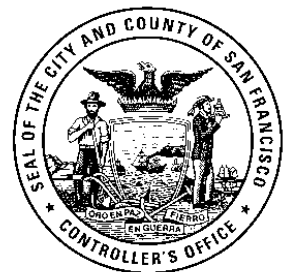


FY 2023-24 and FY 2024-25 Revenue Letter

Controller’s Discussion of the Mayor’s Proposed Budget

The Charter requires that the Controller comment on revenue estimates assumed in the Mayor’s FY 2023-24 and FY 2024-25 proposed budget. 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 structural gap in excess of \$500 million is likely to persist following the exhaustion of those funds.



June 12, 2023

City & County Of San Francisco
Office of the Controller
Budget & Analysis Division

About the 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. In this report, we present our findings related to those requirements and financial risks the City faces over the two fiscal years.

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 during the coming two years, but in most cases remain below pre-pandemic levels. However, the continuity of remote work and high interest rates are projected to continue to have significant impacts on the City's property, business, and property transfer taxes. Tax increases adopted by the voters in recent years are projected to contribute to modest overall General Fund revenue growth of 0.6% in FY 2023-24 and 3.3% FY 2024-25.
- **The budget assumes nearly \$1 billion of General Fund one-time solutions over the two budget years.** These one-time solutions include drawdown of \$405.0 in prior year fund balance, including \$117.2 million in prior continuing appropriations the Mayor's budget proposes to close; \$250.0 million of FEMA reimbursement for previously incurred emergency response costs; \$172.3 million of reserve drawdowns; and other one-time solutions. Additionally, the budget proposes \$125.9 million of short-term shifts of costs in other funds, with a significant portion designed to achieve General Fund savings.
- **The budget further draws on available reserves but maintains the City's economic stabilization reserves.** The budget uses \$172.3 million of reserves established in prior years. By the end of the two-year budget period, the City will have used approximately \$620 million (or 43%) of its \$1.4 billion of pre-pandemic reserves to support on-going operations. The Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"). Required General Reserve funding levels are maintained in the proposed budget.
- **The proposed budget makes some limited progress towards projected structural budget gaps in years beyond the coming two-year budget period.** This forecast, published in March 2023, forecast a structural budget gap of \$724 in FY 2025-26, 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, our office would estimate a likely shortfall in excess of \$500 million in FY 2025-26, growing in subsequent years.
- **The final adopted budget will require active monitoring and management by the Mayor and Board of Supervisors given a number of economic and financial risks.** These risks include the possibility of a slowing economic recovery or a recession, delays in the recertification of Laguna Honda Hospital, and risks associated with both State and Federal revenues streams.

Other key requirements and legislative proposals:

- **Three business tax proposals are assumed to be adopted in the Mayor's proposed budget, with an all funds impact of \$31.8 million and \$38.8 million in FY 2023-24 and FY 2024-25, respectively.** One proposal provides sublessors a deduction on their commercial rents tax. Another proposal delays a tax increase on General Fund gross receipts for industries particularly harmed by the pandemic, including retail, accommodations, restaurants, and entertainment. Finally, a gross receipts tax credit for businesses in some industry categories that open a physical location in the City is included in the budget.
- **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, 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, the Our City, Our Home Baseline (November 2018 Prop C), and the Early Care and Education baseline (June 2018 Prop C). The March Update to the Five-Year Financial Plan forecasted a deficit of \$290.9 million, resulting in the suspension of required growth to several baselines in the FY 2023-24 budget: Early Care and Education baseline, Dignity Fund, Recreation and Parks baseline, and the Street Tree Maintenance Fund.
- **Minimum Compensation Rate.** The Minimum Compensation Ordinance, Section 12P of the Administrative 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 budget that would increase the minimum compensation rates in steps. For nonprofit organizations, the rate would be set at \$18.93 on July 1, 2023, and increased to \$20.25 on July 1, 2024. For public entities, the rate would be \$19.25 on July 1, 2023, and increased to \$22.50 by January 1, 2025. These increases only go into effect if there are sufficient appropriations to fund the increases, which would cost \$3.3 million in FY 2023-24 and \$7.6 million in FY 2024-25. The budget is sufficient to fund the direct wage impacts of the minimum compensation increases. These compensation increases, therefore, will be effective July 1, 2023.

Overview of key financial risks:

- While we find the revenues 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) economic risk, (2) funding uncertainty at Laguna Honda Hospital, (3) State budget revenue risk, (4) disallowance of claims for federal revenues assumed in the City's emergency response budgets, and (5) the projected structural budget gap following depletion of one-time funds.
 - **Economic risk.** The budget assumes economic growth will drive tax revenue increases of \$122.9 million in FY 2023-24 and \$146.3 million in FY 2024-25. 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.

In addition, economists have become increasingly concerned about the potential for a recession in the next twelve months. Higher interest rates, uncertainty in financial institutions, and fallout from the debt limit impasse carry national level risks. Delayed tax receipts from extended filing deadlines likely mean changes to the state budget into the fall.

- **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. CMS has agreed to continue payments for existing patients through March 2024. Due to the pause on new admissions, the hospital projects a potential revenue shortfall of up to \$4 million per month due to lower hospital census until recertification and readmissions resume. 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 2022-23 ending balance of the reserve is \$116.9 million.
- **State budget revenue risk.** Just as there is economic risk to the City's budget, there is also economic risk to the State's budget, which could impact cities and counties. Although the State must finalize its budget by June 15th, the revenue underpinning the budget is subject to revision given the extension of State and federal income tax filing deadlines to October 2023. This results in increased risk to the State's revenue forecast, including the potential for the Legislature to claw back monies appropriated to cities and counties, should mid-year corrections be required. The Controller's Office is assessing the impacts of the State budget, including changes in 1991 and 2011 realignment revenues from the May Revise budget, and will report to the Mayor and the Board of Supervisors as more is known. The Governor's May Revised budget used a combination of funding deferrals, reappropriation of unspent funds, and shifts from the General Fund to balance a \$31.5 billion projected deficit.
- **Federal revenue risk.** The City anticipates \$572.3 million of reimbursements from the Federal Emergency Management Agency (FEMA) for public health emergency response costs incurred beginning in March 2020, including amounts in the proposed budget of \$170.0 million in FY 2023-24 and \$80.0 million in FY 2024-25. To date, FEMA has obligated \$223.4 million of claims and paid \$220.4 million. The federal reimbursement and auditing process will likely continue for several fiscal years, leaving a key risk to budgeted revenues.

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 2023-24 includes \$6.9 billion in General Fund sources and \$14.6 billion in All Funds sources, representing an increase from the FY 2022-23 original budget of 1.0 percent in the General Fund and 4.4 percent in All Funds. The Mayor's proposed budget for FY 2024-25 includes \$7.1 billion in General Fund sources, a 2.8 percent increase the FY 2023-24 proposed budget, and \$14.6 billion in All Funds sources, a 0.3 percent decrease from FY 2023-24 proposed budget.

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

General Fund

	FY 2022-23 Budget	FY 2023-24 Proposed	FY 2024-25 Proposed
Fund Balance	\$ 307.7	\$ 117.4	\$ 287.6
Use of Reserves	87.7	101.5	70.8
Regular Revenues	6,187.8	6,429.4	6,485.8
Transfers In to the General Fund	203.0	208.7	206.4
Total GF Sources	\$ 6,786.2	\$ 6,857.1	\$ 7,050.6
<i>Change from Prior Year</i>		<i>\$ 70.9</i>	<i>\$ 193.5</i>
<i>Percentage Change</i>		<i>1.0%</i>	<i>2.8%</i>

All Funds

	FY 2022-23 Budget	FY 2023-24 Proposed	FY 2024-25 Proposed
Fund Balance	\$ 599.0	\$ 343.0	\$ 466.9
Use of Reserves	104.5	121.1	86.5
Regular Revenues	13,297.7	14,148.9	14,020.5
Total All-Funds Sources	\$ 14,001.3	\$ 14,613.0	\$ 14,573.9
<i>Change from Prior Year</i>		<i>\$ 611.8</i>	<i>\$ (39.1)</i>
<i>Percentage Change</i>		<i>4.4%</i>	<i>-0.3%</i>

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 2022-23 Budget	FY 2023-24 Proposed	FY 2024-25 Proposed	Notes
FUND BALANCE & RESERVES				
Prior Year Fund Balance	\$ 307.7	\$ 117.4	\$ 287.6	1
Use of Reserves	87.7	101.5	70.8	2
<i>Subtotal</i>	395.4	218.9	358.4	
REGULAR REVENUES				
Property Taxes	2,379.5	2,510.0	2,474.0	3
Traditional Property Tax	2,051.0	2,144.9	2,151.8	
Excess ERAF	328.5	365.1	322.2	
Business Taxes	902.3	846.7	930.5	4
Sales Tax (Bradley Burns 1%)	182.9	200.1	205.2	5
Hotel Room Tax	188.9	302.9	342.0	6
Utility Users Tax	82.6	111.4	112.5	7
Parking Tax	80.2	84.1	87.9	8
Real Property Transfer Tax	390.5	222.0	269.6	9
Stadium Admissions Tax	5.4	9.1	9.1	10
Cannabis Tax	-	-	-	11
Overpaid Executive Tax	60.0	100.0	100.0	12
Sugar Sweetened Beverage Tax	13.3	13.7	13.7	13
Access Line Tax	47.1	55.6	57.2	14
Licenses, Permits & Franchises	26.8	30.3	30.6	
Fines and Forfeitures	3.1	3.0	3.1	
Interest & Investment Income	44.5	121.1	113.5	15
Rents & Concessions	13.1	14.6	14.8	
Intergovernmental - Federal	560.4	505.1	423.8	16
Federal Emergency Management Agency	243.4	170.0	80.0	
Other	317.1	335.1	343.8	
Intergovernmental - State	947.8	1,006.7	1,002.7	
Public Safety Sales Tax	89.7	100.4	102.8	17
1991 Health & Welfare Realignment -				
Sales Tax and VLF	269.1	281.6	290.7	18
Public Safety Realignment	60.3	50.5	51.9	19
Other	528.6	574.2	557.2	
Intergovernmental Revenues - Other	3.1	3.9	3.4	
Charges for Services	217.0	245.5	238.1	20
Recovery of General Government Costs	19.9	26.2	26.2	
Other Revenues	19.4	17.5	27.8	21
<i>Subtotal Regular Revenues</i>	\$ 6,187.8	\$ 6,429.4	\$ 6,485.8	
Transfers In to the General Fund	203.0	208.7	206.4	22
TOTAL SOURCES	\$ 6,786.2	\$ 6,857.1	\$ 7,050.6	

NOTES

1. Prior Year Fund Balance

As shown in Exhibit 1-2, a total of \$486.2 million of fund balance is available for appropriation. In May 2023, the Controller's Nine Month Report projected year-end surplus above what had been previously budgeted in FY 2023-24 of \$209.3 million. Subsequently, an additional \$10.0 million of expenditures savings was identified, which includes the abatement of administrative expenditures to the Health Care Security Ordinance fund as and other operating departmental operating savings.

Significantly, the Mayor's budget proposes to de-appropriate \$117.2 million of General Fund-supported budgets in continuing funds in the current year.

In total, the proposed budget appropriates \$405.0 million in unassigned General Fund balance to support spending. The remaining unappropriated fund balance of \$81.2 million is designated for balancing future year 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 2023-24	149.7
(+) Projected Fund Balance, May 2023 Nine Month Report	209.3
(+) Additional Expenditure Savings	10.0
(+) Current Year Project Closeouts	117.2
Fund Balance Available for Appropriation	486.2
Fund Balance Appropriated in Budget	405.0
Fund Balance Designated for Future Budgets	81.2

The \$117.2 million of "project closeouts" or de-appropriations are composed of the following budgets, and are authorized by Administrative Provision 12.10 of the Annual Appropriations Ordinance.

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

Dept	Authority Title	Project Title	Amount
ADM	ADCP Critical Repairs	Crit Repair Recovry Stim COPs	7,015,700
ADM	ADCP Critical Repairs	Crit Repair Recovry Stim COPs	1,463,050
ADM	AD Red-capital Improvements	ADRE Capital Improvements	478,925
ADM	ADRE HOJ Relocation	ADRE HOJ Relo - Non-CPC	349,669
ADM	AD Sf Std Clinic	PW MaxineHall Clinic Elev Impr	296,764
ADM	ADDP Data Policy and Privacy	ADDP Data Policy and Privacy	210,086
ADM	AD E-procurement	ADCA E-Procurement	157,102
ADM	AD Real Estate Project	ADRE COIT Projects	101,777
ADM	AD Red Facilities Maintenance	ADRE Facilities Maintenance	100,000
ADM	AD City Hall Emergency Generat	ADRE Capital Improvements	78,353
ADM	ADRE HOJ Relocation	ADRE HOJ Relo - CPC	60,000
ADM	PW Capital Planning	ADCP City Resilience Projects	3,156
ADM	AD Red-city Hall Projects	ADRE Capital Improvements	759
ADP	IPO	HS PA IPO	60,000
ART	AR Community Investments Admin	AR Community Investments Admin	84,000
ART	AR Maintenance - Cultrul Cent	AR Cultural Centers Maint	50,000
CHF	CH Outreach and Access	CH Children and Families Servi	2,055,301
CHF	CoVid Operations Section	CH CYF-Eligible Services	1,000,000
CHF	CH Our Children; Our Families	Our Children; Our Families Cou	800,000
CHF	CH Summer Learning	CH Youth Learning	402,515
CHF	CH Child Care Facilities Impro	Child Care Facilities Improvem	305,202
CHF	CH Early Care and Education	Bos Allocations	240,000
CON	Mission Bay Transportation Imp	CO Operations	24,566
CPC	PC Neighborhood Profiles Proje	CPC D3 Pedestrian Plaza	138,311
CPC	PC Neighborhood Profiles Proje	PC Neighborhood Profiles Proje	100,000
CPC	PW Streetscape	PW Better Market St Pln & Dsgn	81,124
DAT	AS Dist Atty 54% Alloc Real Es	Dist Atty 54% Alloc Real Estat	100,000
DEC	State Childcare Reserve	HS CH State Childcare Reserve	72,440
DEM	EM Public Safety Radio Syst &	EM Radio Replacement Project	1,670,201
DEM	CoVid Command Section	CoVid OPS Vaccination	561,799
DEM	CoVid Joint Information Sectio	CoVid JIC Joint Information Co	556,223
DEM	CoVid Departmental Operations	CoVid DOP DEM Response	123,345
DEM	EM Public Safety Radio Syst &	2019 COVID-19	99,339
DEM	EM Critical Infrastructure Pro	Critical Infrastructure Protec	30,524
DEM	DEM CAD Replacement- Scoping	2019 COVID-19	16,390
DEM	CoVid PPE & Scarce Resources	CoVid PPE & Scarce Resource Bu	15,000
DEM	EM Dem Facility Renewal Projec	Dem Facility Renewal Project	11,541
DEM	EM Active Directory Migration	Active Directory Migration	5,401
DEM	EM Dem Facility Enhancement Pr	ED Dem Facility Enhancement Pr	2,806
DEM	EM 911 Phone System Replacemen	911 Phone System Replacement	170
DPH	HG Healthy San Francisco-healt	HG Healthy San Francisco-healt	2,917,025
DPH	HD TB Civil Detention	HD DC TB Control	2,750,000
DPH	CoVid Operations Section	CoVid OPS I&Q	2,685,109
DPH	CoVid Operations Section	CoVid OPS Medical Services	2,314,891
DPH	HG Ems 911 Fund	HG Ems 911 Fund	1,315,327
DPH	HN CALAIM Implementation	HN CALAIM	232,000
DPW	PW SES - Street Env Services	PW Operating	25,000,000
DPW	CoVid Operations Section	CoVid OPS Community	1,649,562
DPW	PW Citywide Projects	PW AB Office of Emerg Tech	1,000,000
DPW	PW Citywide Addback (Program)	WA Fy2016 Programmatic Dpw Pro	811,591
DPW	PW District 2 Projects	PW AB Fillmr-Chestnt Lit & Stm	560,000
DPW	Citywide Projects	PW FY23 Pit-Stop Expansion	500,000
DPW	PW Citywide Projects	WA Fy2016 Programmatic Dpw Pro	375,000
DPW	PW District 2 Projects	PW AB Bchnn-Nrth Pt Lit & Stm	360,000
DPW	PW District 2 Projects	PW SES Shared Schoolyards	286,126
DPW	PW District 4 Projects	PW AB Noriega-Judah Corr Amb	200,000
DPW	PW District 3 Projects	PW AB Pitstop at Lower Polk	200,000
DPW	PW District 6 Addback (BOS)	PW McCoppin and VMD Park Adbck	137,938
DPW	District 7 Addback (MYR)	PW AB Street Smarts Lndscp	104,639
DPW	Citywide Projects	PW AB Pit Stop Expansion	100,000
DPW	District 11 Projects	PW AB D11 Nbhd Green & Beautify	75,000
DPW	District 6 Projects	PW AB Pitstop 6th Day of Serv	59,746
DPW	PW District 3 Addback (BOS)	PW AB Pitstop at Lower Polk	58,802
DPW	PW District 5 Addback (BOS)	PW AB D05 Econ D Addl Outreach	42,750
DPW	District 6 Addback (BOS)	PW AB Pitstop 6th Day of Serv	30,000
DPW	PW District 2 Addback (Infrrst)	PW Lombard St Infra Impr	30,000

Dept	Authority Title	Project Title	Amount
DPW	PW Citywide Addback (BOS)	PW AB Pit Stop Expansion	25,000
DPW	PW District 8 Addback (BOS)	Bernal Cut Restoration	25,000
DPW	District 7 Projects	PW PB Miraloma Park	25,000
DPW	PW Citywide Addback (BOS)	PW AB Nbd Clean and Green	21,306
DPW	PW IDC City Fac Trial Courts	PW HOJ HVAC Impr	15,967
DPW	PW District 2 Addback (BOS)	PW AB Fillmr-Chestnt Lit & Stm	6,834
DPW	PW District 4 Addback (BOS)	PW AB Noriega-Judah Corr Amb	5,543
DPW	PW District 2 Addback (BOS)	PW AB Bchnn-Nrth Pt Lit & Stm	4,393
DPW	District 6 Projects	PW AB D06 Mobile Showers	4,300
DPW	District 4 Addback (SES)	PW AB Noriega-Judah Corr Amb	3,087
DPW	District 7 Projects	Pavement To Parks Program	2,588
ECN	EW Public-private Development	BE Public-Private Development	884,217
ECN	EW Small Business Revolving Lo	Small Business Revolving Loan	595,000
ENV	PW District 4 Addback (SES)	PW AB Cig Ashcans Install-Edu	25,000
ENV	PW District 8 Addback (BOS)	Bernal Cut Restoration	25,000
ENV	PW District 9 Addback	Air Travel Carbon Offset Progr	20,000
ENV	PW District 8 Addback (BOS)	PW D8 PB Adah's Stairway	10,010
ENV	PW District 9 Projects	Air Travel Carbon Offset Progr	10,000
ETH	EC Coit E-filing Conversion Pr	Coit E-Filing Conversion Proje	102,039
ETH	EC Coit E-filing Conversion Pr	Disclosure Data Sharing Tools	29,459
FIR	Operating	FIR Crisis Response Team	1,000,000
FIR	Underground Storage Tank Monit	FD Underground Storage Tank Mo	350,000
FIR	Various Facility Maintenance P	FD Various Facility Maintenanc	100,000
FIR	FD OES Response & Mutual Aid	FD OES Response & Mutual Aid	100,000
FIR	FD Fire Prevention Facility R	FC Prevention Facility Renewal	50,000
FIR	FD Oxygen Cascade System Upgrd	FD Oxygen Cascade System Upgrd	50,000
FIR	PW ESER 2010 PSB	PW Public Safety Building	9,490
FIR	FD Fir - Apparatus Door Replac	FD Apparatus Door Replacement	2,951
FIR	FD Fire Department Public Safe	Fire Department Public Safety	1,013
FIR	FD Fire High Pressure Air Comp	Fire High Pressure Air Compres	613
FIR	FD Boiler Replacement	Boiler Replacement	238
FIR	FD Generator Replacements	FD Generator Maintenance	115
FIR	FD Boiler Replacement	Boiler Replacement	20
FIR	FD Fire Department Vehicle Mod	Fire Department Vehicle Modem	19
FIR	FD Fir - Apparatus Door Repl P	FD Apparatus Bay Door Replace	15
GEN	PW District 2 Addback (Infrst)	PW Lombard St Infra Impr	6,652
HOM	HO Shelter And Navigation Cent	HO SAFE PARKING	9,984,622
HRC	Opportunities for All	HRC Office of Racial Equity	1,370,333
HRC	EW City Economic Development P	EW 21-22 Board Addbacks	250,000
HRC	Opportunities for All	HRC Invnt Blk Org & Eq-Foc	250,000
HRC	Opportunities for All	Opportunities for All	150,000
HRD	HOUSING AUTHORITY TRANSITION	HOUSING AUTHORITY TRANSITION	300,000
HRD	HIRING MODERNIZATION	HIRING MODERNIZATION	250,000
HSA	HS Benefits Connectors	HS PA Benefits Connectors	1,026,604
HSA	HS Jobs Now Programs	HS PA Jobs Now Programs	270,000
HSA	HS Fire Victims Assistance Fund	HS AD Fire Victims Assist Fund	250,000
HSA	LTC Continuing Project	PW HSA emerg Elev Contract	95,823
JUV	JP Dpw - Juvenile Probation Ca	JUV - JH Surveil Cameras GF	239,962
JUV	JP Log Cabin Ranch	PW LCR Roof Replace	1,342
LIB	LIB Chinatown Lib Renov RS	Chinatown Lib Renov RS	138,698
MYR	Housing Stability Fund	Housing Stability Fund	20,000,000
MYR	MY Low Income Housing	MO Low Income Housing	10,000,000
MYR	GF Rent Subsidies	GF Rent Subsidies	2,900,000
MYR	MY Public Housing Security	Public Housing Security	397,615
MYR	MY Mayor's Special-strategic P	MYR Transition Project	125,330
MYR	EW City Economic Development P	EW 18-19 Board Addbacks	87,429
REC	Park Health and Safety	RP - Park Stop Program	1,000,000
REC	Park Health and Safety	RP - Park Stop Program	500,000
REC	RP BOS District Projects	RP Lower Nob Hill OS Aqu & Mai	250,000
REC	RP BOS District Projects	RP Francisco Park Maintenance	150,000
REC	RP Capital Budget Baseline	RP Helen Diller Civic Center P	57,504
REC	RP BOS District Projects	RP BOS District Projects	44,009
REG	RG Reg - Open Source Voting	Reg - Open Source Voting	32,156
SHF	SH County Jail	PW SHF Fac Impr Assess & PM	146,848
SHF	HD TB Civil Detention	HD DC TB Control	130,087
TIS	DT Fiber to Public Housing	DT Chinatown SRO WiFi Study	200,000
TTX	AS Property Tax Assessment Sys	Property Assessment & Tax Syst	400,000

Total General Fund Supported De-Appropriations 117,226,274

General Fund 112,993,922
Hospital Fund 4,232,351

2. Use of Reserves

As shown in Exhibit 1-4, the Mayor's proposed budget uses of \$172.3 million in prior year reserves. See Appendix 2 for more details.

Exhibit 1-4. General Fund Use of Prior Year Reserves (\$ millions)		
	FY 2023-24	FY 2024-25
	Proposed	Proposed
General Fund - Use of Prior Year Reserves	Budget	Budget
Fiscal Cliff Reserve	90.2	-
Federal and State Emergency Revenue Reserve	-	41.3
Business Tax Stabilization Reserve	-	29.5
Free City College Reserve	6.9	-
Hotel Tax Loss Contingency Reserve	3.5	-
Mission Bay Transportation Improvement Fund	1.0	-
Total Use of Prior Year Reserves	\$ 101.5	\$ 70.8

3. Property Tax

Property valuations are in flux following a rapid increase in interest rates, reduction in time spent in offices, and 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 2023-24 General Fund share of property tax revenue is budgeted at \$2,510.0 million, which is \$130.5 million, or 5.5 percent, more than the FY 2022-23 budget. The FY 2024-25 General Fund share of property tax revenue is budgeted at \$2,474.0 million, which is \$36.0 million, or 1.4 percent, less than the proposed FY 2023-24 budget.

The budget assumes secured roll growth of 4% in FY 2023-24 and 2.5% in FY 2024-25, including the 2% inflation allowed under the state constitution, and unsecured values are projected to decline 0.5% in each year. Approximately \$90 million is assumed diverted from the General Fund to various tax increment financing districts, including redevelopment projects and infrastructure financing districts in FY 2023-24, increasing to \$96 million in FY 2024-25. The budget assumes \$2.5 billion of reductions in current year local assessment values over the course of 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 \$64 million in General Fund revenue from appeals of assessed values filed in FY 2023-24 and \$103 million from appeals filed in FY 2024-25 will need to be paid when 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 \$46 million in FY 2023-24, dampened in the second half of the year due to the Assessor's planned migration to new assessment software, and \$45 million in FY 2024-25. 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 \$13.0 million in each of the budget years.

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 \$365.1 million in FY 2023-24 and \$322.0 million in FY 2024-25, based on current state law.

4. Business Tax

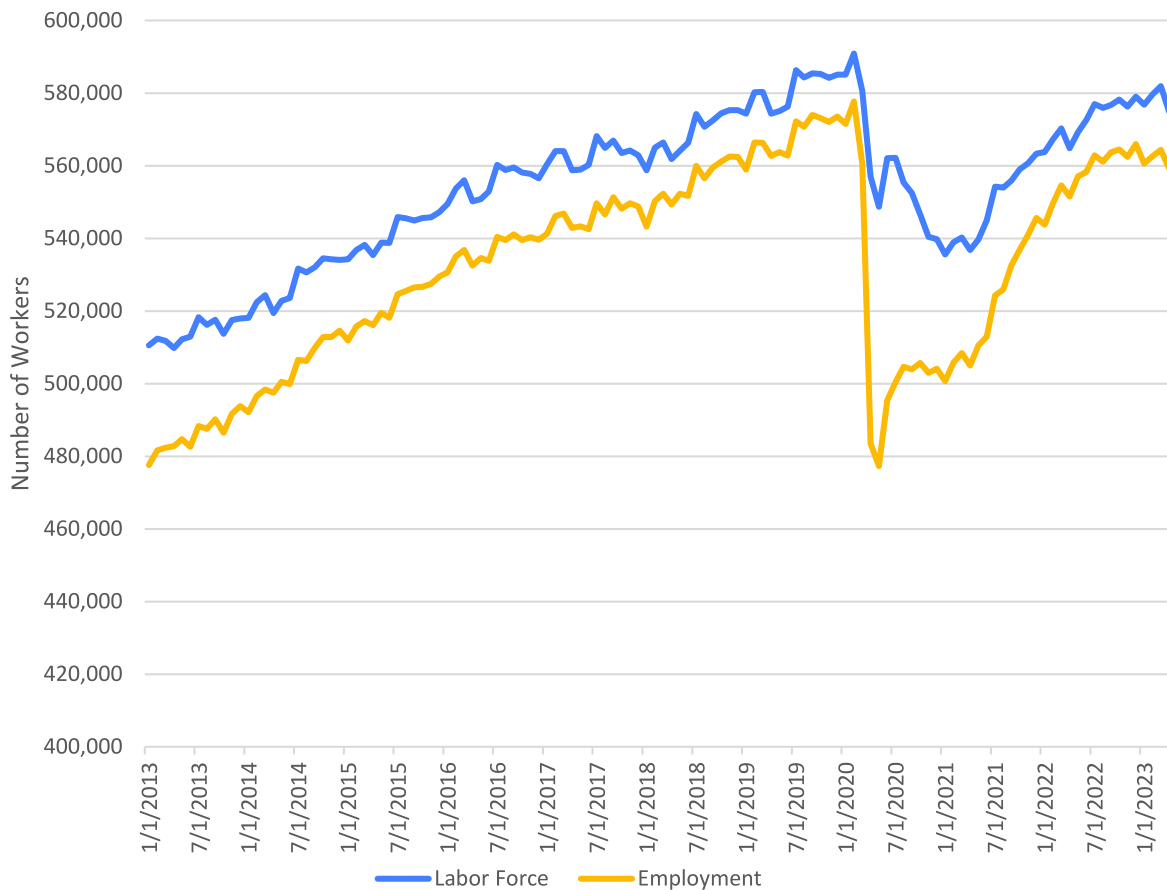
FY 2023-24 business tax revenue is budgeted at \$846.7 million, which is \$55.6 million (6.2 percent) less than what was budgeted in FY 2022-23. FY 2024-25 business tax revenue is budgeted at \$930.5 million, which is \$83.8 million (9.9 percent) higher than the proposed FY 2023-24 budget. Business tax revenue is comprised of business registration fees and gross receipts tax.

The projected decline from FY 2022-23 to FY 2023-24 is due to several factors. Proposition F (2020) included a scheduled tax increase in 2023. This increase, however, was delayed one year because, as directed by the Proposition, tax year 2022 gross receipts did not reach 90% of tax year 2019 gross receipts. Thus, the FY 2023-24 business tax forecast was lowered. Additionally, the City has weathered layoffs at some major companies in the fall and winter 2022, which are reflected in our expectation of slow economic growth of 0% in tax year 2023 and 1% in tax year 2024. Finally, as discussed below, remote work has continued at levels higher than expected and tax policy changes will reduce tax revenue.

The projected increase in FY 2024-25 is driven primarily by the implementation of Proposition F (2020), which included tax increases of approximately 3.25 percent for certain large business activities in tax years 2023 and 2024. Because the 2023 increase was delayed to 2024, the budget assumes that both of these increases will occur in tax year 2024, thus increasing projected revenue in FY 2024-25. The Proposition also specifies that if 2023 total gross receipts does not reach 95 percent of the total in 2019, the tax increases originally scheduled for 2024 would be delayed to 2025. Should this occur, revenue will be reduced in FY 2024-25 by approximately \$20 million.

Economic Growth. The budget assumes economic growth of zero percent in 2023 and one percent in 2024. Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The response to the COVID-19 emergency has significantly affected them, and the City's economic condition is still weak relative to pre-pandemic levels. The unemployment rate peaked at 12.6 percent in April 2020 and has declined since then, reaching 2.7 percent in April 2023. Despite the low unemployment rate, the number of employed residents remains below pre-pandemic levels, in part because the population of the City has declined. According to the Census Bureau, the population of San Francisco fell 7.5 percent between April 2020 and July 2022.

Exhibit 1-5 shows monthly labor force and employment levels for the previous ten years through April 2023. In April 2020, during the most restrictive phase of the shelter-in-place order, employment fell to a level not seen since 2013. While employment has rebounded since May 2020, it remains well below the long-term trajectory. The labor force, which is the number of people employed or seeking work, is also below the long-term trajectory. However, growth has stalled for both employment and the labor force, with current levels approximately the same as in June 2022. The number of unemployed people is shown by the gap between the labor force and employment.

Exhibit 1-5. San Francisco Employment and Labor Force, January 2013 through April 2023

Source: California Employment Development Department

Tax Policy Changes. The proposed budget assumes that legislation introduced earlier this year (file number 230155) will pass and will reduce gross receipts tax revenue. The first part of the legislation would delay a tax increase on gross receipts up to \$25 million for business categories that were particularly harmed by the pandemic, including retail, accommodations, restaurants, and entertainment. This is expected to reduce revenue by \$10.4 million in FY 2023-24 and \$10.6 million in FY 2024-25. The second part of the legislation would introduce a gross receipts tax credit for businesses in some industry categories that open a physical location in the City and did not have a physical location in the three years prior to opening. This is expected to reduce gross receipts tax revenue by \$4.4 million in FY 2023-24 and \$11.2 million in FY 2024-25.

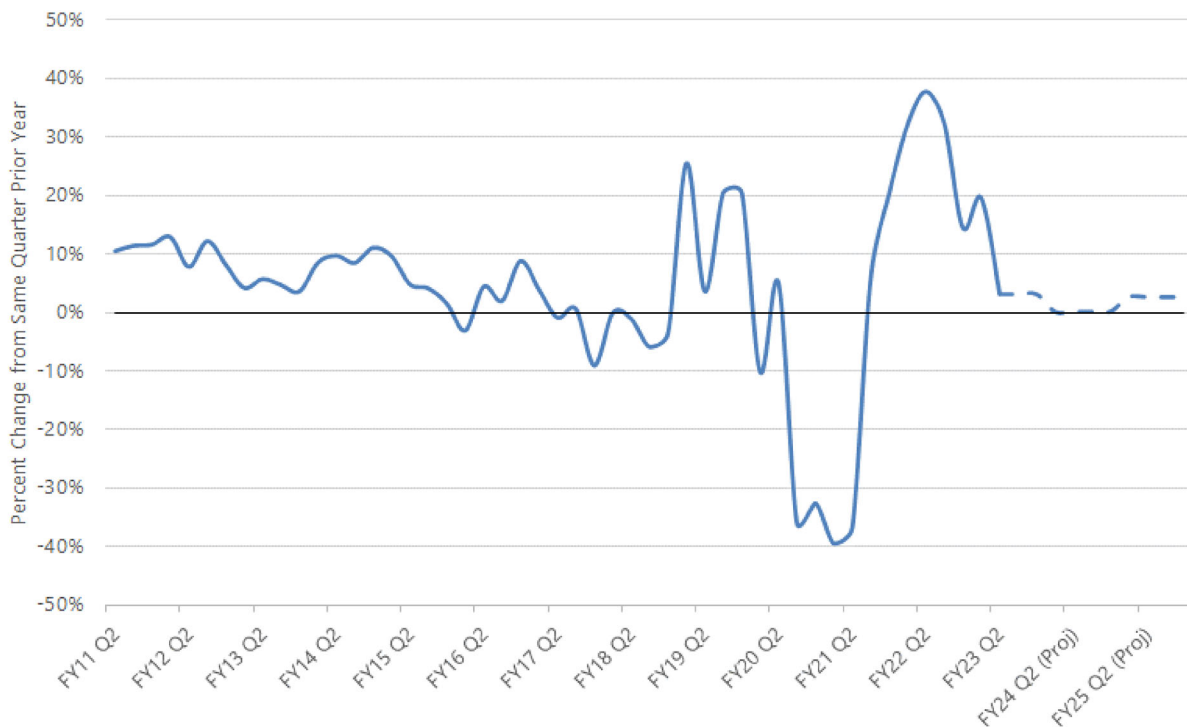
Return to Office. For office-based categories of businesses, the gross receipts tax is dependent in part on San Francisco payroll. Businesses only include payroll for employees that physically work within the City. To the extent that employees previously commuted into the City but now work at home outside 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 was still less than half of pre-pandemic levels. Ridership on BART in downtown remains about 65% lower than pre-pandemic levels. Telecommuting is expected to continue indefinitely.

5. Sales Tax

In FY 2023-24, local sales tax revenue is budgeted at \$200.1 million, which is \$17.2 million (9.4 percent) higher than what was budgeted in FY 2022-23. FY 2024-25 local sales tax revenue is budgeted at \$205.2 million, which is \$5.1 million (2.6 percent) higher than the proposed FY 2023-24 budget.

Sales tax experienced significant losses during the COVID-19 public health emergency closures, rebounded quickly in FY 2021-22, then tapered off in the current fiscal year. The budget assumes sales tax revenues will remain essentially flat in FY 2023-24 and FY 2024-25 and return to pre-pandemic levels by FY 2025-26. The lack of growth in FY 2023-24 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 2024-25



6. Hotel Tax

The FY 2023-24 General Fund share of hotel tax revenue is budgeted at \$302.9 million, which is \$114.0 million (60.4 percent) more than what was budgeted in FY 2022-23. FY 2024-25 General Fund revenue is budgeted at \$342.0 million, an increase of \$39.1 million (12.9 percent) from the proposed FY 2023-24 budget. As of the March Update to the Five-Year Financial Plan, hotel tax revenues are projected to return to pre-pandemic levels in FY 2026-27.

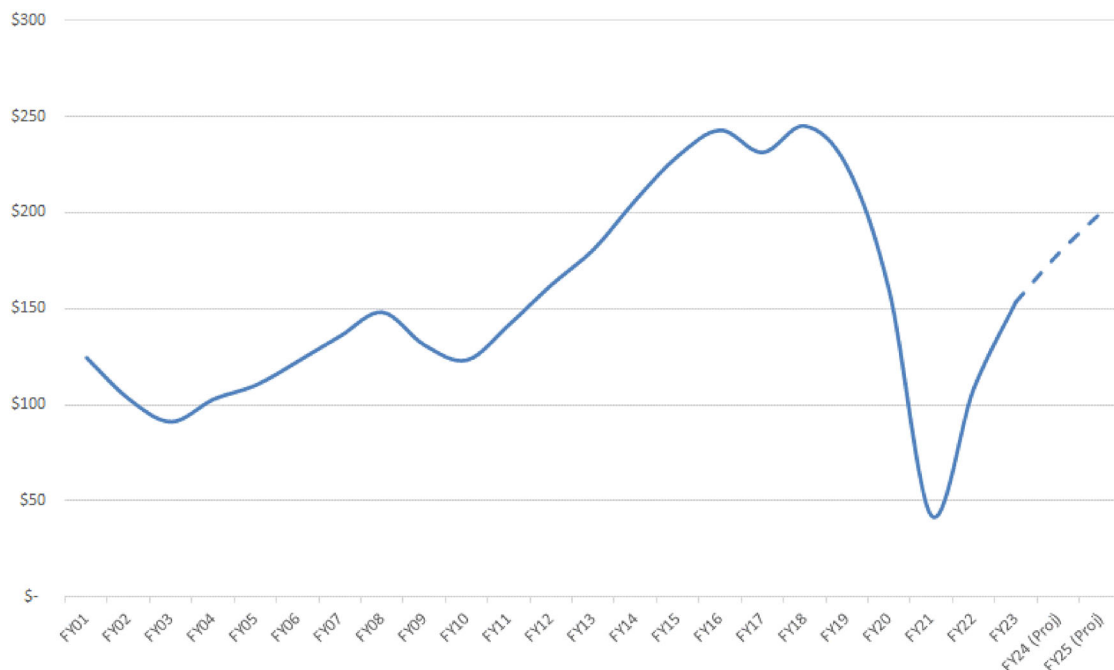
Hotel tax is highly correlated with the hotel industry indicator revenue per available room (RevPAR), which is the combined effect of occupancy and average daily room rates. TRI (Total Room Inventory,

which adjusts for hotel closures) RevPAR for the first nine months of FY 2022-23 averaged \$157.32, an increase of 92.1% over the TRI RevPAR of \$81.90 from FY 2021-22 for the same period. March 2023 RevPAR has improved 198.2% since the onset of the pandemic in March 2020, and 25.8% as compared to March 2022. As room supply steadily improved in FY 2022-23, TRI RevPAR has trended closer and closer to RevPAR. April 2022 room supply was 28.2% lower than April 2019 and has improved to -3.9% as of April 2023. Average annual RevPAR projections for FY 2023-24 and FY 2024-25 are \$178.60 and \$199.83.

Enplanements at San Francisco International Airport continue their recovery and are an important indicator for the health of the City's hospitality industry. As of March 2023, domestic and international enplanements throughout FY 2022-23 were 43.3% above FY 2021-22, though still 19.8% below FY 2018-19. In FY 2022-23, the international sector has improved 145.5% over FY 2021-22, though is still 17.2% below the FY 2018-19 peak. FY 2022-23 domestic enplanements have improved 25.0% over FY 2021-22 but are 20.7% behind FY 2018-19. Current domestic seat capacity is 21.9% lower and international seat capacity is 16.7% lower than FY 2018-19. It is expected that international travel will continue to recover as restrictions lift in Asia. Current fiscal year enplanements from Asia are 40.3% below FY 2018-19 as compared to 17.2% for all regions.

Because conventions drive up hotel room rates through compression pricing, the return of conferences and conventions has played a key role in the recovery of hotel tax revenues. In FY 2021-22, a total of 23 conferences with over 126,000 attendees took place in Moscone Center. This is compared to zero events in FY 2020-21 and 54 events with over 723,000 attendees in FY 2018-19. In the first three quarters of FY 2022-23, San Francisco had 26 conferences with over 194,000 attendees. The effects of convention compression pricing have driven RevPAR to spike with each event.

**Exhibit 1-7. Average Annual Revenue Per Available Room (RevPAR)
FY 2000-01 to FY 2024-25**



* Data from FY 2011-12 to FY 2017-18 from CBRE, FY 2018-19 to FY 2022-23 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 \$34.5 million in FY 2023-24 and \$37.9 million in FY 2024-25, 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 \$111.4 million in FY 2023-24, which is \$28.8 million (34.8 percent) higher than what was budgeted in FY 2022-23. FY 2024-25 revenue is budgeted at \$112.5 million, which is \$1.1 million (1.0 percent) higher than the proposed FY 2023-24 budget. The budget assumes that inflationary pressure in energy prices increases gas, electricity, and water prices, and that the telephone utility tax collections increase seen in FY 2022-23 is base-building into the budget years.

8. Parking Tax

Parking tax revenue is budgeted at \$84.1 million in FY 2023-24, which is \$3.9 million (4.9 percent) more than what was budgeted in FY 2022-23. FY 2024-25 revenue is budgeted at \$87.9 million, which is \$3.8 million (4.5 percent) higher than the proposed FY 2023-24 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 \$222.0 million in FY 2023-24, which is \$168.5 million (43.2 percent) less than the FY 2022-23 budget. In FY 2024-25, RPTT revenue is budgeted at \$269.6 million, an increase of \$47.6 million (21.5 percent) above the proposed FY 2023-24 budget. The effect of November 2020 Proposition I is estimated to be \$95.4 million and \$115.9 million in FY 2023-24 and FY 2024-25, respectively or approximately \$76.4 million and \$92.8 million after baselines.

The high interest rate environment makes borrowing more difficult for residents and businesses, and persistent remote work makes office space less attractive. The budget assumes FY 2023-24 and FY 2024-25 transfer taxes grow from a low in FY 2022-23 to a new long-term average by FY 2026-27. FY 2022-23 transfer activity has dropped across-the-board 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 2024-25**

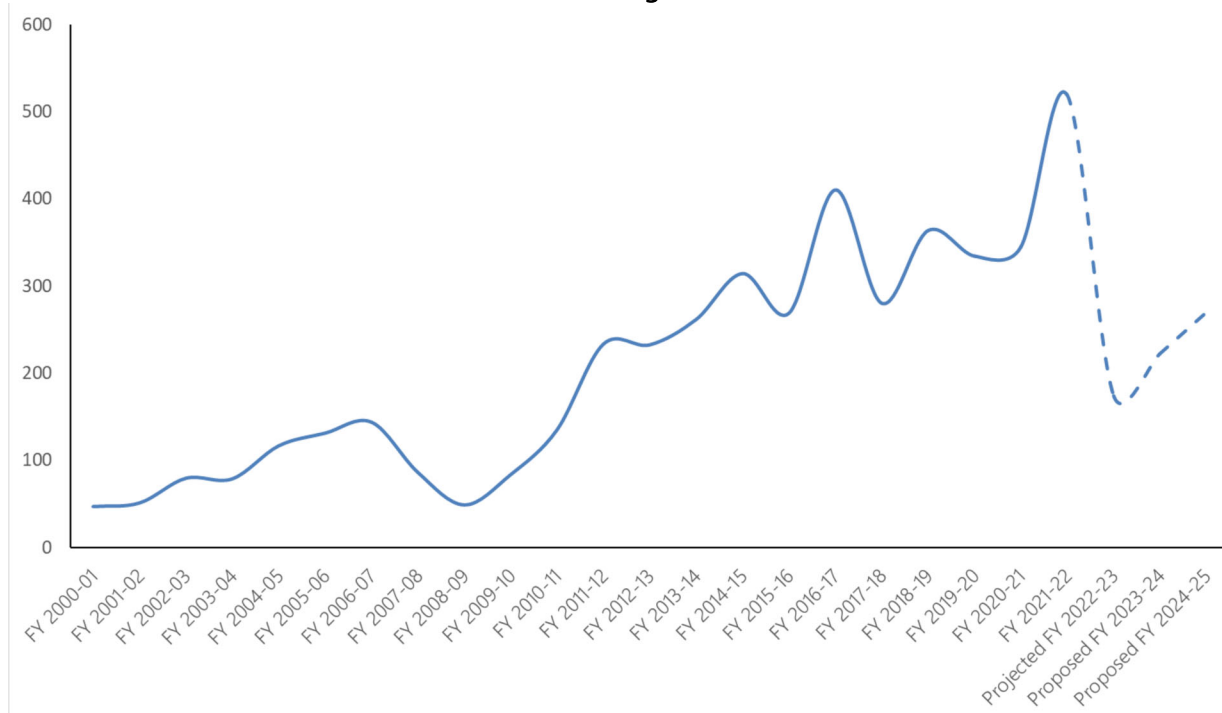
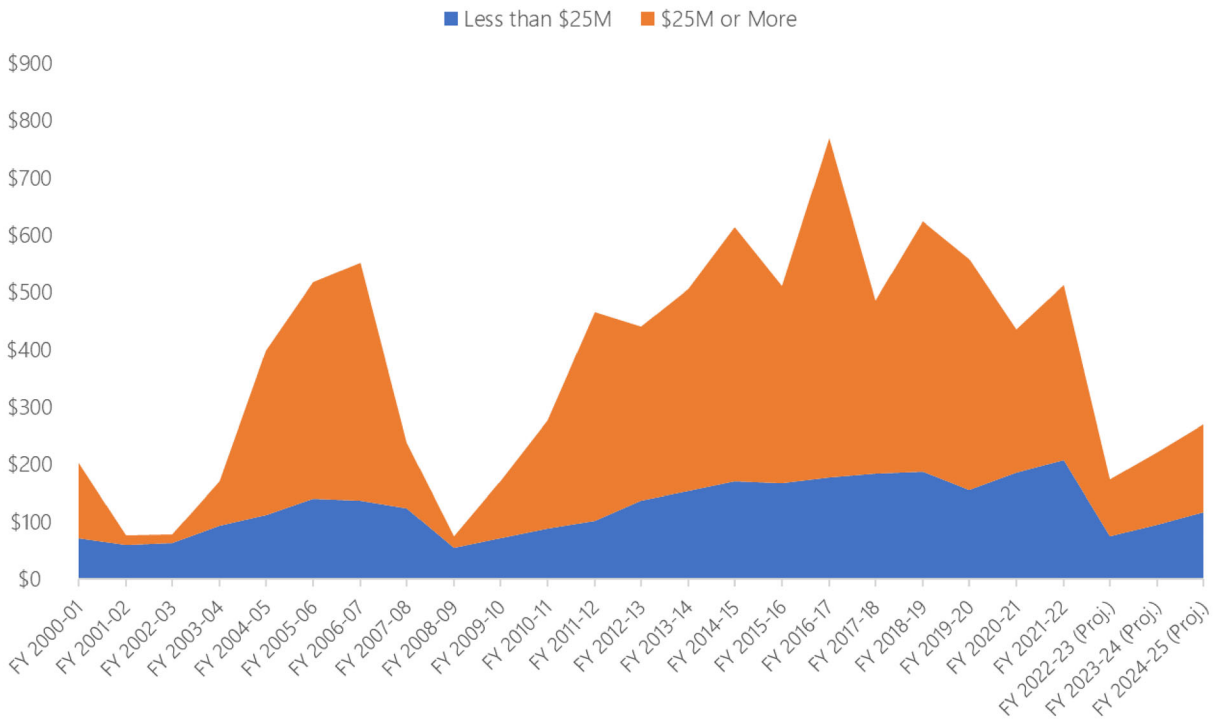


Exhibit 1-9 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Prop W (November 2016), Prop N (November 2010), Prop N (November 2008), and Prop I (November 2020) and demonstrates how RPTT is driven by the sale of high-value (largely commercial) properties over \$25 million. The exhibit shows the drastic reduction in transfer tax in the current fiscal year, as high interest rates and the lack of agreement on prices between buyers and sellers have resulted in a dramatic decline in transactions.

Exhibit 1-9. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-01 through FY 2024-25 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 2023-24 or FY 2024-25 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 \$9.1 million in FY 2023-24 and FY 2024-25, \$3.7 million (68.5 percent) more than the FY 2022-23 budget. The increase is due to the expiration of an exemption, which had previously lowered the tax on events at Oracle Park to \$0.25 per ticket. Now, most events at Oracle Park are taxed at the full rate of \$2.25 per ticket. The budget assumes that attendance at large events has returned to pre-pandemic capacity levels.

11. Cannabis Tax

No Cannabis tax revenue is budgeted in FY 2023-24 and FY 2024-25. 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 Tax on Executive Compensation is budgeted at \$100 million in both FY 2023-24 and FY 2024-25, \$40 million (66.7 percent) more than the FY 2022-23 budget. In November 2020, voters adopted Proposition L, a tax on businesses in the City, where compensation of the businesses' highest-paid managerial employee compared to the median compensation paid to the businesses' employees based in the City exceeds a ratio of 100:1. The measure took effect on January 1, 2022 for tax year 2022, so revenues were first recognized in FY 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, extreme annual fluctuations in the value and form of executive compensation, and the risk of tax avoidance. In tax year 2022, the top five payers owed 64 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 \$13.7 million in each fiscal year, FY 2023-24 and FY 2024-25, \$0.5 million (3.5 percent) more 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, though it is still below pre-pandemic levels.

14. Access Line Tax

FY 2023-24 access line tax revenue is budgeted at \$55.6 million, or \$8.5 million (18.0 percent) higher than was budgeted in FY 2022-23. The increase is due to higher year-to-date (YTD) tax collections than assumed in the FY 2022-23 budget. FY 2024-25 revenue is budgeted at \$57.2 million, or \$1.6 million (2.9 percent) higher than the proposed FY 2023-24 budget. Budgets in both years incorporate inflationary increases to the access line tax rate as described in Business and Tax Regulations Code Section 784.

15. Interest & Investment Income

Interest and investment income for FY 2023-24 is budgeted at \$121.1 million, an increase of \$76.5 million (172.0 percent) from the FY 2022-23 budget. FY 2024-25 revenue is budgeted at \$113.5 million, \$7.6 million (6.2 percent) less than budgeted in FY 2023-24. Since March 2022, the Federal Reserve has made ten consecutive interest rate hikes to tamp down on inflation. There is a lag between rate increases and increases to earned income yields (EIY) in the City's pooled funds, because the City makes higher-yield investments as lower-yield investments mature. As of April 2023, the FY 2022-23 YTD EIY was 1.92%, while the current month's EIY was 2.83%, reflecting significantly increased earnings over the course of the fiscal year. FY 2023-24 and FY 2024-25 EIY is assumed to be 3.0% and 3.2%, respectively.

16. Intergovernmental – Federal

Federal support in the General Fund is budgeted at \$505.1 million for FY 2023-24, which represents a decrease of \$55.3 million (9.9 percent) from the FY 2022-23 budget. FY 2024-25 revenue is budgeted at \$423.8 million, which is \$81.3 million (16.1 percent) less than the proposed FY 2023-24 budget. Changes in federal revenue are largely driven by Federal Emergency Management Agency (FEMA) reimbursements for COVID-related expenditures. FEMA reimbursements are budgeted at \$170.0 million in FY 2023-24, which is \$73.4 million (30.1 percent) less than what was budgeted in FY 2022-23. In FY 2024-25, FEMA reimbursements are budgeted at \$80.0 million, which is \$90.0 million (52.9 percent) less than the proposed FY 2023-24 budget. In FY 2025-26, the City expects a final reimbursement of \$80.0 million. We project a total of \$572.3 million in reimbursements for the emergency. Currently, FEMA has obligated \$223.4 million of claims and paid \$219.0 million. The budgeted revenue is the City's best estimate of when 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 \$100.4 million in FY 2023-24, an increase of \$10.7 million (11.9 percent) from the FY 2022-23 budget. FY 2024-25 revenue is budgeted at \$102.8 million, which is \$2.4 million (2.4 percent) greater than the proposed FY 2023-24 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 increase in the budget period. Although County sales tax revenues lagged behind statewide revenues post-pandemic, San Francisco's performance has caught up and is now stronger than other regions, which will grow the County allocation factor. Overall statewide sales tax is also anticipated to grow, though at a significantly slowed pace. Both the allocation factor and statewide revenues are projected to grow in the budget period, resulting in increased local revenues.

18. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2023-24, the General Fund share of 1991 realignment revenue is budgeted at \$281.6 million, or \$12.5 million (4.6 percent) more than the FY 2022-23 budget. The FY 2024-25 revenue is budgeted at \$290.7 million, which is \$9.1 million (3.2 percent) more than the proposed FY 2023-24 budget. The increases are due to anticipated growth in statewide sales tax, resulting in growth in revenues for both FY 2023-24 and FY 2024-25.

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 \$50.5 million in FY 2023-24, a \$9.8 million (16.3 percent) decrease from the FY 2022-23 budget as previous projections overstated the impact of FY 2021-22 growth on AB 109 base allocations. The FY 2024-25 proposed budget is \$51.9 million, a \$1.4 million (2.8 percent) increase from the proposed FY 2023-24 budget. Similar to 1991 Health and Welfare Realignment, the budget period increases are due to anticipated growth in statewide sales tax, resulting in growth in revenues for both FY 2023-24 and FY 2024-25.

20. Charges for Services

Fee revenue is budgeted at \$245.5 million in FY 2023-24, an increase of \$28.5 million (13.1 percent) from FY 2022-23 budget. In FY 2024-25, charges for services revenue is budgeted at \$238.1 million, a reduction of \$7.4 million (3.0 percent) from FY 2023-24 budget. Many of these fee budgets, where authorized to increase by inflationary costs without further approval by the Board of Supervisors, assume 5.6 percent CPI increase for FY 2023-24 based on information published by the U.S. Bureau of Labor Statistics in January 2023, and a Controller's Office forecast of 2.9 percent CPI increase for FY 2024-25. There are also several new fees in the Department of Emergency Management related to the emergency medical service agency (EMSA) that have been introduced as part of budget trailing legislation, which the proposed budget assumes is adopted by the Mayor and Board of Supervisors.

21. Other Revenues

Other Revenues are budgeted at \$17.5 million in FY 2023-24, a decrease of \$1.9 million (9.7 percent) from the FY 2023-24 budget. In FY 2024-25, other revenues are budgeted at \$27.8 million, an increase of \$10.2 million (58.4 percent) from the FY 2023-24 proposed budget. The decrease in FY 2023-24 is largely driven by the loss of \$1.4 million of Office of Contract Administration revenue. The increase in FY 2024-25 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 \$208.7 million in FY 2023-24, an increase of \$5.7 million (2.8 percent) from the FY 2022-23 budget. In FY 2024-25, transfers-in are budgeted at \$206.4 million, a decrease of 2.4 million (1.1 percent) from the FY 2023-24 proposed budget. The increase in transfers-in include increased Airport concessions revenue, as the City's travel and tourism industry continues to recover from the COVID-19 pandemic, and a one-time transfer-in related to project closeouts from the Prop C Advance Fund. These are partially offset by reductions to the required 15 percent transfer of commercial rents tax to the General Fund, reflecting weakness in this tax.

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor's proposed budget includes the use of \$101.5 million and \$70.8 million from non-operating reserves in FY 2023-24 and FY 2024-25, respectively. The Mayor's proposed budget also includes \$70.8 million and \$17.3 million in deposits to General Fund reserves during FY 2023-24 and FY 2024-25, respectively.

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

	FY 2022-23	FY 2023-24			FY 2024-25			
	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Note
General Reserve	\$ 57.8	\$ 70.8	-	\$ 128.6	\$ 17.3	-	\$ 145.9	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8	3
Economic Stabilization Reserves	380.3	-	-	380.3	-	-	380.3	
<i>Percent of General Fund Revenues</i>	<i>6.2%</i>			<i>5.9%</i>			<i>5.9%</i>	
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Federal and State Emergency Grant Disallowance	81.3	-	-	81.3	-	(41.3)	40.0	4
Fiscal Cliff Reserve	220.4	-	(90.2)	130.3	-	-	130.3	5
Business Tax Stabilization Reserve	29.5	-	-	29.5	-	(29.5)	-	6
Public Health Revenue Management Reserve	116.9	-	-	116.9	-	-	116.9	7
Free City College Reserve	6.9	-	(6.9)	-	-	-	-	8
Mission Bay Transportation Improvement Fund	1.0	-	(1.0)	-	-	-	-	9
Hotel Tax Loss Contingency Reserve	3.5	-	(3.5)	-	-	-	-	10
Other Reserves	460.5	-	(101.5)	359.0	-	(70.8)	288.2	
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	11
Technical Adjustment Reserve	-	5.0	(5.0)	-	5.0	(5.0)	-	12
Salary and Benefits Reserve	-	7.0	(7.0)	-	31.0	(31.0)	-	13
Annual Operating Reserves	-	23.0	(23.0)	-	47.0	(47.0)	-	
TOTAL, General Fund Reserves	898.7	93.8	(124.5)	867.9	64.3	(117.8)	814.4	

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 2023-24, the General Reserve required funding level is 2.0 percent of General Fund revenue and grows to 2.25 percent in FY 2024-25. The deposit amounts are \$70.8 million and \$17.3

million for FY 2023-24 and FY 2024-25, 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 \$265.8 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. This reserve was depleted in FY 2022-23.

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 \$41.3 million in FY 2024-25, resulting in an ending balance of \$40.0 million by FY 2024-25 close. About 40% of the City's expected FEMA reimbursements have been paid to date. The City projects a total of \$572.3 million in reimbursements for all years. Currently, FEMA has obligated \$223.4 million of claims and paid \$219.0 million.

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 proposed budget withdraws \$90.2 million in FY 2023-24 from this reserve, resulting in an ending balance of \$130.2 million by FY 2023-24 close.

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 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. The FY 2022-23 ending balance of the reserve is projected to be \$116.9 million, as reported in the Nine-Month Report. There are no anticipated deposits or withdrawals during the budget years from this reserve.

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. The FY 2022-23 ending balance of the reserve is projected to be \$6.9 million, as reported in the Nine-Month Report. The Mayor's proposed budget withdraws the entire balance in FY 2023-24.

9. Mission Bay Transportation Improvement Fund Overlapping Event Reserve

The Mission Bay Transportation Fund was authorized by Administrative Code Section 10.100-364 in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena are dedicated to this fund. The legislation establishing the fund created a reserve of \$1.0 million to address transportation and other community needs when overlapping events occur at both the Chase Center and Oracle Park. The Mayor's proposed budget withdraws the entire \$1.0 million balance in FY 2023-24.

10. Hotel Tax Loss Contingency Reserve

Ordinance 44-21 created a Hotel Tax Loss Contingency Reserve in FY 2020-21 to ensure continuity in funding for arts programming, should there be unanticipated fluctuations in hotel tax as the City's economy recovers from the economic effects of the COVID-19 public health emergency. The FY 2022-23 ending balance of the reserve is projected to be \$3.5 million, as reported in the Nine-Month Report. The Mayor's proposed budget spends the entire balance in FY 2023-24.

11. 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.

12. 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.

13. Salary & Benefits Reserve

The Mayor's proposed budget provides \$7.0 million and \$31.0 million in FY 2023-24 and 2024-25, respectively, to cover costs related to adopted MOUs with labor organizations based on projected reserve uses. FY 2023-24 expenditures will be supported by anticipated current year savings of \$20.3 million, as noted in the Nine-Month Report.

Appendix 3. One-time Sources and 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 \$117.4 million for FY 2023-24 and \$287.6 million for FY 2024-25 for a total of \$405.0 million in the two budget years. This amount is below the prior five-year (FY 2016-17 through FY 2020-21) average of year-end fund balance of \$468.2 million. For the purposes of the nonrecurring revenue policy, the use of fund balance is not considered a one-time source. As shown in Exhibit 3-1, the budget contains \$182.3 million of budgeted nonrecurring sources and \$188.8 million nonrecurring expenditures. Therefore, the Controller's Office certifies compliance with the policy.

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

	FY 2023-24	FY 2024-25	
One-Time Sources	Proposed	Proposed	Total
Prior Year Reserves			
Fiscal Cliff Reserve	90.2	-	90.2
Federal and State Emergency Revenue Reserve	-	41.3	41.3
Business Tax Stabilization Reserve	-	29.5	29.5
Free City College Reserve	6.9	-	6.9
Hotel Tax Loss Contingency Reserve	3.5	-	3.5
Mission Bay Transportation Improvement Fund	1.0	-	1.0
Sale of Land	-	10.0	10.0
Total One-Time Sources	\$ 101.5	\$ 80.8	\$ 182.3
One-Time Uses			
Capital	59.0	59.0	118.0
Information Technology	27.0	27.0	54.0
Equipment	9.7	7.1	16.8
Total One-Time Uses	\$ 95.7	\$ 93.1	\$ 188.8

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)

	FY 2022-23 Original Budget	FY2023-24 Proposed Budget	FY2024-25 Proposed Budget	Note
General Fund Aggregate Discretionary Revenue (ADR)	\$ 4,329.1	\$ 4,492.4	\$ 4,633.2	
Financial Baselines				
Municipal Transportation Agency (MTA)				
MTA - Municipal Railway Baseline: 6.686% ADR	306.0	317.9	328.1	
MTA - Parking & Traffic Baseline: 2.507% ADR	108.5	112.6	116.2	
MTA - Population Adjustment	58.0	82.8	91.7	
MTA - 80% Parking Tax In-Lieu	64.1	67.3	70.3	
Subtotal Municipal Transportation Agency	\$ 536.7	\$ 580.6	\$ 606.2	1
Library Preservation Fund				
Library - Baseline: 2.286% ADR	99.0	102.7	105.9	2
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	75.6	79.5	79.4	3
Subtotal Library	\$ 174.6	\$ 182.2	\$ 185.3	
Children's Services				
Children's Services Baseline - Requirement: 4.830% ADR	209.1	217.0	223.8	4
Children's Services Baseline - Eligible Items Budgeted	242.0	221.0	244.6	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	25.1	26.1	26.9	5
Transitional Aged Youth Baseline - Eligible Items Budgeted	37.1	36.9	39.2	
Early Care and Education Baseline Requirement (June 2018 Prop C)	91.1	93.2	97.1	6
Early Care and Education - Eligible Items Budgeted	95.2	73.8	83.7	
Public Education Services Baseline: 0.290% ADR	12.6	13.0	13.4	7
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	121.2	127.2	127.1	3
Public Education Enrichment Fund: 3.057% ADR	132.3	137.3	141.6	8
1/3 Annual Contribution to Preschool for All	44.1	45.8	47.2	
2/3 Annual Contribution to SF Unified School District	88.2	91.6	94.4	
Student Success Fund (SFUSD)	-	11.0	35.0	9
Subtotal Childrens Services	640.4	620.4	684.6	
Recreation and Parks				
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	75.6	79.5	79.4	3
Recreation & Parks Baseline - Requirement	82.2	82.2	85.2	10
Recreation & Parks Baseline - Budgeted	87.5	88.5	91.8	
Subtotal Recreation and Parks	163.1	168.1	171.3	
Other Financial Baselines				
Housing Trust Fund Requirement	45.2	44.5	47.3	
Housing Trust Fund - Budgeted	45.2	44.5	47.3	11
Dignity Fund	56.1	56.1	59.1	12
Street Tree Maintenance Fund: 0.5154% of ADR	22.3	22.8	23.8	13
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.0	4.3	4.4	14
City Services Auditor: 0.2% of Citywide Budget	26.1	26.0	25.8	15
Mission Bay Transportation Improvement Fund	8.8	9.1	6.2	16
Our City, Our Home Baseline Requirement (Nov 2018 Prop C)	215.0	215.0	215.0	
Our City, Our Home Budget	367.3	393.1	388.5	17
Subtotal Other Financial Baselines	529.9	555.8	555.0	
Total Financial Baselines	\$ 2,044.7	\$ 2,107.1	\$ 2,202.4	

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 \$580.6 million in FY 2023-24 and \$606.2 million in FY 2024-25.

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 \$102.7 million in FY 2023-24 and \$105.9 million in FY 2024-25 are met. The March Update to the Five-Year Financial Plan forecasted a FY 2023-24 deficit of \$290.9 million, just 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 \$127.2 million in FY 2023-24 and \$127.1 million in FY 2024-25 for the Children and Youth Fund, and \$79.5 million and \$79.4 million in FY 2023-24 and FY 2024-25, 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 2023-24 and FY 2024-25 are \$217.0

million and \$223.8 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$221.0 million and \$244.6 million, which exceed the minimum requirement by \$4.1 million in FY 2023-24 and \$20.8 million in FY 2024-25.

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 2023-24 and FY 2024-25 are \$26.1 million and \$26.9 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of \$36.9 million and \$39.2 million, which exceed the minimum requirement by \$10.9 million in FY 2023-24 and \$12.3 million in FY 2024-25.

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 \$200.5 million or greater in FY 2023-24; thus, the FY 2023-24 baseline is frozen at FY 2022-23 levels. Absent any further action, the required baseline amount for FY 2024-25 would grow by the change in ADR to \$97.1 million.

The proposed budget appropriates \$73.8 million in FY 2023-24 and \$83.7 million in FY 2024-25 of baseline-eligible spending, which is short of the minimum requirement by \$19.4 million in FY 2023-24 and \$13.4 million in FY 2024-25. However, trailing legislation introduced with the budget reduces the base amount by \$20 million in FY 2023-24 and \$10 million in FY 2024-25, to \$73.2 million in FY 2023-24 and \$83.2 million in FY 2024-25, thereby aligning the legal requirements to the budgeted baseline amounts.

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 \$13.0 million in FY 2023-24 and \$13.4 million in FY 2024-25 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 \$137.3 million and \$141.6 million for the Public Education Enrichment Fund Annual Contribution in FY 2023-24 and FY 2024-25, 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; and to require an annual appropriation in a designated amount to the Fund for 15 years. The required contribution amounts of \$11.0 million in FY 2023-24 and \$35.0 million in FY 2024-25 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 of \$262.2 million or greater in FY 2023-24. Because the FY 2023-24 deficit reported in the March Update to the Five-Year Financial Plan was \$290.9 million, growth is suspended in FY 2023-24 baseline appropriations to FY 2022-23 levels for one year. The baseline requirement is \$82.2 million and \$85.2 million in FY 2023-24 and FY 2024-25, respectively. The Mayor's proposed budget includes General Fund appropriations of \$88.5 million and \$91.8 million, which exceed the minimum requirement by \$6.4 million in FY 2023-24 and \$6.7 million in FY 2024-25.

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 \$44.5 million and \$47.3 million in FY 2023-24 and FY 2024-25, 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 \$242.3 million or greater in FY 2023-24. Growth in FY 2023-24 is therefore suspended for one year, at the FY 2022-23 level of \$56.1 million. The Mayor's proposed budget includes the required General Fund appropriations of \$56.1 million and \$59.1 million in FY 2023-24 and FY 2024-25, 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 \$200.5 million or greater in FY 2023-24. Because the

FY 2023-24 deficit reported in the March Update to the Five-Year Financial Plan was \$290.9 million, growth is suspended in FY 2023-24 baseline appropriations to FY 2022-23 levels, which was estimated to be \$22.8 million as of the Controller's Nine-Month Report. The Mayor's proposed budget includes the required total funding of \$22.8 million and \$23.8 million in FY 2023-24 and FY 2024-25, 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 \$4.3 million in FY 2023-24 and \$4.4 million in FY 2024-25.

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 \$26.0 million in FY 2023-24 and \$25.8 million in FY 2024-25 for the City Services Auditor baseline.

16. Mission Bay Transportation Improvement Fund

The Mission Bay Transportation Improvement Fund was authorized in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The ordinance sets maximum funding limitations of 90% of the increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena. In the first five years of operation of the Chase Center, FY 2019-20 through FY 2023-24, the ordinance sets specific minimum funding requirements of the fund but does not require minimum funding in later years. The Mayor's proposed budget includes the required minimum deposit to the fund of \$9.1 million in FY 2023-24 and \$6.2 million in FY 2024-25. These funds are allocated to the Municipal Transportation Agency, Department of Public Works, and the Police Department.

17. Our City, Our Home Baseline

The Homeless Gross Receipts Tax authorized by Proposition C in November 2018 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 \$393.1 million in FY 2023-24 and \$388.5 million in FY 2024-25 of baseline-eligible spending, exceeding the requirement by \$178.1 million in FY 2023-24 and \$173.5 million in FY 2024-25.

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 the Building Inspection Fund; Our City, Our Home Fund; the Babies and Families First Fund; Opioid Settlement Fund; and others.

BUILDING INSPECTION FUND

Administrative Code Section 10.100-45 established the Building Inspection Fund in 2000, to receive the revenues collected by the Department of Building Inspection for the exclusive purpose of supporting the Department's costs.

Exhibit 5-1. Building Inspection Fund Sources (\$ millions)

Sources of Funds	FY 2022-23 Budget	FY 2023-24 Proposed	FY 2024-25 Proposed	Notes
Use of Fund Balance	\$ 17.6	\$ 3.5	\$ 9.0	1
Use of Reserves	16.9	19.4	\$ 15.5	2
Regular Revenue				
Licenses, Permits & Franchises	6.9	7.7	\$ 7.7	3
Interest & Investment Income	1.4	1.9	\$ 1.9	3
Charges for Services	49.4	47.1	\$ 47.1	3
Other Revenue	-	1.3	\$ 1.3	3
General Fund Transfer	0.3	0.3	\$ 0.3	
TOTAL	\$ 92.6	\$ 81.1	\$ 82.8	

1. Prior Year Fund Balance

The Building Inspection Fund began with a balance of \$0.5 million, net of a budgeted use of \$17.6 million in the current year. As reported in the Nine-Month Report, the department forecasted a \$2.2 million operating shortfall and is expecting to withdraw an additional \$1.7 million from its Stabilization Reserve at FY 2022-23 year-end.

The Department of Building Inspection included the one-time use of fund balance from project close outs of \$3.5 million in FY 2023-24 and \$9.0 million in FY 2024-25. Please see below for the list of projects which will be de-appropriated to support the budget, as authorized by Administrative Provision 12.10 of the Annual Appropriation Ordinance

Exhibit 5-2. Current Year Building Inspection Fund “Project Closeouts” or De-Appropriations

Dept	Authority Title	Project Title	Amount
DBI	BI Repairs & Demolition	Repairs & Demolition	3,500,000.00
Subtotal \$			3,500,000.00
DBI	Operating	BI Records Management	2,100,000.00
DBI	BI Code Enforcemt Enhancemt Re	Code Enforcemt Enhancemt Reser	3,149,891.10
DBI	BI Hvac Upgrade	Hvac Upgrade	496,158.17
DBI	BI Document Management System	Document Management System	729,825.73
DBI	Records Management	BI Records Management	2,524,125.00
Subtotal \$			9,000,000.00
\$			12,500,000.00

2. Use of Reserve

The Department of Building Inspection established a stabilization reserve and a retiree healthcare (OPEB) reserve through the Administrative Provisions of the FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance. The stabilization and OPEB reserves were funded at the maximum level of \$41.0 million and \$32.0 million, respectively, using existing FY 2014-15 year-end fund balance and additional unexpected fund balances in subsequent years. During FY 2021-22, the department withdrew \$11.5 million of the stabilization reserve, leaving \$29.5 million for the future year's use. In FY 2022-23, the department budgeted \$16.9 million of use of stabilization reserve to balance the budget but is currently projecting to withdraw additional \$1.7 million to address the operating shortfall noted in Nine-Month Report. With this, the stabilization reserve balance is expected to be \$11.0 million at the end of FY 2022-23. The FY 2023-24 budget uses the remaining stabilization reserve plus \$8.4 million from the OPEB reserve to support operations, leaving no balance in stabilization reserve and a projected balance of \$23.6 million in OPEB reserve. The budget proposes using \$15.5 million of the OPEB reserve in FY 2024-25, which results in a projected remaining balance of \$8.1 million at the end of FY 2024-25.

Exhibit 5-3. Building Inspection Fund Reserves (\$ millions)

	Stabilization Reserve	OPEB Reserve	Total
Original Balance	41.0	32.0	73.0
FY 2021-22 Use	(11.5)	-	(11.5)
FY 2021-22 Year End Balance	\$ 29.5	\$ 32.0	\$ 61.5
FY 2022-23 Budgeted Use	(16.9)	-	(16.9)
Shortfall Projected in Nine Month report	(1.7)	-	-
FY 2023-24 Projected Year End Balan	\$ 11.0	\$ 32.0	\$ 43.0
FY 2023-24 Proposed Budgeted Use	(11.0)	(8.4)	(19.4)
FY 2024-25 Proposed Budgeted Use		(15.5)	(15.5)
FY 2024-25 Projected Year End Balanc	\$ (0.0)	\$ 8.1	\$ 8.1

3. Regular Revenues

The FY 2023-24 and FY 2024-25 proposed budget assumes that budget trailing legislation will be adopted by the Mayor and Board of Supervisors to increase all building inspection permits and fees by 15%. The budget also assumes there is an 18% reduction in the volume of requests for permits and

services related to the general economic climate and decline in office space demand. Despite the proposed fee increases, total revenue from permits and fees is budgeted at \$54.8 million for FY 2023-24, which is \$1.6 million (2.8 percent) less than the total budgeted revenues for permit and fees in FY 2022-23 due to the underlying reduction in volume. The department is currently undergoing a fee study, which will provide the basis for fee-setting in FY 2024-25 and beyond.

Exhibit 5-4. Building Inspection Fund Regular Revenues (\$ millions)

Sources of Funds	FY 2018-19 Actuals	FY 2019-20 Actuals	FY 2020-21 Actuals	FY 2021-22 Actuals	FY 2022-23 Projected
Licenses, Permits & Franchises	\$ 6.5	\$ 6.8	\$ 6.9	\$ 6.9	\$ 7.2
Interest & Investment Income	3.9	3.4	1.0	0.7	1.0
Charges for Services	74.1	63.4	48.4	50.7	44.1
Total	\$ 84.5	\$ 73.6	\$ 56.4	\$ 58.3	\$ 52.3
<i>Change from Prior Year</i>	<i>\$ 4.3</i>	<i>\$ (11.0)</i>	<i>\$ (17.2)</i>	<i>\$ 1.9</i>	<i>\$ (6.0)</i>
<i>Percentage Change</i>	<i>5.3%</i>	<i>-13.0%</i>	<i>-23.4%</i>	<i>3.4%</i>	<i>-10.3%</i>

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. Budget trailing legislation is proposed to temporarily alter the restrictions on the permanent housing, prevention, and shelter categories in FY 2023-24 and FY 2024-25.

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

Sources of Funds	FY 2022-23 Budget	FY 2023-24 Proposed	FY2024-25 Proposed	Notes
Use of Fund Balance	5.9	22.3	67.5	1
Homelessness Gross Receipts Tax	313.4	293.5	297.6	2
Total	\$ 319.3	\$ 315.8	\$ 365.1	

1. Prior Year Fund Balance

A total of \$89.3 million of prior year fund balance is appropriated in this fund, \$22.3 million in FY 2023-24 and \$67.5 million in FY 2024-25. The Controller's Nine-Month Report only forecasted \$12.4 million of fund balance available for appropriation. To support future year budgets, departments will de-appropriate the following budgets and re-appropriate 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
ADP	Mental Health SF	Drug Overdoses in Tenderloin	2,054
DPH	Mental Health SF	DPH Street Medicine	3,354,461
DPH	Mental Health SF	Drug Overdoses in Tenderloin	2,413,259
DPH	Mental Health SF	DPH Mental Health	15,510,528
DPH	Mental Health SF	HN Permanent Supportive Housin	3,028,237
DPH	Mental Health SF	HB Office of Coordinated Care	1,483,928
DPH	Mental Health SF	HB Beds & Facilities	3,920,000
DPH	Mental Health SF	HB Service Center	1,067,789
DPH	Mental Health SF	HB SA Overdose Prevention	2,296,943
DPH	Mental Health SF	HB OCOH Targeted Services	3,029,016
DPH	Mental Health SF	PW 1170 Market St Linkage Ctr	156,423
HOM	Mental Health SF	Drug Overdoses in Tenderloin	317,519
HOM	HOM TAYHousing FlexibleSiteAcq	Various	898,287
HOM	HOM Family Rapid Rehousing	Various	538,972
HOM	HOM FAMHousing FlexibleSiteAcq	Various	583,887
HOM	HOM AffordHousing-Under Age 30	Various	19,259,213
HOM	HOM AffordHousing-Families	Various	18,079,141
SR OCOH Nov18 PropCHomelessSvc Fund Total De-Appropriation			75,939,656

2. Homelessness Gross Receipts (HGR) Tax

FY 2023-24 homelessness gross receipts tax is budgeted at \$315.8 million, which is \$19.9 million (6.3 percent) less than the FY 2022-23 budget. FY 2024-25 homelessness gross receipts tax is budgeted at \$365.1 million, which is \$4.1 million (1.4 percent) more than the proposed FY 2023-24 budget. The homelessness gross receipts tax forecast shares the same 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 the 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.

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 2022-23 Budget	FY 2023-24 Proposed	FY2024-25 Proposed	Notes
Commercial Rents Tax (CRT)	226.3	189.0	211.1	
Proposed Sublessor Deduction	-	(17.0)	(17.0)	
Net, Commercial Rents Tax	226.3	172.0	194.1	1
Interest Income	-	11.2	10.5	2
Use of Fund Balance	-	9.8	0.5	3
Total	\$ 452.6	\$ 365.0	\$ 399.2	

1. Commercial Rents Tax

Commercial rents tax is budgeted at \$172.0 million in FY 2023-24, which is \$54.3 million (24.0 percent) more than the FY 2022-23 budget. FY 2024-25 commercial rents tax is budgeted at \$194.1 million, which is \$22.1 million (12.8 percent) more than the proposed FY 2023-24 budget. The proposed budget is informed by office vacancy projections provided by JLL, a commercial real estate firm, which shows continued high vacancy rates. In addition, the forecast assumes the budget trailing legislation – to deduct rent that sublessors pay from the commercial rents tax in tax years 2023 through 2029 – is adopted by the Mayor and Board of Supervisors. Its estimated impact is the loss of \$17.0 million per year.

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 stay at a high level 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.

2. Interest Income

Interest income is budgeted at \$11.2 million in FY 2023-24, which is \$11.2 million more than the FY 2022-23 budget. FY 2024-25 interest income is budgeted at \$10.5 million, which is \$0.7 million (6.2 percent) less than the proposed FY 2023-24 budget. The interest income budget is consistent with the General Fund's forecast and accounts for the fund's cash balances and the forecasted earned income yield of the City's Pooled Fund portfolio.

3. Prior Year Fund Balance

A total of \$10.3 million of prior year fund balance is appropriated in this fund, \$9.8 million in FY 2023-24 and \$0.5 million in FY 2024-25. The Controller's Nine-Month Report forecasted \$54.2 million of fund balance available for appropriation; the budgeted use of fund balance is well within this amount. Additionally, nearly \$400.0 million of prior year appropriations are on "expenditure reserve" and remain unspent.

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. Through the end of FY 2024-25, a total of \$106.5 million in settlement payments is projected to be received by the City, of which

\$51.2 million is budgeted in FY 2023-24 and \$44.9 million is budgeted in FY 2024-25, largely supporting spending at the Department of Public Health. Many of these settlements will be paid over multiple years.

ADDITIONAL FUNDS

The following funds require current year project closeouts to achieve the levels of fund balance assumed in the FY 2023-24 and FY 2024-25 proposed budgets, as authorized by Administrative Provision 12.10 of the Annual Appropriations Ordinance.

Exhibit 5-8. Current Year "Project Closeouts" or De-Appropriations for Additional Other Funds

Dept	Authority Title	Project Title	Amount
DPH	ERAFCDPH SF HealingCenter Beds	HB MH Transition	2,076,975
DPH	ERAFCDPH SubstanceRecoveryBeds	HB MH Transition	1,848,710
DPH	ERAF DPH OpenRes TreatmentBeds	HB MH Transition	2,674,315
SR OCOH Nov18 PropC GF Advance Fund Total De-Appropriation			6,600,000
TIS	Operating	Cable Franchise Capital	2,583,169
SR Cable TV Access Dev&Prog Fund Total De-Appropriation			2,583,169
ASR	AS Recorder - Erecording	Recorder - Erecording	135,162
ASR	AS Doc Storage Conver Fund Ab3	AS Doc Storage Conver Fund Ab3	50,000
ASR	AS Page Recorders Modernizatio	AS Page Recorders Modernizatio	1,000,000
ASR	AS Assessor 10% Alloc Real Est Total	Assessor 10% Alloc Real Estate	300,000
ASR	AS Recorder Indexing Project Total	AS Recorder Indexing Project	865,000
ASR	SB2 Building Homes & Jobs Fee Total	Building, Home & Jobs Fee	50,000
SR State Auth Special Rev Fund Total De-Appropriation			2,400,162