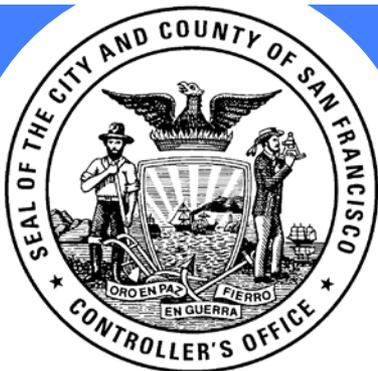


# Controller's Review

## Mayor's Proposed Budget for FY 2020-21 and FY 2021-22



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

8.12.2020

## Summary

The proposed balanced budget relies on reasonable but highly uncertain estimates of tax revenues and other sources that correspond to an overall assumption that the public health crisis continues to depress local economic activity through much of fiscal year (FY) 2020-21. A gradual recovery is assumed to begin in FY 2020-21 followed by a more robust rebound in FY 2021-22.

Great uncertainty remains regarding the future shape of the pandemic and the corresponding implications for economic and tax revenue growth. This risk is heightened by several other non-economic sources assumed in the budget.

We will report regularly on the status of the budget in the fiscal year ahead. The Mayor and Board of Supervisors should plan to actively manage the budget, including work to develop contingency plans in the likely event that mid-year adjustments will be required.

## Summary of Key Risks

The proposed budget is balanced on a number assumptions that contain significant risk and will likely require active management by the Mayor and Board of Supervisors throughout the year.

- **Recovery:** Revenue estimates in the proposed budget assume a slow recovery begins in FY 2020-21, becoming more robust by the end of the year as the impact of the public health crisis is significantly mitigated and commercial activities can begin to return to pre-COVID levels. Tax revenues will fall short of these projections if the public health crisis persists at current levels or worsens.
- **Federal funding:** Over \$350 million in federal funding for COVID-19 response costs in FY 2020-21, including \$236 million of FEMA reimbursements and \$82 million from the Coronavirus Relief Fund. If FEMA stops accepting claims before year end, or response costs continue beyond FY 2020-21, local funds will need to fill the gap. No additional federal stimulus is assumed in the proposed budget.

## Summary of Key Risks

- **Wage deferrals:** The budget assumes contractual wage increases for all City employees are renegotiated and deferred, saving approximately \$270 million. Should negotiations prove unsuccessful prior to scheduled wage increases later this fiscal year, other solutions will need to be identified.
- **Ballot measure:** The budget assumes voter approval of a November 2020 business tax ballot measure which would permit the City to repay \$331 million of prior year General Fund advances made in prior years.
- **State budget:** The budget appropriates \$330 million “excess ERAF” for ongoing purposes. These revenue are subject to some legislative risk as the State grapples with budget shortfalls in future fiscal years.
- **Reserve use:** The budget withdraws the maximum permissible amount of \$339 million from the City’s economic stabilization reserves and consolidates most other reserves into a COVID Response and Economic Loss Reserve of \$507 million, sufficient to offset some, but not all, of these risks.

## Other Key Findings

- **Baselines:** Most mandated spending levels are met in the proposed budget, with investments in several areas exceeding voter-required funding levels. However, police staffing levels funded in the budget are likely lower than the minimum staffing requirement. A ballot measure to revise this requirement will be considered by the voters in November 2020.
- **One-time sources exceed one-time uses:** The proposed budget proposes to close the projected shortfall with a heavy reliance on one-time solutions. These solutions exceed one-time uses in the budget. This mix of solutions will therefore require suspension of the City's financial policy on nonrecurring revenues prior to adoption of the final budget.

# Budget Overview

FY 2020-21

\$13.6 billion

FY 2021-22

\$12.6 billion

- **Total** sources are increasing by \$1.37 billion (11.1%) in FY 2020-21 and decreasing by \$1.08 million (7.4%) in FY 2021-22
- **General Fund** sources are increasing by \$53.5 million (0.9%) in FY 2020-21 and decreasing by \$382.3 million (6.2%) in FY 2021-22

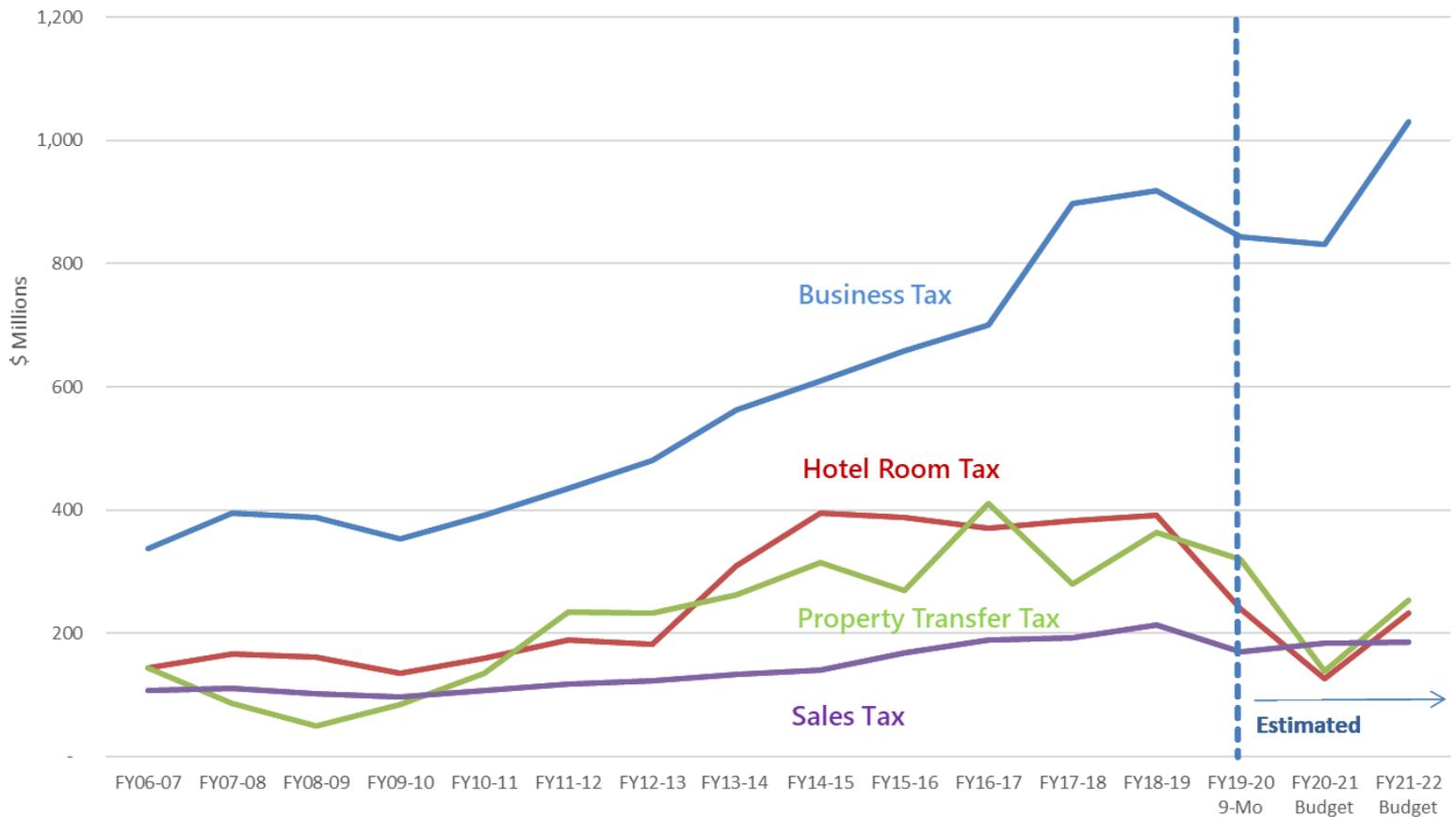
## Key General Fund Tax Revenues (\$ millions)

General Fund Tax	Actual FY 2018-19	9-Month FY 2019-20	Proposed FY 2020-21	Proposed FY 2021-22
Property Tax (No Excess ERAF)	1,698.3	1,807.0	1,833.0	1,834.0
Business Tax	917.8	843.5	831.4	1,030.9
Hotel Tax	392.3	239.0	126.2	233.0
Sales Tax	213.6	170.3	183.7	185.3
Real Property Transfer Tax	364.0	320.0	138.0	253.4

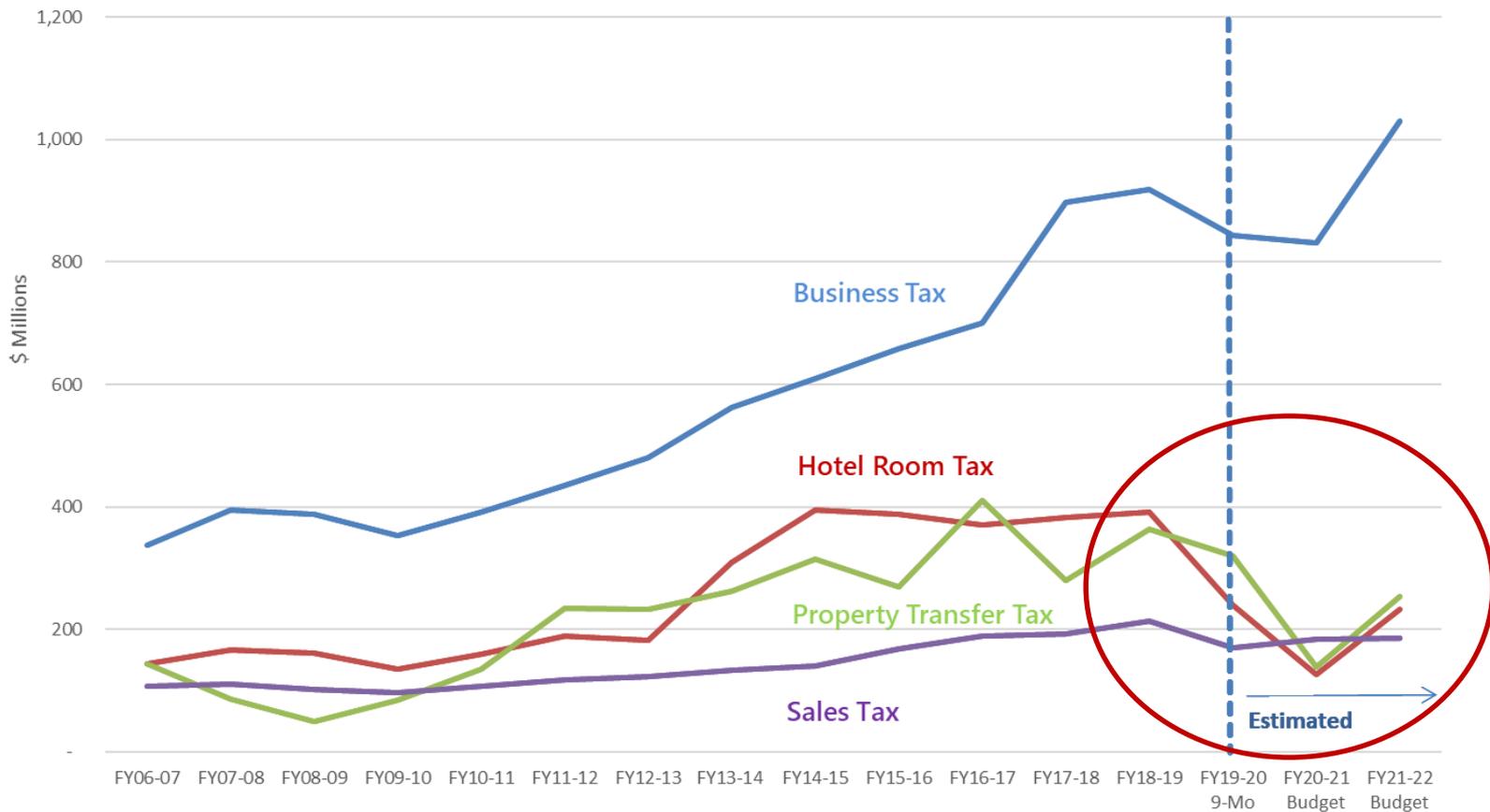
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# Key General Fund Tax Revenue (\$ millions)



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# General Fund Taxes

- **Business Tax** receipts are projected to decline in FY 2020-21 then rebound in FY 2021-22.
  - Underlying economic growth of -5% and 6% is assumed for the two budget years, consistent with weakened and uncertain economic conditions in the City:
    - Unemployment of 12.5% as of June 2020
    - Pause in business reopening due to public health crisis
    - 2020: 50% of nonresident office workers telecommute. 2021: 25%
- General Fund **Hotel Tax** receipts are projected to decline by 40% in FY 2020-21, then grow 70% in FY 2021-22.
  - RevPAR (Revenue Per Available Room) for FY 2019-20 is nearly -30%
  - Despite assumed FY 2021-22 growth, hotel tax receipts are not anticipated to recover to their prior peak until FY 2023-24.

# General Fund Taxes

- **Sales Tax** is projected to grow 6.9% in FY 2020-21 and 0.9% in FY 2021-22 after an anticipated decline of nearly 20% in FY 2019-20. Strong FY 2020-21 growth is due to one-time repayment of FY 2019-20 deferrals.
- **Transfer Tax** is assumed to peak in FY 2018-19, decline in FY 2019-20 and FY 2020-21 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** lags other recessionary revenue losses. It is expected to grow moderately in each year.
  - Roll growth of secured property assessments is assumed to be 7.7% and 0.2% in FY 2020-21 and FY 2021-22, respectively.
  - Hotel, retail, and office assessed values are assumed reduced by \$8.5 billion, reflecting declines of 20%, 20%, and 7%, respectively in FY 2021-22, and unsecured business property tax assessments are assumed to decline 20%.

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

## Excess ERAF

- **Excess ERAF property tax funds** are budgeted in both budget years. Property tax allocations to schools that exceed State revenue limits must be returned to the City.
  - \$330.0 million over two years
  - Increase mandated baseline spending and reserve deposits by \$77.9
  - Of the \$252.1 million available after baseline allocations, \$53.9 million is spent to continue education, mental health and homeless services previously funded on a temporary basis and \$198.3 million is proposed to balance other revenue shortfalls.

# Baseline Spending Requirements

Charter-Mandated Baselines	Requirement	FY 2020-21 Proposed	FY 2021-22 Proposed
Children's	Appropriations equal to FY 2000-01 plus discretionary revenue growth (4.830% ADR)	\$25.2 million above required level (\$168.4 million)	\$20.3 million above required level (\$188.6 million)
Disconnected Transitional-Age Youth	Appropriations equal to FY 2013-14 plus discretionary revenue growth (0.580% ADR)	\$10.7 million above required level (\$20.2 million)	\$8.3 million above required level (\$22.7 million)
Municipal Transportation Agency (MTA)	1) 9.193% ADR + Central Subway 2) Population Adjustment 3) 80% Parking Tax	At required level (\$431.0 million)	At required level (\$499.8 million)
Recreation & Park	Increase General Fund Support \$3.0 million annually, growth suspended in FY 2020-21	\$7.9 million above required level (\$76.2 million)	\$1.3 million above required level (\$79.2 million)
Dignity Fund	Increase General Fund Support \$3.0 million annually, growth suspended in FY 2020-21	At required level (\$50.1 million)	At required level (\$53.1 million)
Street Tree Maintenance	Increase General Fund Support by changes in Aggregate Discretionary Revenue	At required level (\$18.0 million)	At required level (\$20.1 million)
Our City, Our Home (Nov, 2018)	Appropriations equal to FY 2017-18 amount of \$215.0 million.	\$51.8 million above required level (\$215.0 million)	\$64.8 million above required level (\$215.0 million)
Early Care and Education (Jun, 2018)	Appropriations equal to FY 2017-18 amount plus discretionary revenue growth (2.2122% ADR)	\$11.3 million above required level (\$79.7 million)	\$11.6 million above required level (\$86.5 million)
Police Minimum Staffing	Not less than 1,971 sworn full-duty officers	Likely Not Met	Likely Not Met
Other	Varies	Funded at required level	Funded at required level

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

# Police Baseline

	FY20-21	FY21-22
<b>Total Sworn Officers in New Fiscal Year</b>	<b>2,285</b>	<b>2,285</b>
Projected Changes:		
Officers Assigned to Airport and Academy	(263)	(313)
Officers on Modified Duty	(193)	(193)
Projected Retirements & Terminations	(80)	(80)
New Officers from Academy Class	80	80
<b>Projected Year-End Full-Duty Officers</b>	<b>1,829</b>	<b>1,779</b>
Baseline Staffing Requirement	1,971	1,971
Civilianized Positions	107	107
<b>Revised Baseline</b>	<b>1,864</b>	<b>1,864</b>
<b>Shortfall from Baseline</b>	<b>(35)</b>	<b>(85)</b>

# Changes to Reserves

Economic stabilization reserves are drawn from 10% to 3.5% over the two-year budget period.

	FY19-20		FY 2020-21			FY 2021-22		
	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	
<b>General Reserve</b>	\$ 76.4	\$ -	\$ -	\$ 76.4	\$ 0.9	\$ -	\$ 77.3	
Rainy Day Economic Stabilization City Reserve	229.1	-	(114.5)	114.5	-	(57.3)	57.3	
Budget Stabilization Reserve	292.6	-	(42.0)	250.6	-	(125.3)	125.3	
<b>Subtotal Economic Stabilization Reserves</b>	<b>\$ 521.7</b>	<b>\$ -</b>	<b>\$ (156.5)</b>	<b>\$ 365.2</b>	<b>\$ -</b>	<b>\$ (182.6)</b>	<b>\$ 182.6</b>	
<b>Percent of General Fund Revenues</b>	<b>10.0%</b>			<b>7.0%</b>			<b>3.5%</b>	
<b>COVID Response and Economic Loss Reserve</b>	<b>\$ 507.4</b>	-	-	<b>507.4</b>	-	-	<b>507.4</b>	
Rainy Day One-Time Reserve	-	-	-	-	-	-	-	
Budget Stabilization Reserve - One Time Reserve	-	-	-	-	-	-	-	
Affordable Care Act Contingency Reserve	-	-	-	-	-	-	-	
State and Federal Revenue Risk Reserve	-	-	-	-	-	-	-	
Housing Authority Contingency Reserve	-	-	-	-	-	-	-	
Fund Balance Draw Down Reserve	-	-	-	-	-	-	-	
Budget Savings Incentive Fund	-	-	-	-	-	-	-	
Business Tax Stabilization Reserve	-	208.0	-	208.0	-	(149.0)	59.0	
Public Health Management Reserve	81.5	-	-	81.5	-	-	81.5	
Rainy Day Economic Stabilization SFUSD Reserve	34.5	-	-	34.5	-	-	34.5	
Recreation & Parks Savings Incentive Reserve	0.8	-	-	0.8	-	-	0.8	
<b>Subtotal</b>	<b>\$ 624.2</b>	<b>\$ 208.0</b>	<b>\$ -</b>	<b>\$ 832.2</b>	<b>\$ -</b>	<b>\$ (149.0)</b>	<b>\$ 683.2</b>	

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

# Changes to Reserves

All available one-time reserve balances are consolidated for COVID response and economic loss

	FY 2019-20 Projected Balance	
	Nine-Month (May 2020)	Revenue Letter (August 2020)
COVID Response and Economic Loss Reserve	-	507.4
Rainy Day One-Time Reserve	45.5	-
Budget Stabilization Reserve - One Time Reserve	66.9	-
Affordable Care Act Contingency Reserve	50.0	-
State and Federal Revenue Risk Reserve	40.0	-
Housing Authority Contingency Reserve	5.0	-
Fund Balance Draw Down Reserve	213.0	-
Budget Savings Incentive Fund	87.0	-
<b>Total</b>	<b>\$ 507.4</b>	<b>\$ 507.4</b>

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

## Quick Recap

The proposed budget is balanced assuming public health conditions continue to depress economic activity through much of FY 2020-21, with a recovery beginning later this fiscal year and a more robust bounce-back in FY 2021-22.

Great uncertainty remains regarding the future shape of the pandemic and the corresponding implications for economic and tax revenue growth.

This risk is heightened by several other assumed non-economic sources, including voter-adoption of a gross receipts business tax measure in November 2020 and negotiation of wage deferrals with city employee unions. Together these two solutions account for over \$600M in General Fund savings assumed in the budget.

Active budget management by the Mayor and Board will be required in the year ahead. This work should include the development of contingency plans in the event that mid-year adjustments are required.

# Any questions?

Ben Rosenfield

Controller

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