851.1	883.0	954.0	4
Sales Tax (Bradley Burns 1%)	200.1	193.7	198.9	5
Hotel Room Tax	302.9	285.2	315.8	6
Utility Users Tax	111.4	110.7	111.8	7
Parking Tax	84.1	86.9	88.8	8
Real Property Transfer Tax	222.0	218.9	267.6	9
Stadium Admissions Tax	9.1	7.4	7.4	10
Cannabis Tax	-	-	-	11
Overpaid Executive Tax	100.0	140.0	140.0	12
Sugar Sweetened Beverage Tax	13.7	12.7	12.7	13
Access Line Tax	55.6	53.7	55.1	14
Licenses, Permits & Franchises	30.3	31.8	32.0	
Fines and Forfeitures	3.0	3.9	3.5	
Interest & Investment Income	121.1	146.7	146.7	15
Rents & Concessions	14.6	14.1	15.4	
Intergovernmental - Federal	509.1	436.6	518.5	16
Federal Emergency Management Agency	170.0	80.0	155.7	
Other	339.1	356.6	362.8	
Intergovernmental - State	964.1	881.3	898.3	
Public Safety Sales Tax	100.4	99.6	102.3	17
1991 Health & Welfare Realignment - Sales				
Tax and VLF	281.6	283.6	290.5	18
Public Safety Realignment	50.5	54.0	55.4	19
Other	531.6	444.1	450.1	
Intergovernmental Revenues - Other	3.9	4.0	3.5	
Charges for Services	246.7	324.1	326.5	20
Recovery of General Government Costs	26.2	27.7	27.7	
Other Revenues	17.5	18.0	27.8	21
Subtotal Regular Revenues	\$ 6,396.4	\$ 6,350.0	\$ 6,617.6	
Transfers In to the General Fund	211.3	206.9	203.9	22
TOTAL SOURCES	\$ 6,832.0	\$ 6,857.9	\$ 7,103.9	

NOTES

1. Prior Year Fund Balance

As shown in Exhibit 1-2 below, a total of \$600.3 million of fund balance is available for appropriation. In May 2024, the Controller’s Nine Month Report projected year-end surplus above what had been previously budgeted in FY 2024-25 of \$202.4 million, including \$48.4 of mid-year de-appropriations identified by the Mayor’s Office in Fall 2023. These de-appropriations are also identified as a source to support FY2023-24 initiatives at various departments in File 240500, which is currently pending at the Board of Supervisors. Should policymakers adopt File 240500, any new appropriations not executed by the end of the current fiscal year would close to fund balance.

After the May 2024 issuance of the Nine Month Report, the City identified an additional \$48.4 million of current year citywide operating expenditure savings largely from the Salaries and Benefits reserve and Cost of Doing Business (CODB) budget, as noted in the report. The Mayor’s budget also proposes to de-appropriate an additional \$57.7 million of General Fund budgets in FY 2023-24.

In total, the proposed budget appropriates \$445.4 million in unassigned General Fund balance to support spending in the budget years. The remaining unappropriated fund balance of \$154.8 million is designated for balancing future budgets, as specified in the Administrative Provision Section 32.1 of the Annual Appropriations Ordinance.

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

Fund Balance Previously Appropriated for FY 2024-25	291.7
(+) Projected Fund Balance, May 2024 Nine Month Report	202.4
(+) Additional Current Year De-Appropriations ("Project Closeouts")	57.7
(+) Additional Operating Savings	48.4
Fund Balance Available for Appropriation	600.3
Fund Balance Appropriated in Budget	445.4
Fund Balance Designated for Future Budgets	154.8

A total of \$106.1 million of General Fund-supported current year “project closeouts” and de-appropriations (\$48.4 million from mid-year cuts and an additional \$57.7 million identified through the Mayor’s budget process) are assumed in the FY 2024-25 and FY 2025-26 budget and are authorized by Administrative Provision 12.10 of the Annual Appropriations Ordinance. The details of the de-appropriations are shown in Exhibit 1-3 below.

Exhibit 1-3. Current Year General Fund Supported “Project Closeouts” or De-Appropriations

Dept	Authority Title	Project Title	Amount	Source
AAM	Operating	AA Public Art and Culture	212,865	Mayor's Mid-Year Reductions
ADM	AD Budget Addbacks	AD BOS Addbacks	200,000	Mayor's Mid-Year Reductions
ADM	AD Digital Services Program	ADDS Citywide Web Redesign	526,000	Mayor's Mid-Year Reductions
ADM	Community Ambassador Program	ADCE Community Ambassadors	83,000	Mayor's Mid-Year Reductions
ADM	Operating	AD3C311 Call Center	75,000	Mayor's Mid-Year Reductions
ADM	Operating	ADAD ADM Operations	721,000	Mayor's Mid-Year Reductions
ADM	Operating	ADCE Immigrant & Language Svcs	660,000	Mayor's Mid-Year Reductions
ADM	Operating	ADLS Labor Standards	400,000	Mayor's Mid-Year Reductions
ADP	Operating	AP Probation Community Svcs	711,000	Mayor's Mid-Year Reductions
ART	AR Bos Funding	AR Special Projects Funding	200,000	Mayor's Mid-Year Reductions
ART	Operating	AR Administration	233,796	Mayor's Mid-Year Reductions
CHF	CH Outreach and Access	CH Children and Families Servi	1,600,000	Mayor's Mid-Year Reductions
CON	Interdepartmental-Overhead	CO City Services Auditor	273,009	Mayor's Mid-Year Reductions
CON	Interdepartmental-Overhead	CON Citywide Systems	106,991	Mayor's Mid-Year Reductions
CSC	Operating	CI Civil Service Commission	42,903	Mayor's Mid-Year Reductions
DEM	Operating	EM DEM - HSOC	500,000	Mayor's Mid-Year Reductions
DEM	Operating	EM DEM ADMINISTRATION	140,095	Mayor's Mid-Year Reductions
DEM	Operating	EM DEM EMERGENCY COMMUNICATION	2,609,905	Mayor's Mid-Year Reductions
DPH	Operating	DPH Ambu Care - Forensics	352,190	Mayor's Mid-Year Reductions
DPH	Operating	DPH Health At Home	96,837	Mayor's Mid-Year Reductions
DPH	Operating	HA DPH Admin HR	119,502	Mayor's Mid-Year Reductions
DPH	Operating	HB MH Adult Care	1,664,252	Mayor's Mid-Year Reductions
DPH	Operating	HB SUD - Community Care	250,000	Mayor's Mid-Year Reductions
DPH	Operating	HCAD Centralized Admin	453,596	Mayor's Mid-Year Reductions
DPH	Operating	HD CHEP	50,000	Mayor's Mid-Year Reductions
DPH	Operating	HD HPH Admin	2,000,000	Mayor's Mid-Year Reductions
DPH	Operating	HG HOSPITAL BUDGET_ROLL-UP	832,667	Mayor's Mid-Year Reductions
DPH	Operating	HL SNF Inpatient	925,100	Mayor's Mid-Year Reductions
DPH	Operating	HN Maternal Child & Adlt Hlth	175,000	Mayor's Mid-Year Reductions
DPH	Operating	HN MCH CCS Prog	536,044	Mayor's Mid-Year Reductions
DPH	Reinvestment Initiatives	Reinvestment Initiatives	500,000	Mayor's Mid-Year Reductions
DPW	PW Citywide Projects	PW AB Pit Stop Expansion	88,538	Mayor's Mid-Year Reductions
DPW	PW Citywide Projects	PW FY 22 Pit Stop Expansion	789,597	Mayor's Mid-Year Reductions
DPW	PW District 10 Addback	PW AB D10 Nbhd Green & Beautif	100,000	Mayor's Mid-Year Reductions
DPW	PW District 3 Projects	PW AB Pitstop at Lower Polk	234,631	Mayor's Mid-Year Reductions
DPW	PW District 6 Projects	PW AB Pitstop 6th Day of Serv	8,800	Mayor's Mid-Year Reductions
DPW	PW District 9 Addback	PW AB D09 Nbhd Green & Beautif	200,000	Mayor's Mid-Year Reductions
DPW	PW District 9 Addback	PW AB Pitstop at Bernal Height	150,000	Mayor's Mid-Year Reductions
DPW	PW SES - Street Env Services	PW Operating	1,510,000	Mayor's Mid-Year Reductions
ECN	EW City Economic Development P	EW 23-24 Board Addbacks	400,000	Mayor's Mid-Year Reductions
ECN	EW City Economic Development P	Non-Profit Sustainability	625,000	Mayor's Mid-Year Reductions
ECN	EW Economic Development Projec	EW MAYOR ENHANCEMENTS	1,250,000	Mayor's Mid-Year Reductions
ECN	EW Legacy Business Preservatio	Legacy Business Preservation F	95,000	Mayor's Mid-Year Reductions
ECN	EW Workforce Development	BE Workforce Development	385,000	Mayor's Mid-Year Reductions
ENV	Operating	EV Environmental Services	50,000	Mayor's Mid-Year Reductions
ETH	Operating	EC Ethics Oversight	210,000	Mayor's Mid-Year Reductions
FAM	FA deY-Replace Side Door	FA Dey-replace Side Acting Doo	91,239	Mayor's Mid-Year Reductions
FAM	Operating	FA Public Art and Culture	124,409	Mayor's Mid-Year Reductions
FIR	Operating	FD Operations	202,931	Mayor's Mid-Year Reductions
HOM	HO Shelter And Navigation Cent	HO Shelter And Navigation Cent	1,450,000	Mayor's Mid-Year Reductions
HOM	Housing for Homeless	HO Shelter And Navigation Cent	1,000,000	Mayor's Mid-Year Reductions
HOM	Operating	HO Administration	765,379	Mayor's Mid-Year Reductions
HOM	Operating	HO Homelessness Outreach and P	52,000	Mayor's Mid-Year Reductions
HOM	Operating	HOM Temporary Shelter	175,000	Mayor's Mid-Year Reductions
HRC	EW City Economic Development P	EW 21-22 Board Addbacks	150,000	Mayor's Mid-Year Reductions
HRC	HRC CBO Grant Pool	HRC Add-backs FY24	2,000,000	Mayor's Mid-Year Reductions
HRC	Operating	HU Human Rights	130,023	Mayor's Mid-Year Reductions

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Dept	Authority Title	Project Title	Amount	Source
HRC	Reinvestment Initiatives	Reinvestment Initiatives	220,870	Mayor's Mid-Year Reductions
HRD	HOUSING AUTHORITY TRANSITION	HOUSING AUTHORITY TRANSITION	85,918	Mayor's Mid-Year Reductions
HRD	Operating	HR Administration	165,978	Mayor's Mid-Year Reductions
HRD	Operating	HR Workforce Development	208,104	Mayor's Mid-Year Reductions
HSA	Nov 16 Prop Dignity Fund	HS AG Dignity Fund	260,000	Mayor's Mid-Year Reductions
HSA	Operating	HS AD County Expense Claim	688,000	Mayor's Mid-Year Reductions
HSA	Operating	HS PA County Expense Claim	4,312,000	Mayor's Mid-Year Reductions
HSS	Operating	HT Administration	228,334	Mayor's Mid-Year Reductions
JUV	Operating	JUV Day-to-Day Operations	500,000	Mayor's Mid-Year Reductions
MYR	Board Enhancements	Board Enhancements	1,375,000	Mayor's Mid-Year Reductions
MYR	MO CBO Grant Pool	MO CBO Grant Pool	585,000	Mayor's Mid-Year Reductions
MYR	Reinvestment Initiatives	Reinvestment Initiatives	6,321,444	Mayor's Mid-Year Reductions
REC	Interdepartmental-Overhead	RP Administration	175,000	Mayor's Mid-Year Reductions
REC	Leisure Services Operating	RP Recreation	124,409	Mayor's Mid-Year Reductions
REC	Operating	RP Parks & Open Spaces	306,975	Mayor's Mid-Year Reductions
REC	Operating	RP Recreation	240,323	Mayor's Mid-Year Reductions
REC	RP BOS District Projects	RP Nature Prg at Stow Lake GGP	15,000	Mayor's Mid-Year Reductions
REG	Operating	RG Elections	169,450	Mayor's Mid-Year Reductions
SCI	Operating	SC Public Art and Culture	169,468	Mayor's Mid-Year Reductions
SCI	Sci - Facility Maintenance	Animal Holding/Quarantine	55,461	Mayor's Mid-Year Reductions
SDA	SDA Operations	Office of Inspector General	340,000	Mayor's Mid-Year Reductions
TIS	AD Justis Project - City Adm.	ADJU JUSTIS Project	80,000	Mayor's Mid-Year Reductions
TIS	Operating	DT Dt Operating Master Project	100,000	Mayor's Mid-Year Reductions
TTX	Operating	TX Administration	100,000	Mayor's Mid-Year Reductions
TTX	Operating	TX Assessments	115,773	Mayor's Mid-Year Reductions
TTX	Operating	TX Financial Services	530,334	Mayor's Mid-Year Reductions
WAR	Operating	WM Public Art and Culture	144,701	Mayor's Mid-Year Reductions
WAR	War - Facility Maintenance	War - Facility Maintenance	48,000	Mayor's Mid-Year Reductions
WOM	Operating	WO Status of Women	1,250,000	Mayor's Mid-Year Reductions
ADM	AD Animal Shelter Facility Pla	ADAC Animal Shelter Project	1,346,000	Additional Reductions
ADM	AD Comm. Challenge Grants Spec	ADNB CCG Special Projects	152,151	Additional Reductions
ADM	AD County Clerk City Id Replac	AD County Clerk City Id Replac	14	Additional Reductions
ADM	AD Medical Examiner Relocation	ADME OCME Relocation	1,910	Additional Reductions
ADM	ADCP Critical Repairs	Crit Repair Recovry Stim COPs	1,511,213	Additional Reductions
ADM	MY Non Profit Performing Arts	ADGA GFTA Perform Art Loan	4	Additional Reductions
ADM	PW Capital Planning	ADCP City Resilience Projects	250	Additional Reductions
CHF	Reinvestment Initiatives	Reinvestment Initiatives	594,800	Additional Reductions
CPC	CP Eastern Neighborhood Planni	Eastern Neighborhood Planning	80,715	Additional Reductions
CPC	CP Geary Blvd Better Neighborh	Geary Blvd Better Neighborhood	1,000	Additional Reductions
CPC	CP Rose Implementation	Rose Implementation	9,527	Additional Reductions
CPC	CP Street Tree Inventory	Street Tree Inventory	633	Additional Reductions
CPC	PC Neighborhood Profiles Proje	PC Neighborhood Profiles Proje	96,883	Additional Reductions
CPC	PW District 5 Addback (Myr)	PW AB GGP 9th Lincoln Gate	5,000	Additional Reductions
CPC	PW District 7 Projects	Pavement To Parks Program	4,878	Additional Reductions
CPC	PW Streetscape	PW Excelsior Outer Mission Prj	534	Additional Reductions
DEM	DEM CAD Replacement- Scoping	DEM CAD Replacement- Scoping	223,417	Additional Reductions
DEM	EM Dem Emergency Notification	Dem Emergency Notification	28,557	Additional Reductions
DEM	EM Logging Recorder Replacemen	Logging Recorder Replacement	63,977	Additional Reductions
DEM	EM Public Safety Radio Syst &	EM Radio Replacement Project	249,352	Additional Reductions
DEM	EM Radio Site Improvement	Radio Site Improvement	104,000	Additional Reductions
DEM	Tenderloin Emergency	Drug Overdoses in Tenderloin	112,900	Additional Reductions
DPH	AD Disabled Acc-dph Small Proj	PW SILVER AVE CHILDRENS BEHAVI	3,986	Additional Reductions
DPH	CoVid Operations Section	CoVid OPS DOC	7,500,000	Additional Reductions
DPH	HB Sb163 Hsa Calwin Wraparound	HB Sb163 Hsa Calwin Wraparound	5,323	Additional Reductions
DPH	HC Hc Silver Avenue Hc Roof Re	HC Hc Silver Avenue Hc Roof Re	7,100	Additional Reductions
DPH	HC Hc Srg Project	HC Hc Srg Project	246,988	Additional Reductions
DPH	HCSf Hope Wellness Center	Sunnydale Ctr Daycare Reno	17,745	Additional Reductions
DPH	Reinvestment Initiatives	Reinvestment Initiatives	14,150,098	Additional Reductions
DPW	AD City Hall Emergency Generat	PW City Hall Emerg Pwr Sys	617,822	Additional Reductions
DPW	CoVid Operations Section	CoVid OPS Community	137,845	Additional Reductions
DPW	PW District 1 Projects	PW AB D01 Sidewalk Gardens	14,438	Additional Reductions
DPW	PW District 11 Addback (BOS)	PW SES D11 Ridge Lane Design	45,473	Additional Reductions
DPW	PW District 11 Projects	PW AB D11 Median Maintenance	43,278	Additional Reductions

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Dept	Authority Title	Project Title	Amount	Source
DPW	PW District 11 Projects	PW AB D11 Median Maintenance	43,278	Additional Reductions
DPW	PW District 11 Projects	PW AB Neighborhood Clean Imprv	90,876	Additional Reductions
DPW	PW District 2 Addback	PW AB Bchnn-Nrth Pt Lit & Stm	36,000	Additional Reductions
DPW	PW District 2 Projects	PW AB D02 Lombard/Richardson	40,000	Additional Reductions
DPW	PW District 2 Projects	PW AB Fillmr-Chestnt Lit & Stm	56,000	Additional Reductions
DPW	PW District 6 Addback (BOS)	PW McCoppin and VMD Park Adbck	85,000	Additional Reductions
DPW	PW District 6 Projects	PW AB D06 Rincon Hill Grn Spce	28,000	Additional Reductions
DPW	PW District 6 Projects	PW AB Trans Cultural District	50,000	Additional Reductions
DPW	PW District 7 Addback	PW AB Street Smarts Lndscp	148,108	Additional Reductions
DPW	PW District 7 Projects	PW AB D07 Trash Pickup Site	20,000	Additional Reductions
DPW	PW District 7 Projects	PW D7 PB Monterey Business Cor	26,905	Additional Reductions
DPW	PW DPH Roof and Elevator	PW Roof Old Wings Multiyr Repl	400,000	Additional Reductions
DPW	PW Tree Trimming & Sdwalk Rep	PW BUF Tree Relinquishment	321,314	Additional Reductions
ECN	CoVid Operations Section	2019 COVID-19	3,000,000	Additional Reductions
ECN	EW City Economic Development P	City Economic Development Prog	624,846	Additional Reductions
ECN	EW City Economic Development P	EW 18-19 Board Addbacks	5	Additional Reductions
ECN	EW City Economic Development P	EW 19-20 Board Addbacks	50,130	Additional Reductions
ECN	EW City Economic Development P	EW 21-22 Board Addbacks	129,825	Additional Reductions
ECN	EW City Economic Development P	EW City Economic Dev Plan	365,370	Additional Reductions
ECN	EW Economic Development Projec	EW COMMUNITY CORNERSTONES	157,124	Additional Reductions
ECN	Opportunities for All	Opportunities for All	3,599,539	Additional Reductions
ECN	Reinvestment Initiatives	Reinvestment Initiatives	9,750,000	Additional Reductions
FIR	FD Fire Prevention Facility R	FC Prevention Facility Renewal	100,000	Additional Reductions
FIR	HRMS Platform Migration	HRMS Platform Migration	100,000	Additional Reductions
FIR	Underground Storage Tank Monit	FD Underground Storage Tank Mo	250,000	Additional Reductions
HOM	HO Shelter And Navigation Cent	HO Shelter And Navigation Cent	5,000,000	Additional Reductions
HOM	HO Shelter And Navigation Cent	HOM Temporary Shelter	1,497,736	Additional Reductions
HOM	Housing for Homeless	HOM Housing	2,743,574	Additional Reductions
HSA	CalWIN	HS AD CalWIN	400,000	Additional Reductions
HSA	CWS-FC-Title IV-E Waiver	HS CH CWS/FC Title IV-E Waiver	324,000	Additional Reductions
HSA	HS Fire Victim Assistance Fund	HS AD Fire Victims Assist Fund	250,000	Additional Reductions
HSA	HS Working Families Credit	HS PA Working Families Credit	350,000	Additional Reductions
HSA	Operating	HS AD County Expense Claim	193	Additional Reductions
HSA	PW District 9 Addback (BOS)	HS PA County Expense Claim	25,000	Additional Reductions
HSA	SF Connected Prg	HS AG IHSS EVV	147,387	Additional Reductions
PRT	EW City Economic Development P	EW 19-20 Board Addbacks	25,000	Additional Reductions
PRT	EW City Economic Development P	EW 20-21 Board Addbacks	39,709	Additional Reductions
REC	RP BOS District Projects	RP BOS District Projects	114,438	Additional Reductions

Mayor's Mid-Year Reductions **48,403,840**
Additional Reductions **57,723,889**

Total General Fund Supported De-Appropriations **106,127,730**

2. Use of Reserves

As shown in Exhibit 1-4, the Mayor's budget proposes uses of \$138.1 million in prior year reserves. See Appendix 2 for more details.

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

	FY 2024-25 Proposed Budget	FY 2025-26 Proposed Budget
General Fund - Use of Prior Year Reserves		
Federal and State Emergency Revenue Reserve	38.3	-
Business Tax Stabilization Reserve	29.5	-
Budget Stabilization Reserve, One-Time	-	54.8
Free City College Reserve	7.5	8.0
Total Use of Prior Year Reserves	\$ 75.3	\$ 62.8

3. Property Tax

Taxable property valuations remain in flux for properties built or sold in the past decade following a significant increase in interest rates and the reduction in time spent working in offices. Interest rates along with high construction costs have also led to a pause in construction of some entitled development projects. Assessments and taxes are based upon market valuations as of January 1st preceding any new fiscal year (starting on July 1st).

The FY 2024-25 General Fund share of property tax revenue is budgeted at \$2,469.6 million, which is \$40.4 million, or 1.6 percent, less than the FY 2023-24 budget. The FY 2025-26 General Fund share of property tax revenue is budgeted at \$2,465.8 million, which is \$3.8 million, or 0.2 percent, less than the proposed FY 2024-25 budget.

The budget assumes secured roll growth of 3% in FY 2024-25 and 2.0% in FY 2025-26, including the 2% inflation allowed under the state constitution, and unsecured values are projected to remain at current levels. Approximately \$110.2 million is assumed diverted from the General Fund to tax increment financing districts in FY 2024-25, increasing to \$126.5 million in FY 2025-26. Of these totals, approximately \$7.2 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 \$2.5 billion of reductions in current year local assessment values 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 \$118.9 million in General Fund revenue from appeals of assessed values filed in FY 2024-25 and \$136.1 million from appeals filed in FY 2025-26 will need to 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 \$35.0 million in each of FY 2024-25 and FY 2025-26. 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 \$16.0 million in FY 2024-25 and \$18.0 million in FY 2025-26.

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 \$311.6 million in FY 2024-25 and \$294.8 million in FY 2025-26, based on current state law.

4. Business Tax

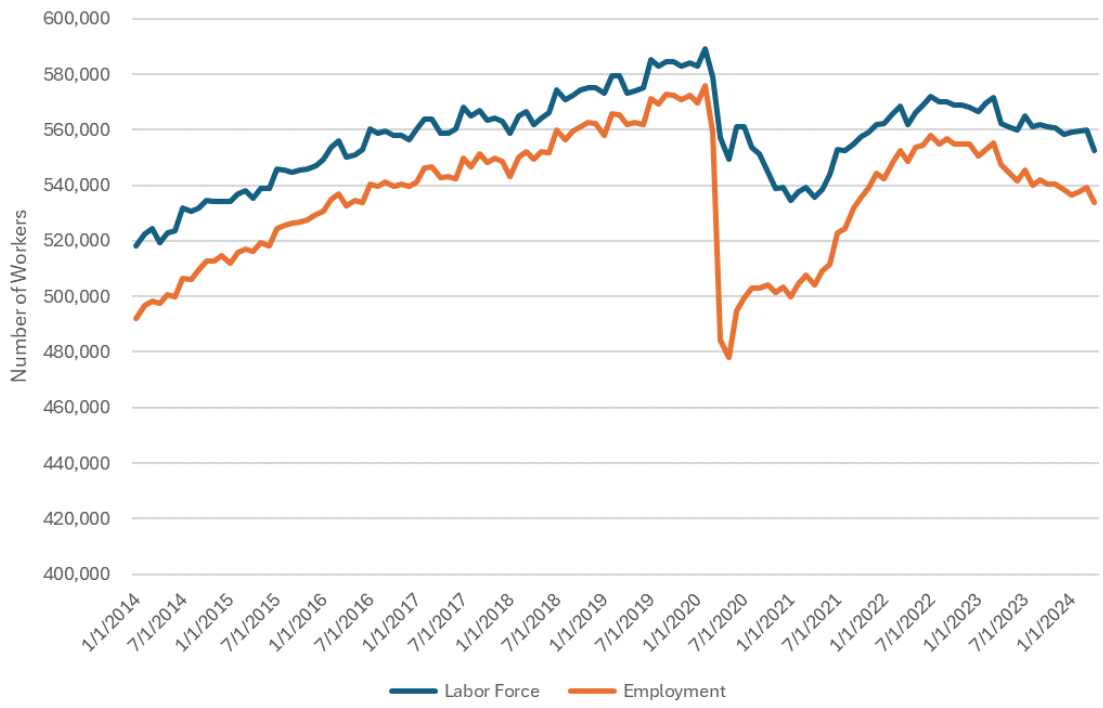
FY 2024-25 business tax revenue is budgeted at \$883.0 million, which is \$31.9 million (3.7 percent) more than what was budgeted in FY 2023-24. FY 2025-26 business tax revenue is budgeted at \$954.0 million, which is \$71.0 million (8.0 percent) higher than the proposed FY 2024-25 budget. Business tax revenue is comprised of business registration fees, administrative office tax, and gross receipts tax.

The principal reason for the budgeted increase in business tax revenue in FY 2024-25 is Proposition F (2020), which included tax increases in 2023 and 2024 for large businesses in certain sectors. The proposition contained a provision that if Citywide gross receipts did not reach specified thresholds, these increases would be delayed by one year. The FY 2023-24 budget accounted for the one-year delay for the 2023 tax increase, but it assumed the 2024 tax increase would continue as originally scheduled. However, after the FY 2023-24 budget was passed, gross receipts did not reach the necessary threshold and that triggered the delay of the 2024 increase to 2025. This delay moved some of the revenue increase from FY 2023-24 to FY 2024-25.

There are three principal factors for the budgeted increase from FY 2024-25 to FY 2025-26. First, the Proposition F tax increase from 2024 to 2025, which increases revenue in FY 2024-25, will further increase revenue in FY 2025-26. Second, Proposition F included temporary reductions in taxes for smaller businesses in sectors most affected by the pandemic, such as retail trade and accommodations. The reductions were scheduled to be phased out in 2023 and 2024. But an ordinance passed last year delayed the phase out to 2025 and 2026, which contributes to the budgeted increase in revenue in FY 2025-26. Third, the budget assumes that economic growth will be zero percent in 2024, but that growth in 2025 will be two percent and three percent in 2026.

Economic Growth. Revenues from business tax and registration fees track economic conditions in the City. Exhibit 1-5 shows the monthly labor force, which is the number of people employed or seeking work, and employment from 2013 through April 2024 from the California Employment Development Department. After the steep declines at the beginning of the pandemic, employment and the labor force increased steadily until peaking in July 2022 at levels still below those seen pre-pandemic. Since then, they have been slowly declining. The decline could reflect workers leaving the San Francisco labor force, including the effects of out-migration. It could also reflect workers transitioning from working for an employer to becoming self-employed, which does not get captured in EDD's data.

Exhibit 1-5. San Francisco Employment and Labor Force, January 2014 through April 2024



Source: California Employment Development Department

The measured labor force is not only declining but is well below the long-term trajectory from pre-pandemic trends. If it had continued to grow at the same rate as it did pre-pandemic, the labor force would now be approximately 630,000 workers. The difference between the two lines in Exhibit 1-5 is the number of unemployed San Francisco residents. The current unemployment rate is 3.4 percent, which is about one percentage point higher than it was in 2022 or in the years leading up to the pandemic.

Return to Office. For office-based categories of businesses, the gross receipts tax is dependent in part on San Francisco payroll. Businesses only include payroll for employees that physically work within the City. To the extent that employees previously commuted into the City but now work at home outside of the City, gross receipts taxes will be reduced. Telecommuting has proved to be persistent. According to the office security firm Kastle, office attendance in the Bay Area is still less than half of pre-pandemic levels. Ridership on BART in downtown stations remains about 65% lower than pre-pandemic levels. Telecommuting is expected to continue indefinitely.

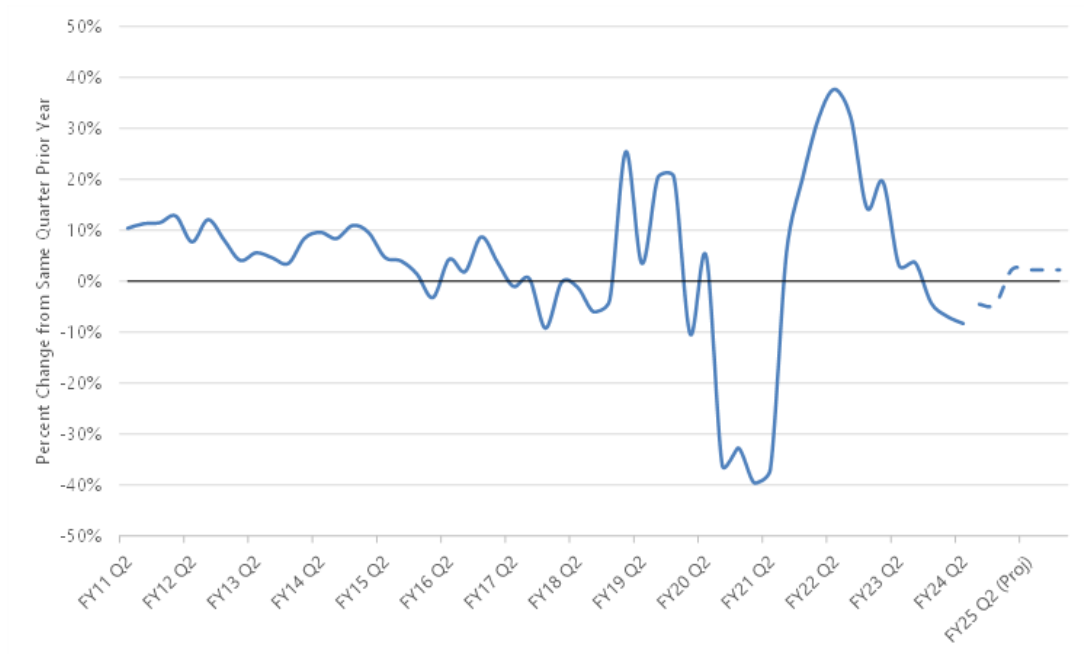
5. Sales Tax

In FY 2024-25, local sales tax revenue is budgeted at \$193.7 million, which is \$6.4 million, or 3.2 percent, lower than what was budgeted in FY 2023-24. FY 2025-26 local sales tax revenue is budgeted at \$198.9 million, which is \$5.3 million, or 2.7 percent, higher than the proposed FY 2024-25 budget.

Sales tax experienced significant losses during the COVID-19 public health emergency closures, rebounded quickly in FY 2021-22, then tapered off in FY 2022-23, followed by an expected decrease in FY 2023-24. The budget assumes sales tax revenues will increase in both FY 2024-25 and FY 2025-26, returning to near pre-pandemic levels by FY 2027-28. The growth in FY 2024-25 is largely due to our expectation that the number

of in-commuters and residents has stabilized, that spending on tangible (and taxable) goods has returned to lower levels from its pandemic-induced heights and been replaced with spending on (nontaxable) services, and that, while gas prices have fallen in the past year, discretionary income is still constrained given inflation. Exhibit 1-6 below shows the actual and projected rates of change in the budget.

Exhibit 1-6. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2011-12 to FY 2025-26



6. Hotel Tax

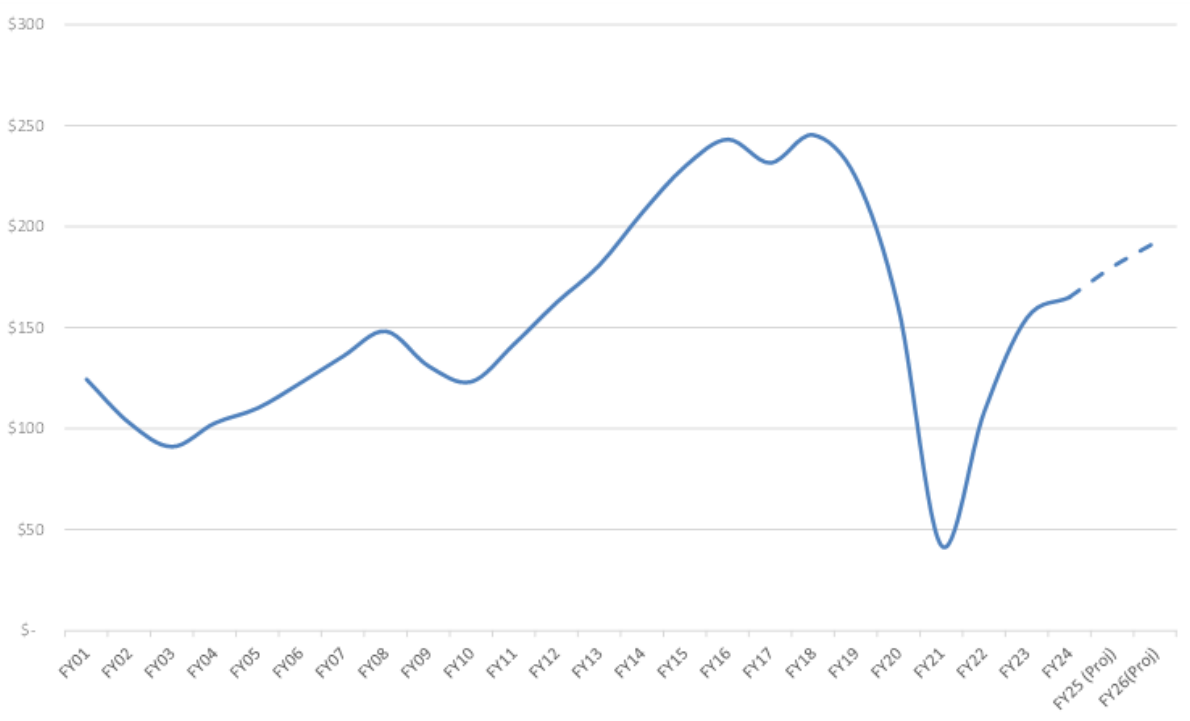
The FY 2024-25 General Fund share of hotel tax revenue is budgeted at \$285.2 million, which is \$17.7 million, or 5.9 percent, less than what was budgeted in FY 2023-24. FY 2025-26 revenue is budgeted at \$315.8 million, an increase of \$30.6 million, or 10.7 percent, from the proposed FY 2024-25 budget. As of the March Update to the Five-Year Financial Plan, hotel tax revenues are projected to improve year over year but will not reach pre-pandemic levels until after the plan period.

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 2023-24 averaged \$158.25, an increase of 1.7% versus the same period in FY 2022-23, 22.9% lower than 2019.

While enplanements at San Francisco International Airport (SFO) have improved steadily since the pandemic, these gains are not resulting in proportionate growth in hotel tax, as more Bay Area residents are flying out of SFO than visitors coming into SFO for leisure and work. As of March 2024, domestic and international enplanements in FY 2023-24 to date were 11.8% greater than FY 2022-23, though still 10.3% below FY 2018-19. Current domestic seat capacity is 18.5% lower and international seat capacity is 3.7% higher than FY 2018-19. International travel has shown signs of recovery since travel restrictions were lifted in Asia in early 2023, however, visitor numbers from China, the largest Asian market pre-pandemic, are far from recovery.

Because conventions drive up hotel room rates through compression pricing, the return of conferences and conventions plays a key role in the recovery of hotel tax revenues. In FY 2022-23, a total of 33 conferences with over 286,000 attendees took place in Moscone Center. This is compared to 23 events with over 126,000 in FY 2021-22 and 54 events with over 723,000 attendees in FY 2018-19. In the last three quarters of FY 2023-24, San Francisco hosted 28 conferences with over 320,000 attendees; for the remainder of the fiscal year, 10 conferences with over 102,500 attendees are anticipated for a projected total of 38 conferences and 423,000 attendees.

**Exhibit 1-7. Average Annual Revenue Per Available Room (RevPAR)
FY 2000-01 to FY 2025-26**



* Data from FY 2011-12 to FY 2017-18 from CBRE, FY 2018-19 to FY 2022-24 from SF Travel.

The difference between total and General Fund hotel tax is primarily due to funding requirements set forth in November 2018 Proposition E, which allocated 1.5 percent 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 the improvement in hotel tax revenues, these allocations are budgeted at \$35.8 million in FY 2024-25 and \$39.3 million in FY 2025-26, a level that meets the Proposition E allocation level and does not require General Fund backfill.

7. Utility Users Tax

Utility user tax revenue is budgeted at \$110.7 million in FY 2024-25, which is \$0.7 million (0.6 percent) lower than what was budgeted in FY 2023-24. The reduction is due to a lower of overall utility tax collections in the current year. FY 2025-26 revenue is budgeted at \$111.8 million, which is \$1.1 million (1.0 percent) higher than the proposed FY 2024-25 budget.

8. Parking Tax

Parking tax revenue is budgeted at \$86.9 million in FY 2024-25, which is \$2.8 million (3.3 percent) more than what was budgeted in FY 2023-24. FY 2025-26 revenue is budgeted at \$88.8 million, which is \$1.9 million (2.2 percent) higher than the proposed FY 2024-25 budget. As employees have returned to the office and tourism in the City has rebounded, parking tax revenue has increased. Although high levels of remote work are expected to persist, those making the commute have shifted more of their trips from public transit to automobile, which supports parking tax revenue. The budgeted amount for FY 2024-25 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 \$218.9 million in FY 2024-25, which is \$3.1 million (1.4 percent) less than the FY 2023-24 budget. In FY 2025-26, RPTT revenue is budgeted at \$267.6 million, an increase of \$48.7 million (22.3 percent) above the proposed FY 2024-25 budget. The effect of November 2020 Proposition I is estimated to be \$57.1 million and \$71.3 million in FY 2024-25 and FY 2025-26, respectively or approximately \$45.7 million and \$57.0 million after baselines.

Since the beginning of the COVID-19 pandemic in spring 2020, businesses in office-using sectors have largely adopted remote and hybrid work practices, resulting in persistently high office vacancies, 32.4% as of March 2024. This dynamic is expected to decrease commercial real estate values. Exacerbating this structural change in where and how people work, is the elevated interest rate environment, which increases the cost of borrowing and dampens real estate investment. Additional factors include credit availability, borrowing costs, foreign capital flows, and the relative attractiveness of San Francisco real estate compared to other investment options.

The budget assumes FY 2024-25 and FY 2025-26 transfer taxes grow from a low in FY 2023-24 to a new long-term average by FY 2027-28. FY 2023-24 transfer activity is expected to drop from FY 2022-23 to levels not seen since FY 2003-04 and FY 2009-10. 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 70 percent in some instances. The volatility is seen with month-to-month revenue as well: in the past ten years, the lowest monthly revenue total was in February 2021 (\$7.1 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 2021.

Exhibit 1-8. Historical Real Property Transfer Tax Revenue (\$ millions), FY 2000-01 through FY 2025-26

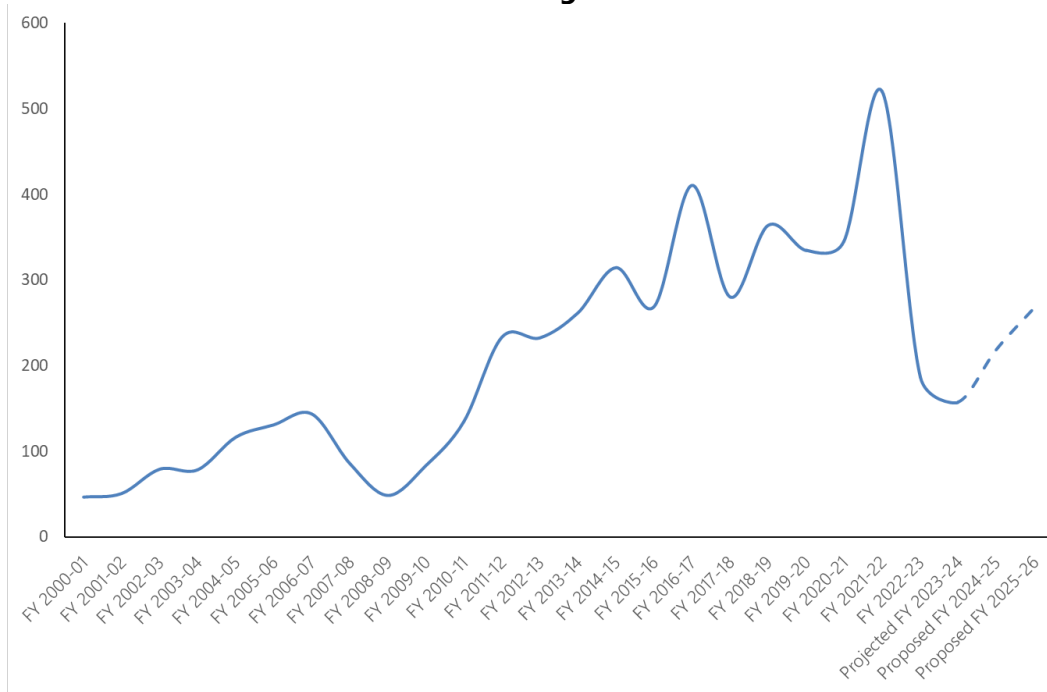
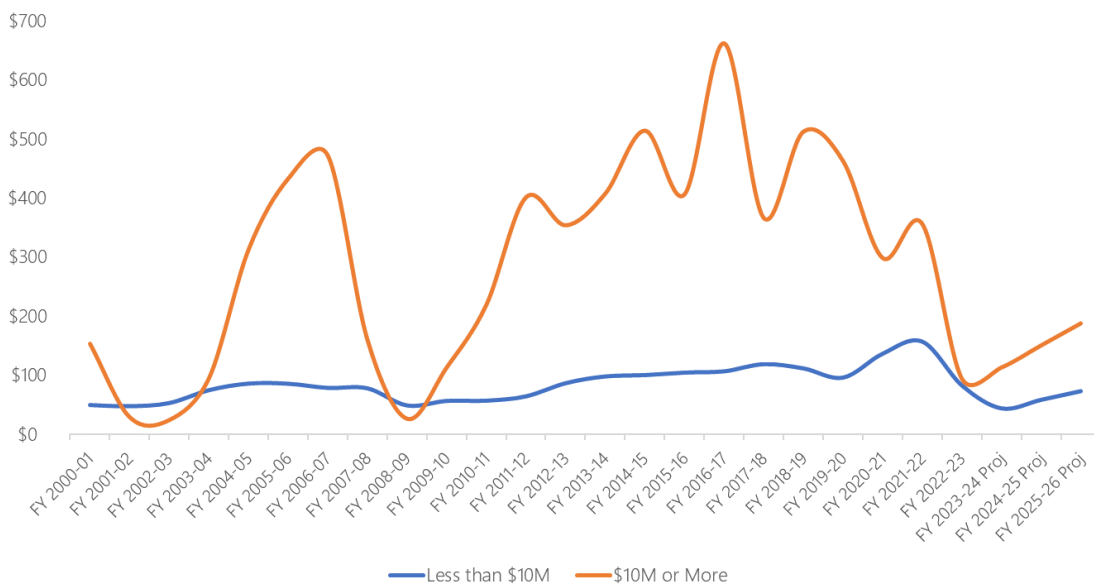


Exhibit 1-9 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Prop W (November 2016), Prop N (November 2010), Prop N (November 2008), and Prop I (November 2020) and demonstrates how RPTT is driven by the sale of high-value (largely commercial) properties over \$10 million. The exhibit shows the drastic reduction in transfer tax in the current fiscal year, as high interest rates and the lack of large transactions have resulted in a dramatic decline in tax receipts.

Exhibit 1-9. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-01 through FY 2025-26 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. No deposits are expected during FY 2024-25 or FY 2025-26 as RPTT revenue is projected to be below 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 \$7.4 million in FY 2024-25 and FY 2025-26, \$1.7 million (18.9 percent) less than the FY 2023-24 budget. The decrease is due to lower-than-expected attendance at stadium events in FY 2023-24. The budget assumes that attendance at events, and thus revenue, will remain at levels observed in FY 2023-24.

11. Cannabis Tax

No Cannabis tax revenue is budgeted in FY 2024-25 and FY 2025-26. In November 2018, voters approved a new gross receipts tax (Proposition D) of 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, and increased the exemption thresholds. 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, from January 1, 2023, to January 1, 2026. The first collection of cash and recognition of revenue will occur in FY 2026-27.

12. Overpaid Executive Tax

The Overpaid Executive Tax is budgeted at \$140 million in both FY 2024-25 and FY 2025-26, \$40 million (40.0 percent) more than the FY 2023-24 budget due to strong collections in FY 2023-24. OET first took effect in 2022, with the entirety of 2022 and two 2023 prepayments recorded in FY 2022-23 for a total of \$206.0 million. Subsequent fiscal years represent only four quarters (or one tax year) of payments.

The Overpaid Executive Tax is a gross receipts-based tax where the rate for a business is determined by the ratio of the total compensation of the highest paid managerial employee to the median compensation paid to the business' employees in the City. Revenue from this tax is expected to be volatile due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, and the risk of tax avoidance. Revenue in 2023 fell 19 percent from the prior year. In tax year 2023, the top five payers owed 48 percent of the total tax. Estimates based on prior years' activity may not be predictive of future revenues.

13. Sugar Sweetened Beverage Tax

Sugar Sweetened Beverage Tax revenue is budgeted at \$12.7 million in each fiscal year, FY 2024-25 and FY 2025-26, \$1.0 million (7.6 percent) less than the FY 2023-24 budget. The City's one cent per ounce tax on sugar sweetened beverages became effective January 1, 2018. Pandemic restrictions on restaurant operations reduced revenue collections in FY 2020-21. The City has experienced a gradual recovery of sugar-sweetened beverage tax revenue through FY 2022-23 and expects the source to plateau in the current and budget years.

14. Access Line Tax

FY 2024-25 access line tax revenue is budgeted at \$53.7 million, or \$1.9 million (3.4 percent) lower than the FY 2023-24 budget due to a slow-down in current year receipts. FY 2025-26 revenue is budgeted at \$55.1 million, or \$1.4 million (2.5 percent) higher than the proposed FY 2024-25 budget. Budgets in both years incorporate inflationary increases of 2.6 percent to the access line tax rate as described in Business and Tax Regulations Code Section 784 (File 240619).

15. Interest & Investment Income

Interest and investment income for both FY 2024-25 and FY 2025-26 is budgeted at \$146.7 million, an increase of \$25.6 million (21.2 percent) from the FY 2023-24 budget. Since March 2022, the Federal Reserve has made eleven consecutive interest rate hikes to combat inflation and has not made any changes since last July. The budget assumes earned income yield of approximately 3.5 percent in both years. The budget also assumes additional interest earnings of \$3.5 million and \$3.7 million in FY 2024-25 and FY 2025-26, 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.

16. Intergovernmental – Federal

Federal support in the General Fund is budgeted at \$436.6 million for FY 2024-25, which represents a decrease of \$72.5 million (14.2 percent) from the FY 2023-24 budget. FY 2025-26 revenue is budgeted at \$518.5 million, which is \$81.9 million (18.8 percent) more than the proposed FY 2024-25 budget. Changes in federal revenue are largely driven by Federal Emergency Management Agency (FEMA) reimbursements for COVID-related expenditures. FEMA reimbursements are budgeted at \$80.0 million in FY 2024-25, which is \$90.0 million (52.9 percent) less than FY 2023-24 original budget. In FY 2025-26, FEMA reimbursements are budgeted at \$155.7 million, which is \$75.7 million (94.6 percent) more than the proposed FY 2024-25 budget. The City's FEMA forecast is based on updated timelines upon which FEMA will obligate and remit funds for the COVID-19 public health emergency.

17. Intergovernmental – State – Public Safety Sales Tax

Public safety sales tax revenue is budgeted at \$99.6 million in FY 2024-25, a decrease of \$0.9 million (0.9 percent) from the FY 2023-24 budget. FY 2025-26 revenue is budgeted at \$102.3 million, which is \$2.8 million (2.8 percent) greater than the proposed FY 2024-25 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 2024-25 and increase in FY 2025-26. Although San Francisco County sales tax revenues lagged statewide revenues post-pandemic, San Francisco's performance has marginally improved, shown in the slight changes in the County's allocation factor. Overall statewide sales tax is also anticipated to grow, though at a significantly slower pace than prior periods.

18. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2024-25, the General Fund share of 1991 realignment revenue is budgeted at \$283.6 million, or \$2.0 million (0.7 percent) more than the FY 2023-24 budget. The FY 2025-26 revenue is budgeted at \$290.5 million, which is \$6.8 million (2.4 percent) more than the proposed FY 2024-25 budget. The increases are due to anticipated growth in statewide sales tax, resulting in growth in revenues for both FY 2024-25 and FY 2025-26.

19. 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 \$54.0 million in FY 2024-25, a \$3.6 million (7.1 percent) increase from the FY 2023-24 budget. The FY 2025-26 proposed budget is \$55.4 million, a \$1.3 million (2.5 percent) increase from the proposed FY 2024-25 budget. Similar to 1991 Health and Welfare Realignment, the budget period increases are due to anticipated growth in statewide sales tax.

20. Charges for Services

Fee revenue is budgeted at \$324.1 million in FY 2024-25, an increase of \$77.4 million (31.4 percent) from the FY 2023-23 budget. In FY 2025-26, charges for services revenue are budgeted at \$326.5 million, an increase of \$2.4 million (0.7 percent) from FY 2024-25 budget. The increase is primarily due to a change in where revenue is reported. Because the Department of Public Health's Behavioral Health Services is moving onto the department's electronic health record system, Medi-Cal mental health billing, which was formerly budgeted and recorded as part of Short-Doyle Medi-Cal state revenue, is shifting to charges for services revenue.

Additionally, many fee budgets are authorized to be adjusted for inflation without further approval by the Board of Supervisors, increasing by 3.67 percent in FY 2024-25 based on information published by the U.S. Bureau of Labor Statistics in January 2024. The Controller's Office forecasts a 3.01 percent increase in the CPI for FY 2025-26. There are also several new and modified fees that have been introduced this fiscal year or as part of budget trailing legislation, including adjustments to Recreation and Park's marina and tennis fees, Assessor-Recorder fees, various Building Inspection fees, Public Works street permit and subdivision fees, County Clerk fees, Board of Appeals surcharge fees, Public Health retail food permit fees, and public nuisance fees. The proposed budget assumes these fees are adopted by the Mayor and Board of Supervisors.

21. Other Revenues

Other Revenues are budgeted at \$18.0 million in FY 2024-25, an increase of \$0.5 million (2.8 percent) from the FY 2024-25 budget. In FY 2025-26, other revenues are budgeted at \$27.8 million, an increase of \$9.7 million (54.1 percent) from the FY 2024-25 proposed budget. The increase in FY 2024-25 is largely driven by a one-time increase in unclaimed funds for the City. The increase in FY 2025-26 is largely due to the planned sale of land for \$10.0 million.

22. Operating Transfers In

Transfers-in to the General Fund are budgeted at \$206.9 million in FY 2024-25, a decrease of \$4.4 million (2.1 percent) from the FY 2023-24 budget. In FY 2025-26, transfers-in are budgeted at \$203.9 million, a decrease of 3.0 million (1.4 percent) from the FY 2024-25 proposed budget. The transfers-in include increased Airport concessions revenue, as the City's travel and tourism industry continues to recover from the COVID-19 pandemic; a small reduction to the required 15 percent transfer of commercial rents tax to the General Fund, reflecting weakness in this tax; and a one-time repayment to the General Fund from the Public Utilities Commission for the acquisition of utility assets.

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor’s proposed budget includes the use of \$75.3 million and \$62.8 million from non-operating reserves in FY 2024-25 and FY 2025-26, respectively. The Mayor’s proposed budget also includes \$14.6 million and \$22.6 million in deposits to the General reserve in FY 2024-25 and FY 2025-26, respectively.

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

	FY 2023-24	FY 2024-25			FY 2025-26			Note
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	
General Reserve	\$ 128.1	\$ 14.6	-	\$ 142.7	\$ 22.6	-	\$ 165.3	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	275.2	-	-	275.2	-	-	275.2	3
Economic Stabilization Reserves	389.7	-	-	389.7	-	-	389.7	
<i>Percent of General Fund Revenues</i>	6.2%			6.1%			5.9%	
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	81.3	-	(38.2)	43.1	-	-	43.1	4
Fiscal Cliff Reserve	130.3	-	-	130.3	-	-	130.3	5
Business Tax Stabilization Reserve	29.5	-	(29.5)	-	-	-	-	6
Public Health Revenue Management Reserve	130.3	-	-	130.3	-	-	130.3	7
Free City College Reserve	7.5	8.0	(7.5)	8.0	-	(8.0)	-	8
Other Reserves	434.7	8.0	(75.3)	367.4	-	(62.8)	304.6	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	9
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	10
Salary and Benefits Reserve	-	20.5	(20.5)	-	21.5	(21.5)	-	11
Annual Operating Reserves	-	36.5	(36.5)	-	37.5	(37.5)	-	
TOTAL, General Fund Reserves	952.5	53.6	(107.1)	899.0	62.7	(103.4)	858.3	

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 2024-25, the General Reserve required funding level is 2.25 percent of General Fund revenue, growing to 2.5 percent in FY 2025-26. The deposit amounts are \$14.6 million and \$22.6 million for FY 2024-25 and FY 2025-26, 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, ending unassigned fund balance, and certain asset sales. The City is ineligible to make withdrawals and not projected to make deposits to this reserve in either budget year. As a result, the Mayor's proposed budget maintains a balance of \$275.2 million.

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. The entire balance of this reserve is budgeted in FY 2025-26.

4. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the FY 2021-22 Annual Appropriations 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 Mayor's proposed budget uses \$38.2 million of this reserve in FY 2024-25, resulting in an ending balance of \$43.1 million. The Governor's May Revised budget proposed to increase the amount of Educational Revenue Augmentation Fund (ERAF) sent to school districts to distribute to charter schools, effective FY 2025-26. This would decrease the City's excess ERAF revenues by \$43 million annually from what is currently assumed in the second year of the budget. The balance of this reserve would offset that risk exactly for a single fiscal year. There is additional eligibility and audit risk with FEMA reimbursements for COVID response costs, which are projected to total \$572.3 million across all years, of which FEMA has obligated \$223.4 million and paid \$219.0 million to date. Depleting the reserve to cover any excess ERAF shortfall would reduce the City's ability to address FEMA and other federal and state revenue risks.

5. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the FY 2021-22 Annual Appropriations 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 amends this reserve to include managing

business tax revenue shortfalls as an additional eligible use. The Mayor's proposed budget does not withdraw from this reserve, maintaining its FY 2023-24 balance of \$130.2 during the two budget years.

6. Business Tax Stabilization Reserve

The Business Tax Stabilization Reserve was created in Section 35 of the administrative provisions of the FY 2020-21 Annual Appropriations Ordinance to equalize the benefit of large one-time advance repayments associated with Commercial Rent Tax (June 2018 Proposition C) and Homeless Gross Receipts Tax (November 2018 Proposition C) The proposed budget spends \$29.5 million, the remaining reserve, in FY 2024-25.

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 to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements.

In July 2022, the Department of Public Health established a methodology for setting a maximum reserve level, as well as specific deposit and withdrawal rules. The FY 2023-24 ending balance of the reserve is projected to be the maximum allowable level of \$130.3 million, as reported in the Nine-Month Report. Due to the increase in budgeted Medi-Cal and patient revenues in the Mayor's FY 2024-25 and FY 2025-26 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 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. This reserve was depleted at the beginning of FY 2023-24. A deposit of \$7.5 million and \$8.0 million in FY 2023-24 and FY 2024-25, respectively, is anticipated for the completion school year 2021-22 and school year 2022-23 audits. These reserves are spent in the subsequent year.

9. 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.

10. Reserve for Technical Adjustments

Reserves of \$5.0 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.

11. Salary & Benefits Reserve

The Mayor's proposed budget includes \$20.5 million and \$21.5 million in FY 2024-25 and 2025-26, respectively, to cover costs of adopted MOUs with labor organizations that were 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 \$225.9 million for FY 2024-25 and \$219.6 million for FY 2025-26 for a total of \$445.4 million in the two budget years. This amount is \$24.5 million over the prior five-year (FY 2018-19 through FY 2022-23) average of year-end fund balance of \$420.9 million. As shown in Exhibit 3-1, the budget contains \$172.6 million of budgeted nonrecurring sources and \$200.5 million nonrecurring expenditures. Therefore, the Controller’s Office certifies compliance with the policy.

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

	FY 2024-25	FY 2025-26	
One-Time Sources	Proposed	Proposed	Total
General Fund PY Unassigned Fund Balance in Excess of Five Year Average	24.5	-	24.5
Prior Year Reserves			
Federal and State Emergency Revenue Reserve	38.3	-	38.3
Business Tax Stabilization Reserve	29.5	-	29.5
Budget Stabilization Reserve, One-Time	-	54.8	54.8
Free City College Reserve	7.5	8.0	15.5
Sale of Land	-	10.0	10.0
Total One-Time Sources	\$ 99.8	\$ 72.8	\$ 172.6
One-Time Uses			
Capital	79.8	58.2	138.0
Information Technology	25.1	24.8	49.9
Equipment	7.4	5.1	12.6
Total One-Time Uses	\$ 112.4	\$ 88.1	\$ 200.5

Appendix 4. Baselines & Mandated Funding Requirements

Voter-approved levels of funding are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines & Mandated Funding Requirements (\$ millions)

	FY2023-24	FY2024-25	FY2025-26	Note
	Original Budget	Proposed Budget	Proposed Budget	
General Fund Aggregate Discretionary Revenue (ADR)	\$ 4,497.8	\$ 4,532.2	\$ 4,688.8	
Financial Baselines				
Municipal Transportation Agency (MTA)				
MTA - Municipal Railway Baseline (Central Subway Included)	317.9	320.3	331.4	
MTA - Parking & Traffic Baseline	112.9	113.6	117.6	
MTA - Population Adjustment	82.8	74.5	75.4	
MTA - 80% Parking Tax In-Lieu	67.4	69.5	71.0	
Subtotal Municipal Transportation Agency	\$ 581.0	\$ 577.9	\$ 595.3	1
Library Preservation Fund				
Library - Baseline	102.8	103.6	107.2	2
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	79.5	79.3	79.6	3
Subtotal Library	\$ 182.3	\$ 182.9	\$ 186.8	
Children's Services				
<i>Children's Services Baseline - Requirement</i>	217.2	218.9	226.5	4
Children's Services Baseline - Eligible Items Budgeted	218.7	220.4	232.7	
<i>Transitional Aged Youth Baseline - Requirement</i>	26.1	26.3	27.2	5
Transitional Aged Youth Baseline - Eligible Items Budgeted	37.6	36.9	39.3	
<i>Early Care and Education Baseline Requirement (June 2018 Prop C) *</i>	73.2	77.2	80.1	6
Early Care and Education - Eligible Items Budgeted	74.0	77.2	80.1	
Public Education Services Baseline	13.0	13.1	13.6	7
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	127.2	126.9	127.4	3
<i>Public Education Enrichment Fund</i>	137.5	138.5	143.3	8
1/3 Annual Contribution to Preschool for All	45.8	46.2	47.8	
2/3 Annual Contribution to SF Unified School District	91.6	92.4	95.6	
Student Success Fund (SFUSD)	11.0	35.0	45.0	9
Subtotal Childrens Services	619.0	648.1	681.5	
Recreation and Parks				
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	79.5	79.3	79.6	3
<i>Recreation & Parks Baseline - Requirement</i>	82.2	85.2	88.2	10
Recreation & Parks Baseline - Budgeted	87.9	88.0	90.2	
Subtotal Recreation and Parks	167.5	167.4	169.8	
Other Financial Baselines				
<i>Housing Trust Fund Requirement</i>	44.5	47.3	49.0	
Housing Trust Fund - Budgeted	44.5	47.3	49.0	11
Dignity Fund	56.1	59.1	62.1	12
Street Tree Maintenance Fund *	22.9	23.0	23.8	13
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.3	4.4	4.5	14
City Services Auditor: 0.2% of Citywide Budget	26.0	28.1	27.4	15
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	215.0	215.0	215.0	
Our City, Our Home Baseline Eligible Sepnding - Budgeted	391.1	423.2	415.3	16
Subtotal Other Financial Baselines	544.8	585.1	582.0	
Total Financial Baselines	\$ 2,094.6	\$ 2,161.3	\$ 2,215.4	

* There is no growth in the baseline funding requirement for Early Care and Education Baseline and Street Tree Maintenance programs for FY 2023-24 and FY 2024-25 as the deficit trigger has been met for two years in a row based on the projected deficit in the Joint Report March Update.

NOTES

1. Municipal Transportation Agency (MTA) Baselines

Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. Consistent with the Charter, in FY 2000-01 a base amount of funding was established. 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). This baseline is required to be adjusted for significant service increases. Beginning in FY 2021-22, the MTA baseline increased due to operating costs associated with the opening of the Central Subway.

Beginning in FY 2002-03, this Charter section also established a minimum level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. November 2014 Proposition B, requires that in addition to adjusting annually for the change in ADR, these baseline amounts be increased for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. Additionally, 80 percent of parking tax revenue is allocated to the MTA.

In total, the Mayor's proposed budget includes funding for these MTA baselines at the required levels of \$577.9 million in FY 2024-25 and \$595.3 million in FY 2025-26.

2. Library Baseline

Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Library Preservation Fund was renewed by voters in November 2022. Based on revenue in the Mayor's proposed budget, the Library Baseline requirements of \$103.6 million in FY 2024-25 and \$107.2 million in FY 2025-26 are met. The March Update to the Five-Year Financial Plan forecasted a FY 2023-24 deficit of \$235.9 million, below the \$300.0 million threshold that would have paused growth in this baseline.

3. Property Tax-Related Set-Asides

Charter Sections 16.108, 16.109, and 16.107 mandate set-asides of property revenues for the Children and Youth Fund, the Library Preservation Fund, and the Open Space Fund, respectively. The Children and Youth Fund receives an allocation of \$0.0400 for each \$100 valuation of taxable property. The Library Preservation Fund and the Open Space Fund receive allocations of \$0.025 for each \$100 valuation of taxable property. The Mayor's proposed budget includes required funding of \$126.9 million in FY 2024-25 and \$127.4 million in FY 2025-26 for the Children and Youth Fund, and \$79.3 million and \$79.6 million in FY 2024-25 and FY 2025-26, respectively, for both the Library Preservation Fund and Open Space Fund.

4. Children's Baseline

Charter Section 16.108 established a Children and Youth Services baseline. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Proposition C, approved by voters in November 2014, amended the Charter to exclude medical health services as an eligible service. As a result, and as part of establishing the Disconnected Transitional-Aged Youth Baseline, the Controller reviewed City appropriations included in the fund and excluded medical health services and other expenditures now mandated by state law. The Controller then recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate. The required

Children’s baselines for FY 2024-25 and FY 2025-26 are \$218.9 million and \$226.5 million, respectively. The Mayor’s proposed budget includes Children’s Baseline appropriations of \$220.4 million and \$232.7 million, which exceed the minimum requirement by \$1.5 million in FY 2024-25 and \$6.2 million in FY 2025-26.

5. Disconnected 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. The Charter requires that the TAY Baseline be added to the Children’s Baseline, however, it is tracked separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 and like the Children’s Baseline, is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2024-25 and FY 2025-26 are \$26.3 million and \$27.2 million, respectively. The Mayor’s proposed budget includes TAY eligible baseline appropriations of \$36.9 million and \$39.3 million, which exceed the minimum requirement by \$10.6 million in FY 2024-25 and \$12.1 million in FY 2025-26.

6. Early Care and Education Baseline

The Commercial Rent Tax for Early Care and Education authorized by Proposition C in June 2018 established a requirement to maintain spending 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 the City forecasts a budget deficit of \$203.9 million or greater in FY 2024-25; thus, the FY 2024-25 baseline is frozen for two years in a row at FY 2022-23 levels. Absent the suspension of growth, the baseline requirement would have been \$95.3 million in FY 2024-25 and \$97.0 million in FY 2025-26. However, an ordinance was submitted as part of trailing legislation to modify the baseline funding requirements for early care and education programs in FY 2024-25 through FY 2027-28 to enable the City to use the interest earned from the Early Care and Education Commercial Rents Tax as a credit toward the baseline amount. The credited amount is adjusted based on the latest projected interest revenue. Currently, the authorized credit amount is up to \$16.6 million for FY 2024-25, and up to \$16.9 million for FY 2025-26 (a credit of \$20.0 million was approved for FY 2023-24 via through ordinance 176-23). The adjusted baseline requirement is \$77.2 million in FY 2024-25 and \$80.1 million in FY 2025-26.

	FY2023-24	FY2024-25	FY2025-26
	Original Budget	Proposed Budget	Proposed Budget
Original Baseline Requirement	\$ 94.6	\$ 95.3	\$ 97.0
Adjusted Amount Due to Deficit Trigger	\$ 93.8	\$ 93.8	N/A
* Credit Against Requirement From Interest	\$ (20.0)	\$ (16.6)	\$ (16.9)
Final Baseline Requirement Amount	\$ 73.8	\$ 77.2	\$ 80.1

* Legislative amendment

The proposed budget appropriates \$77.2 million in FY 2024-25 and \$80.1 million in FY 2025-26 of baseline-eligible spending, the minimum requirement assuming passage of trailing legislation. See Appendix 5 for further discussion of the Babies and Families First Fund, which was established along with the Early Care and Education baseline.

7. Public Education Services Baseline

Charter Section 16.123-2 established a Public Education Enrichment Fund. Consistent with the Charter, 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 \$13.1 million in FY 2024-25 and \$13.6 million in FY 2025-26 for this baseline.

8. Public Education Enrichment Fund Annual Contribution

In addition to the Public Education Services Baseline, Charter Section 16.123-2 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 \$138.5 million and \$143.3 million for the Public Education Enrichment Fund Annual Contribution in FY 2024-25 and FY 2025-26, 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.

9. Student Success Fund

Proposition G (November 2022) 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 required contribution amounts of \$35.0 million in FY 2024-25 and \$45.0 million in FY 2025-26 are appropriated in the proposed budget.

10. Recreation & Parks Baseline

June 2016 Proposition B amended the Charter to require an annual contribution from the General Fund to the Recreation and Parks Department, increasing by \$3.0 million per year for the next ten fiscal years, and then adjusted by changes in ADR. The City may suspend growth in baseline funding when the City forecasts a budget deficit exceeding an annually calculated threshold, which in FY 2024-25 is \$266.6 million. The FY 2024-25 deficit reported in the March Update to the Joint Report was \$235.9 million, below the threshold. The baseline requirement is \$85.2 million and \$88.2 million in FY 2024-25 and FY 2025-26, respectively. The Mayor's proposed budget includes General Fund appropriations of \$88.0 million and \$90.2 million, which exceed the minimum requirement by \$2.9 million in FY 2024-25 and \$2.0 million in FY 2025-26.

11. Housing Trust Fund

In 2012, voters established the Housing Trust Fund (Charter section 16.110), which requires an annual contribution from the General Fund to the Housing Trust Fund of \$20.0 million beginning in FY 2013-14 and increasing annually by \$2.8 million. In FY 2021-22, the budget funded the Housing Trust Fund at \$60.0 million, \$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 of \$47.3 million and \$49.0 million in FY 2024-25 and FY 2025-26, respectively.

12. 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. From 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 the City forecasts a budget deficit of \$246.3 million or greater in FY 2024-25. The FY 2024-25 deficit reported in the March Update to the Joint Report was \$235.9 million, below the threshold. The Mayor's proposed budget includes the required General Fund appropriations of \$59.1 million and \$62.1 million in FY 2024-25 and FY 2025-26, respectively.

13. 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 the City forecasts a budget deficit of \$203.9 million or greater in FY 2024-25. Because the FY 2024-25 deficit reported in the March Update to the Joint Report was \$235.9 million, growth is suspended for two years in a row. FY 2024-25 baseline appropriations remain at FY 2022-23 levels of \$23.0 million. The Mayor's proposed budget includes the required total funding of \$23.0 million and \$23.8 million in FY 2024-25 and FY 2025-26, respectively.

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. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline is \$4.4 million in FY 2024-25 and \$4.5 million in FY 2025-26.

15. 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 \$28.1 million in FY 2024-25 and \$27.4 million in FY 2025-26 for the City Services Auditor baseline.

16. Our City, Our Home Baseline

The Homeless Gross Receipts Tax authorized by November 2018 Proposition C established a requirement to maintain homelessness spending at FY 2017-18 budgeted levels. The base amount of funding was subsequently calculated to be \$215.0 million. This requirement is calculated by totaling all Proposition C-eligible spending, excluding the Our City, Our Home special revenue fund. The calculation includes spending in the General Fund, various special revenue funds, and other funds. The proposed budget appropriates \$423.2 million in FY 2024-25 and \$415.3 million in FY 2025-26 of baseline-eligible spending, exceeding the requirement by \$208.2 million in FY 2024-25 and \$200.3 million in FY 2025-26. See Appendix 5 for further discussion of the Our City Our Home Fund, which was established along with the baseline.

Appendix 5. Other Funds

This section includes a discussion of various other governmental funds with significant revenue issues, including Our City, Our Home Fund; the Babies and Families First Fund; and Opioid Settlement Fund; and others.

OUR CITY, OUR HOME FUND

The Our City, Our Home Fund (OCOH) was authorized by November 2018 Proposition C. The initiative 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. This allocation methodology among the permanent housing, prevention, and shelter categories was temporarily altered in FY 2023-24 and FY 2024-25 by ordinance 185-23. Another ordinance is proposed with the Mayor's budget to allow the City to use \$13.7 in interest revenue from the Our City, Our Home Fund for certain types of services to address homelessness and suspending the limit on funding for short-term rental subsidies in FY 2024-25.

Exhibit 5-5. Our City, Our Home (OCOH) Fund Sources (\$ millions)

Sources of Funds	FY 2023-24	FY 2024-25	FY 2025-26
	Budget	Proposed	Proposed
Homelessness Gross Receipts Tax	293.5	274.1	280.0
Interest Revenue	12.6	22.0	22.4
Use of Fund Balance	25.9	175.2	70.0
Total	\$332.0	\$471.3	\$372.3

FY 2024-25 homelessness gross receipts tax is budgeted at \$274.1 million, which is \$19.4 million (6.6 percent) less than the FY 2023-24 budget. FY 2025-26 homelessness gross receipts tax is budgeted at \$280.0 million, which is \$5.9 million (2.2 percent) more than the proposed FY 2024-25 budget. The homelessness gross receipts tax forecast largely shares the same underlying economic assumptions as the General Fund business tax forecast discussed in Appendix 1. However, the homelessness gross receipts (HGR) tax base is much narrower than the General Fund business tax base because HGR is only applicable to the largest businesses. Thus, the revenue generated by this tax is highly volatile. Furthermore, unlike the General Fund, the OCOH Fund's primary source is the homelessness gross receipts tax, which makes this fund more susceptible to this risk.

The budget assumes \$172.2 million use of fund balance in FY 2024-25 and \$70.0 million use of fund balance in FY 2025-26. Of this, \$15.6 million in FY 2024-25 represents interest earnings from prior years. To support future spending, the departments will de-appropriate the following budgets and re-appropriate the remaining budgeted amounts in the fund, as authorized by Administrative Provision 12.10 of the Annual Appropriations Ordinance.

Exhibit 5-6. Current Year OCOH “Project Closeouts” or De-Appropriations

Dept	Authority Title	Project Title	Amount
DPH	DPH Mental Health	DPH MentalHlth ResTreatmntBeds	2,268,870
DPH	DPH Mental Health	DPHShelterNavCtrMentalHlthCare	370,428
DPH	DPH Mental Health	Mental Health SF	29,326,591
DPH	HB Beds & Facilities	Mental Health SF	4,555,440
DPH	HB OCOHTargeted Services	Mental Health SF	1,723,858
DPH	HB Service Center	Mental Health SF	845,938
DPH	HB Street Crisis Response	Mental Health SF	800,000
DPH	HN Permanent Supportive Housin	Mental Health SF	2,642,898
HSH	HOMAffordHousing-Families	HOMAffordHousing-Families	26,840,134
HSH	HOMAffordHousing-GenHomeless	HOMAffordHousing-GenHomeless	15,868,603
HSH	HOMAffordHousing-Under Age 30	HOMAffordHousing-Under Age 30	63,477,369
HSH	HOM Homelessness Prevention	HOM Homelessness Prevention	45,815,574
HSH	HOM Shelter and Hygiene	HOM Shelter and Hygiene	4,178,611
			\$ 198,714,315

BABIES AND FAMILIES FIRST FUND

The Babies and Families First Fund was established by June 2018 Proposition C. The ordinance imposes a special purpose tax on businesses leasing commercial space in the City, the commercial rents tax. The tax rate is 1 percent on 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 spending on early care and education for children under six years old.

Exhibit 5-7. Babies and Families First Fund Sources (\$ millions)

Sources of Funds	FY 2023-24	FY 2024-25	FY 2025-26
	Budget	Proposed	Proposed
Commercial Rent Tax (CRT)	189.0	187.3	184.4
Interest Revenue	11.2	16.6	16.8
Use of Fund balance	9.8	0.0	0.0
	\$210.0	\$203.9	\$201.3

Commercial rents tax is budgeted at \$187.3 million in FY 2024-25, which is \$1.7 million (0.9 percent) less than the FY 2023-24 budget. FY 2025-26 commercial rents tax is budgeted at \$184.4 million, which is \$2.9 million (1.5 percent) less than the proposed FY 2024-25 budget. 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 through FY 2027-28. As businesses relinquish their office space over time, rents are expected to fall, reducing the tax base. This fund’s only source is the commercial rents tax, which exposes the fund to more risk than funds with more diversified sources like the General Fund. At the end of FY 2023-24, the Babies and Families First Fund is expected to have \$66.6 million of unappropriated fund balance and \$455.2 million of unspent carryforward budget. Interest income is budgeted at \$16.6 million in FY 2024-25 and \$16.8 million in FY 2025-26. This interest forecast assumes the historical spending rates and no significant change in cash balances. As the department spends prior year appropriations, cash balances will decrease, and interest revenue will fall accordingly.

OPIOID SETTLEMENTS FUND

The Opioid Settlements Fund was established in FY 2022-23 to record the proceeds of various local and national legal settlements related to the sale and distribution of opioids.

Opioid settlement revenue is budgeted at \$29.9 million in FY 2024-25, which is \$22.8 million (43.2 percent) less than the FY 2023-24 budget. FY 2025-26 opioid settlement revenue is budgeted at \$30.8 million, which is \$0.9 million (3.0 percent) higher than FY 2024-25 proposed budget. In addition, the budget assumes \$24.0 million of use of fund balance, which represents an unappropriated settlement payment that is expected to be received in FY 2023-24. Revenue in the fund is front-loaded, reflecting the City’s strategy of negotiating larger payments in the early years of certain settlements to help guard against the revenue effect of a bankruptcy filing by any of the payees.

ADDITIONAL FUNDS

The following funds require current year project closeouts to achieve the levels of fund balance assumed in the FY 2024-25 and FY 2025-26 proposed budgets, as authorized by Administrative Provision 12.10 of the Annual Appropriations Ordinance.

Exhibit 5-9. Current Year “Project Closeouts” or De-Appropriations for Additional Other Funds

Dept	Fund Code	Fund Title	Authority Title	Project Title	Amount
DPH	11630	SR Public Health	HCAids Education Program	HC Aids Education Program	200
DPH	11630	SR Public Health	Closed at Go Live	HB SUD - Community Care	22,083
DEC	11140	SR PEEF Annual Contr-EarlyCare	PEEF	HS CH PEEF	7,624,604
Other Funds Total					7,646,887