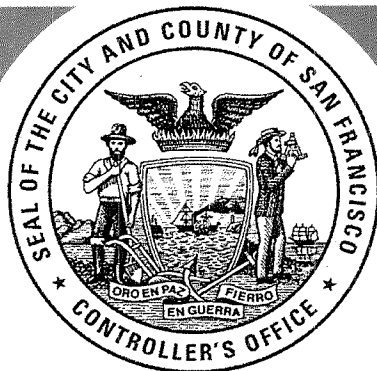


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Controller's Review

Mayor's Proposed Budget for
FY 2019-20 and FY 2020-21



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Budget and Analysis Division

6.12.2019

Summary

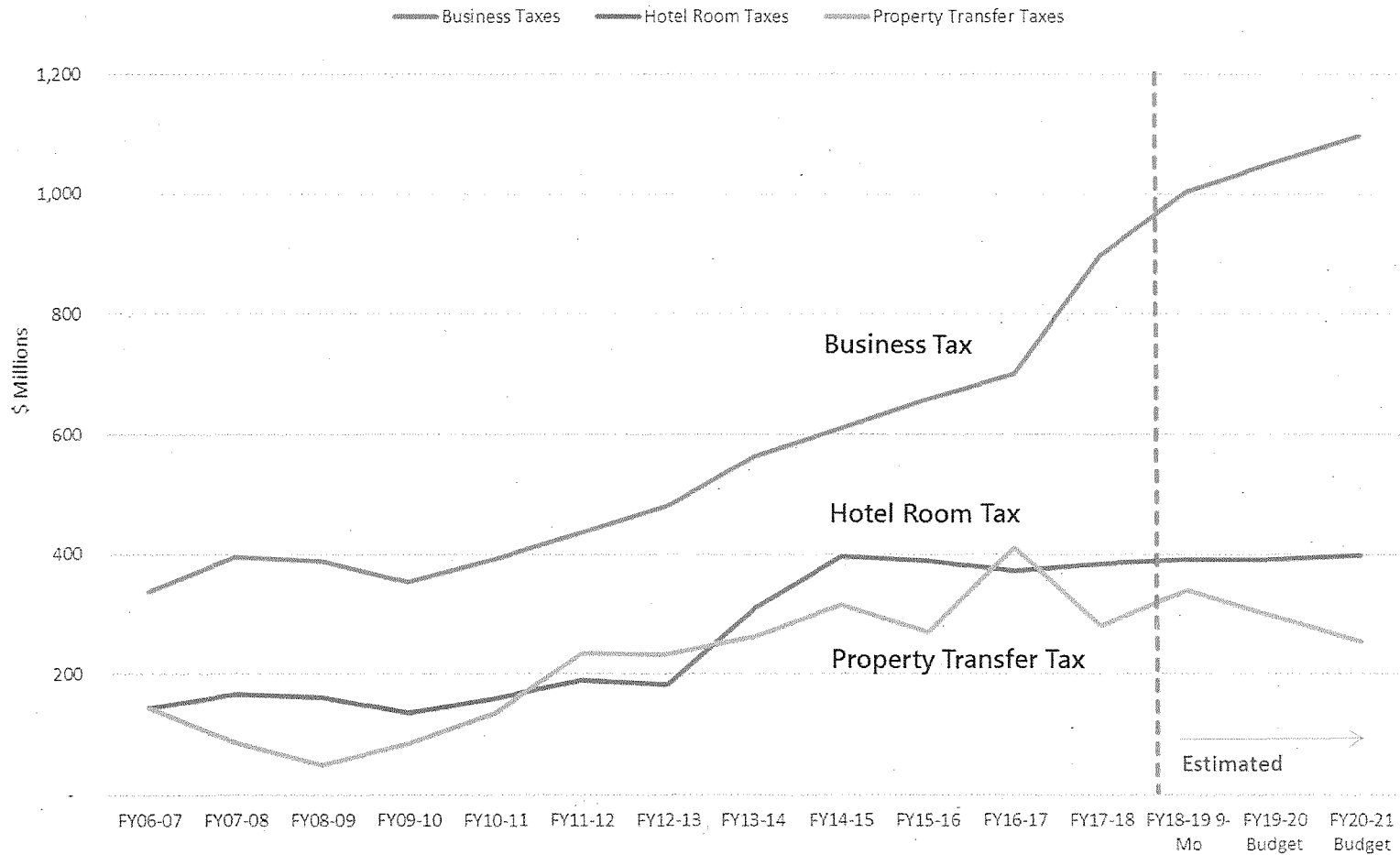
- Tax revenue assumptions are reasonable. Consistent with our projection of continued economic growth.
- Reserve requirements are met, new reserves proposed, and one-time reserves drawn down. \$5 million is set aside for managing costs at the San Francisco Housing Authority. Budget also spends nearly \$90 million in new one-time reserve deposits on one-time expenses.
- Voter-required baseline and set-aside requirements are met or exceeded. Total baselines increase by approximately 10% during the two-year budget. Parks, Children, Transitional-Aged Youth, and Housing Trust Fund requirements exceeded in at least one of the budget years.
- Draw on prior year fund balance is consistent with adopted Five Year Financial Plan, but will create future year challenges. While one-third of fund balance is retained for future years, the drawdown to support the budget will create budget challenges in FY 2021-22 and beyond absent revenue growth well above our current projections.

Budget Overview

FY 2019-20	\$12.3 billion
FY 2020-21	\$12.0 billion

- **Total** sources are increasing by \$1,223.6 million (11.1%) in FY 2019-20 and decreasing by \$308.7 million (2.5%) in FY 2020-21
- **General Fund** sources are increasing by \$579.7 million (10.5%) in FY 2019-20 and decreasing by \$80.4 million (1.3%) in FY 2020-21

Key General Fund Tax Growth (\$ millions)



General Fund Taxes

- **Business Tax** receipts are expected to exceed \$1 billion in FY 2019-20 and continue to grow in FY 2020-21.
 - Overall growth of 7% and 5% is assumed for the two budget years, consistent with the strong economic conditions in the City:
 - Unemployment of 2.4% as of April 2019
 - Anticipated initial public offerings of local firms will generate an estimated one-time tax benefit of \$30 million over two years
- General Fund **Hotel Tax** receipts are projected to grow very modestly.
 - Recent RevPAR (Revenue Per Available Room) has only grown by 1.9% over the same period, prior year.
 - Implementation of November 2018 Prop E dedicates a portion of hotel tax proceeds to arts programs, rather than the General Fund

General Fund Taxes

- **Sales Tax** is expected to grow at a slow pace due to declines in sales of general consumer goods and receipts from the business sector.
- **Transfer Tax** is assumed to peak in the current year and return to its historic average by FY 2020-21. This is the General Fund's most volatile revenue source, with <1% of transactions driving 50%+ of revenue.
- **Property Tax** is expected to continue its strong growth, nearly reaching \$2 billion in FY 2019-20 and declining slightly in FY 2020-21.
 - Roll growth of secured property assessments is assumed to be 7.3% and 4.7% in FY 2019-20 and FY 2020-21, respectively.
 - Supplemental and escape revenue is projected to decline, reflecting the successful efforts of the Assessor-Recorder to reduce the age of items in its enrollment queue.
 - Significant changes in property tax receipts related to Excess ERAF.

For more information on tax revenues, please see Appendix 1 of the Revenue Letter.

Excess ERAF

- Due, in part, to the rapid growth of property tax rolls in the last two years, the City finds itself with “Excess ERAF” property tax funds. Property tax allocations to schools that exceed State revenue limits must be returned to the City.
- The proposed budget appropriates two years of “Excess ERAF” property tax funds, associated with FY 2016-17 and FY 2019-20.
 - Revenues total \$334.1 million
 - Increase mandated baseline spending by \$59.1 million and reserve deposits by \$116.5 million
 - Remaining discretionary revenues increase of \$158.6 million
- Consistent with Board adopted policy, “Excess ERAF” is not assumed in FY 2020-21 due to risks including formula volatility, cash flow changes, and possible modifications to property tax revenue allocation laws by the State.

For more information, please see pp. 7-8 of the Revenue Letter.

Baseline Spending Requirements

- Charter-mandated baselines are funded at required levels. More than \$1.4 billion of voter-adopted spending is budgeted for each year, supporting transit, libraries, schools, early childhood education, street trees, and other programs
- Four of the baselines exceed the required funding levels:
 - **Children's Services** – \$223.3m in FY 2019-20 (\$20.1m more than required) and \$201.6m in FY 2020-21 (\$1.9m more than required)
 - **Transitional-Aged Youth** – \$28.9m in FY 2019-20 (\$4.5m more than required) and \$29.2m in FY 2020-21 (\$5.2m more than required)
 - **Recreation and Parks** – \$76.2m in FY 2019-20 (\$10.9m more than required) and \$79.2m in FY 2020-21 (\$10.8m more than required)
 - **Housing Trust Fund** – \$57.1m in FY 2019-20 (\$20.3m more than required) and \$39.6m in FY 2020-21 (at requirement)

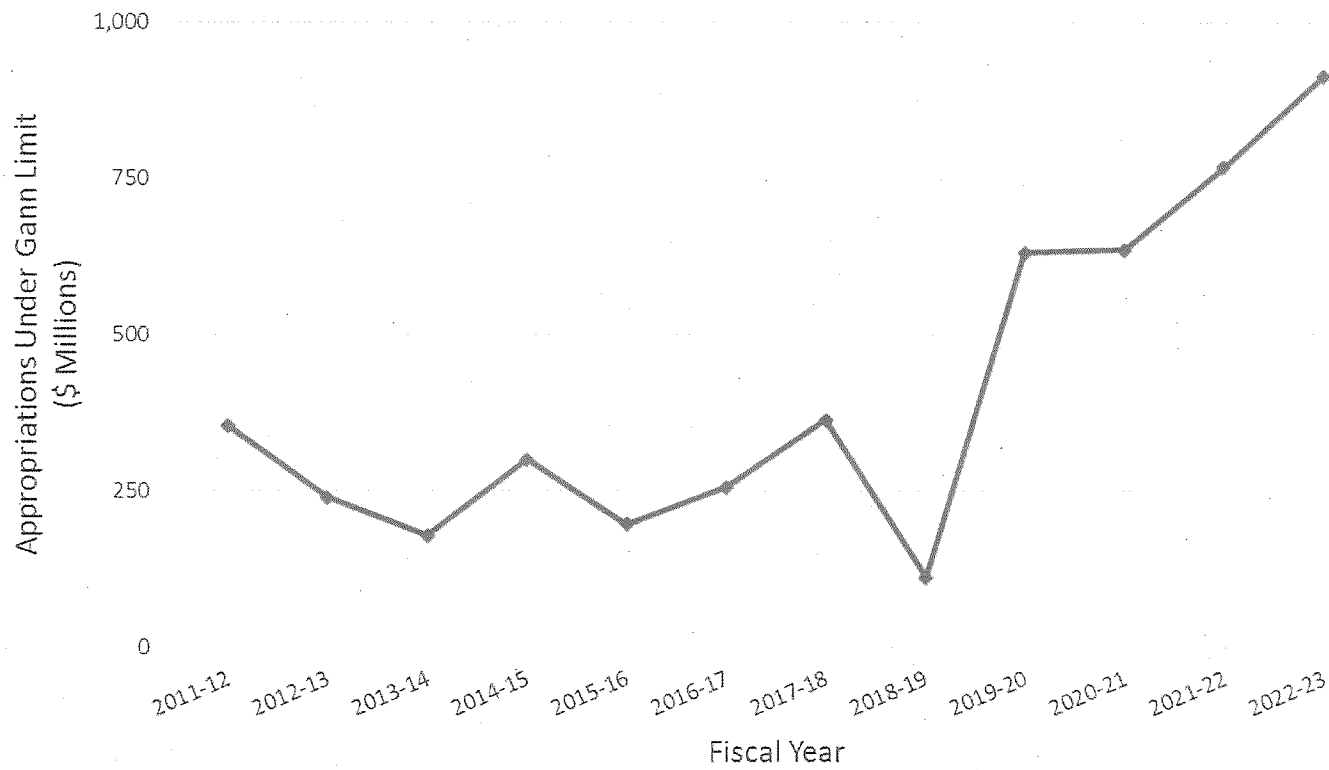
For more information on baselines, please see Appendix 4 of the Revenue Letter.

Changes to Reserves

- The **General Reserve** is funded at required levels, with deposits of \$28.9m and \$11.1m in FY 2019-20 and FY 2020-21, respectively. The reserve ends its ramp up to 3% of regular revenues by the second budget year.
- For the first time in the current year, the City's **Economic Stabilization Reserves** meet the our target of 10% of General Fund revenues, triggering additional contributions to one-time reserves. Approximately \$90m of these **One-Time Reserve** contributions are appropriated to support one-time uses.
- A new reserve is proposed to mitigate potential shortfalls at the **San Francisco Housing Authority** (\$5m).

For more information on reserves, please see Appendices 2 and 3 of the Revenue Letter.

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For more information, please see p. 4 of the Revenue Letter.

Thank you.

Any questions?