OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
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TO: Mayor London Breed
President Norman Yee and Members of the Board of Supervisors

FROM: Ben Rosenfield, Controller

DATE: November 10, 2020

SUBJECT: **FY 2020-21 3-Month Budget Status Report**

EXECUTIVE SUMMARY

The Controller's Office provides periodic budget status updates to the City's policy makers during each fiscal year, as directed by Charter Section 3.105. The level of uncertainty of both City revenues and expenditures is historically high due to the operational and economic effects brought on by the COVID-19 pandemic.

In summary, our projection of General Fund revenues and expenditures indicates a General Fund shortfall of $115.9 million in the current fiscal year. This is predominantly comprised of weakness in key tax and fee revenues driven by a slower economic recovery than was anticipated in the adopted budget. This weakness is partially offset by a higher than projected balance available from the prior year. Required reserve deposits in the prior year are expected to be higher than previously expected, as detailed in the appendix to this report, and could be used to offset a portion of the current year projected shortfall or retained for challenges in future fiscal years.

The level of uncertainty regarding city revenues and expenditures remains extraordinarily high, driven by the economic and financial impacts of the public health emergency. We will continue to provide regular budget updates throughout the year as conditions change.

Table 1. FY 2020-21 Projected General Fund Variances to Budget ($ million)

Changes from Adopted Budget	FY 2020-21
A. FY 2019-20 estimated fund balance (pre-audit)	21.3
B. Citywide Revenue	(143.5)
C. Baseline Offsets	46.4
D. Departmental Revenues and Expenditures	(51.3)
E. November 2020 Local Ballot Measures	11.3
F. COVID Emergency Response	-
Surplus / (Shortfall)	**(115.9)**

A. FY 2019-20 General Fund Ending Balance

While final ending fund balance is not yet available, we currently estimate an ending balance of approximately $391.8 million, or $21.3 million above the $370.5 million assumed in the FY 2020-21 and FY 2021-22 adopted budget. This positive variance is driven by higher than previously projected property tax collections, interest earnings, and Public Health revenue. Our preliminary estimate of ending reserve balances are detailed in the appendix to this report and include higher than previously anticipated deposits to the City's Budget Stabilization Reserves. Final audited balances from the prior fiscal year will be reported in the City's comprehensive annual financial report, expected to be issued in December.

B. Citywide Revenue

Citywide General Fund revenue is projected to decline from the previously balanced budget by $143.5 million. The decrease from prior budgeted projection is largely the result of a slower re-opening scenario than previously assumed and greater telecommuting assumptions in the projection period. Property tax revenues above budget, due largely to a shift in value and timing of assessment appeal-related refunds, are more than offset by weakness in nearly every other revenue source, including business, hotel, parking, and sales taxes.

C. Baseline Offsets

Voters have adopted many measures that require General Fund contributions to various purposes, the majority of which are indexed to the City's discretionary revenues. Required contributions from the General Fund to these purposes will decline from budget by $46.4 million given the projected discretionary revenue shortfall.

D. Departmental Revenues and Expenditures

A projected $51.3 million projected net operating shortfall in departments is comprised of a $38.9 million shortfall in revenue and overspending of $12.4 million. The largest revenue shortfalls are in City Planning permit revenue ($19.4 million) and Recreation and Park revenue ($12.4 million). Personnel overspending is projected both the Sheriff's and Fire departments. Select enterprise and special revenue fund projections are provided on p. 15.

E. November 2020 Election Results

Local measures approved in the November 3, 2020 election are projected to result in a net surplus of $11.3 million due an increase in property transfer tax rates not assumed in the budget, slightly offset by expenses to strengthen oversight of the Sheriff's Department. The budget assumed revenue increases from Proposition F, which modified many aspects of the City's business tax structure, and which was approved by voters, so the approval of this measure does not result in a surplus.

F. COVID Emergency Response

COVID emergency response revenues and expenditures are currently projected to remain on budget, as expenditures will depend on the course of the health emergency, and revenues will depend in large part on the duration of the FEMA emergency declaration.

Further details and assumptions regarding the above projections are included in the appendix to this report. As always, please feel free to reach out to me or my office should you have questions or comments regarding this budget status update.

APPENDIX: PROJECTION DETAILS

This appendix provides details about variances shown in Table 1 of the Executive Summary, and also provides projected reserve balances and operating results for key enterprise and special revenue funds.

A. FY 2019-20 Year End Results

While final ending fund balance is not yet available, we currently estimate an ending balance of approximately $391.8 million, or $21.3 million above the $370.5 million assumed in the FY 2020-21 and FY 2021-22 adopted budget. This positive variance is driven by higher than previously projected property tax collections, interest earnings, and Public Health revenue. Our preliminary estimate of ending reserve balances are detailed in the appendix to this report and include higher than previously anticipated deposits to the City's Budget Stabilization Reserves. Final audited balances from the prior fiscal year will be reported in the City's comprehensive annual financial report, expected to be issued in December. See p. 14 for updated reserve amounts.

B. Citywide General Fund Revenue Projection

We project a $143.5 million shortfall in Citywide General Fund revenue compared to budget, largely the result of a slower reopening scenario and greater degree of telecommuting than previously assumed.

This new revenue scenario assumes a vaccine is available in spring 2021, with widespread adoption by December 2021. We assume local mass gatherings reach pre-COVID levels by summer 2022 but the return of travel and tourism occurs more slowly than in our last projection and does not return to pre-pandemic levels until FY 2025-26. Budgeted revenues were built assuming business re-openings would begin in late summer 2020, with return to full office occupancy by summer 2021. We have shifted the timeline back, as more information has become available since July 2020 about the summer COVID surge and associated impact to the pace of re-opening. We have also incorporated several more months of actual revenue receipts and FY 2019-20 pre-audit results in the projection.

Table 2 below shows projection versus budget for each source. Revisions to business tax, sales tax, hotel tax, parking tax, and airport transfer in account for more than 90% of the decline in revenue, with property tax providing a partial offset.

Table A-1. Citywide General Fund Revenue ($ millions)

	FY 2019-20	FY 2020-21			
	Actuals	Budget	3-Mo Projection	Change	Note
Property Taxes	2,071.9	2,019.6	2,067.6	48.0	1
Property Tax	1,833.6	1,832.6	1,860.0	27.4	
Excess ERAF	238.3	187.0	207.6	20.6	1
Business Taxes	822.2	826.4	727.5	(98.9)	2
Sales Tax - Local 1%	180.2	183.7	171.3	(12.4)	3
Hotel Room Tax	252.2	126.2	82.8	(43.4)	4
Utility User & Access Line Taxes	143.9	130.0	126.8	(3.2)	
Parking Tax	69.5	59.4	41.5	(17.8)	5
Real Property Transfer Tax	334.5	138.0	138.0	-	
Sugar Sweetened Beverage Tax	13.2	14.0	10.5	(3.5)	
Stadium Admissions Tax	2.8	2.5	-	(2.5)	
Cannabis Tax	-	4.3	4.9	0.7	
Franchise Taxes	16.0	15.6	14.1	(1.6)	
Interest Income	78.8	23.5	21.9	(1.6)	
Public Safety Realignment	41.1	36.0	33.2	(2.8)	
Health and Welfare Realignment	219.6	190.1	189.1	(1.1)	
Public Safety Sales Tax	103.9	97.1	103.6	6.5	
Airport Transfer In	33.5	25.1	15.2	(9.9)	6
Total Citywide Revenues	4,383.2	3,891.5	3,747.9	(143.5)	

1 Property tax

Total General Fund property tax revenue in FY 2020-21 is projected to be $2,067.6 million, which is $48.0 million (2.4%) above budget and $4.26 (0.2%) million below prior year actual revenues.

Property tax revenue in the General Fund excluding Excess ERAF is projected to be $27.4 million (1.5%) above budget and $26.4 million (1.4%) above prior year actual revenue in FY 2020-21. Unlike most other local government revenues immediately impacted by COVID-19 public health effects on the City's economy, changes in property tax revenues will lag other revenue losses due to statutory deadlines that key off the annual property lien date of January 1st. Most assessment appeals filings for FY 2020-21 secured property assessments have been received, and overall were lower than anticipated in the budget, resulting in a reduction in assumed revenue refunds. Decreasing appeals reserve deposits benefits projected property tax revenues for the schools, decreases ERAF entitlement levels, and increases excess ERAF anticipated for the City's General Fund.

Excess ERAF property tax revenue in the General Fund is projected to be $20.6 million (11.0%) above budget and $30.7 million (12.9%) below prior year actual revenue. Under the State's budget provisions, the State Controller's Office is required to release clarifying guidance in December 2020 that could result in a revenue surplus if the specific terms are favorable to local governments.

2 Business tax

Business tax revenues in the General Fund include business registration fees, payroll taxes, gross receipts taxes, and administrative office taxes, and are projected to be $727.5 million, or $98.9 million (12.0%) below budget and $94.7 (11.5%) million below prior year actual revenues.

The COVID-19 emergency continues to significantly affect the business tax revenue base. Because of the timing of business tax payments, revenues in FY 2020-21 are driven by the economic conditions in 2020. Our projection assumes underlying economic growth of -5% in tax year 2020. This decline is offset by the decision to delay business registration fees due in May 2020 until March 2021, which transferred about $45 million from FY 2019-20 into FY 2020-21. Due to business closures and reduced economic activity, we assume that the amount collected in March 2021 will be less than the amount we had expected in May 2020.

Businesses owe payroll tax only on employees that physically work within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Approximately 70% of our payroll tax base comes from office-using sectors, like Information and Professional Services, and approximately half of workers in these sectors live outside of San Francisco. In the final budget, we assumed that in these sectors, 50% of non-essential workers would telecommute through December 2020 and 20% through December 2021.

As companies have extended their telecommute policies further into the future, we have increased these assumptions. For the first three months of FY 2020-21, we assume that 100% of non-essential workers telecommuted. Then, in keeping with the San Francisco Department of Public Health's guidance on office reopening that allows up to 25% capacity, we assume that 75% of non-essential workers will telecommute for the remainder of FY 2020-21. However, offices have only been allowed to reopen for non-essential work since October 27, 2020. Consequently, we do not yet know if offices will reach the allowed capacity or if they will continue to have workers telecommute to the extent possible. We will update our assumptions in the six-month report as we know more about how offices have responded to the reopening guidelines.

Telecommuting can have a significant effect on revenues. If the level of telecommuting returned to its pre-COVID levels at the beginning of FY 2020-21, our projections for business would be about $190 million higher than our current projections.

3 Local sales tax

Local sales tax is projected to be $171.3 million, which is $12.4 million (6.8%) below budget and $8.9 million (5.0%) below FY 2019-20 actuals. Based on data for sales from April through June of 2020, sales tax collections for San Francisco decreased by $23.0 million (42.8%), compared to the same period in 2019. This was significantly lower than the 21.6% decrease for the Bay Area and 16.3% decrease for the State. The contrast indicates a much slower recovery from the impact of the pandemic in the City than the surrounding counties in the Bay Area, as well as the rest of the State, and highlights San Francisco's dependence on tourists and in-commuters, in addition to its residential population. High levels of telecommuting are anticipated to continue through the current fiscal year and tourism is expected to slowly recover over the next six.

4 Hotel tax

General Fund hotel tax revenues are projected to be $82.8 million, which is $43.4 million (34.4%) below budget and $169.3 million (67.2%) below prior year actual revenues. Hotel tax revenues across all funds are projected to be $113.3 million.

San Francisco's hotel tax is derived from hotel stays from individual business travelers, group events such as conferences and meetings, and leisure tourists. These visitors primarily travel to the City by air. In April 2020, at the height of the first peak of the COVID pandemic, enplanements at SFO decreased by 97% compared to prior year. While air travel has grown since April, the recovery is slow due to passenger safety concerns. Additionally, as part of the City's March 2020 shelter-in-place order, hotels in San Francisco were only allowed to accommodate essential travelers. On September 14, 2020 the City eased restrictions, allowing hotels to reopen for leisure tourists. Museums, restaurants (for limited indoor dining), and outdoor attractions also re-opened at the end of September.

The revised hotel tax projection assumes the City continues to slowly reopen the economy throughout FY 2020-21. However, hotel tax will not recover to its prior peak until mass gatherings for large conferences, sporting events or other major attractions are safe and attended at pre-pandemic levels by visitors traveling by air. This projection assumes attendance at mass gatherings returns to pre-pandemic levels by summer 2022, six months after assumed widespread adoption of a vaccine. These factors contribute to the slow projected recovery of revenue per available room (RevPAR).

RevPAR is strongly correlated with hotel tax; it is the combined effect of occupancy and average daily room rates. The 12-month average RevPAR as of January 2020 was $227. By April 2020, RevPAR dropped to less than $10, representing a 96.0% decline from the same period prior year. As of the week ending October 17, 2020, RevPAR is in the low $30s. The forecast assumes average RevPAR of $60 in FY 2020-21.

5 Parking tax

Parking tax revenue is projected to be $41.5 million, which is $17.8 million (30.1%) below budget and $27.9 (40.2%) million below prior year actual revenues, due to a slower reopening scenario and greater telecommuting assumptions versus budget. We anticipate fewer commuters will be driving into the City each day compared to pre-COVID times, in line with business tax assumption that 75% of non-essential office workers will continue to telecommute through FY 2020-21. We assume non-essential office workers will return to offices (and therefore pay more parking tax) at greater levels in the subsequent fiscal year, although not at full pre-COVID levels. In addition to commuters, parking tax is generated by residents and tourists who are visiting entertainment centers, art and cultural institutions, shopping areas, and other attractions. In line with our hotel tax assumptions, we anticipate increasing parking tax related to visits to these destinations in FY 2020-21 compared to the COVID pandemic lows of April and May 2020.

Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit under Charter Section 16.1110. (See table 3 below.)

6 Airport Transfer In

The Airport's annual service payment to the General Fund is projected to be $15.2 million, which is $9.9 million (39.5%) below budget and $18.3 million (54.7%) below prior year actuals. The San Francisco International Airport (SFO) transfers 15% of its annual concession revenue to the City's General Fund. This revenue is dependent upon lease agreements with concessionaires and passenger traffic. In April 2020, at the worst of the COVID pandemic, enplanements at SFO decreased by 97% compared to prior year. As of September 2020, enplanements have improved but are still 79% below prior year. Both confidence to resume travel and the City's re-opening timeline are anticipated to drive the airport transfer in and hotel tax. Given the strong connection between these two revenues, the Controller's Office projects changes to the airport transfer-in using the same factors as the hotel tax projection. The Controller's Office will work closely with the Airport to monitor passenger activity levels and to revise the forecast.

C. Baseline Offsets

San Francisco voters have adopted many measures that require General Fund contributions for various purposes, the majority of which are indexed to the City's discretionary revenues. Required contributions from the General Fund to these purposes will decline from budget by $46.4 million given our projection of discretionary revenue losses described above. Table A-2 summarizes the changes to baseline and property tax set-asides in non-General Fund funds.

Table A-2. Charter-Mandated Baseline and Property Tax Set-Asides ($ millions)

	FY 2019-20	FY 2020-21			
	Actuals	Budget	3-Mo	Change	
General Fund Aggregate Discretionary Revenue (ADR)	*$ 3,942.7*	*$ 3,486.8*	*$ 3,351.5*	*$ (135.3)*	
Municipal Transportation Agency (MTA)					
MTA - Municipal Railway Baseline: 6.686% ADR	263.6	233.1	224.1	(9.0)	
MTA - Central Subway	-	7.6	-	(7.6)	
MTA - Parking & Traffic Baseline: 2.507% ADR	98.8	87.4	84.0	(3.4)	
MTA - Population Adjustment	49.7	55.4	55.6	0.2	
MTA - 80% Parking Tax In-Lieu	55.6	47.5	33.2	(14.3)	
Subtotal Municipal Transportation Agency	$ 467.7	$ 431.0	$ 396.9	$ (34.1)	*
Library Preservation Fund					
Library - Baseline: 2.286% ADR	90.1	79.7	76.6	(3.1)	*
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	65.3	67.4	68.7	1.3	
Subtotal Library	155.4	147.1	145.3	(1.8)	
Children's Services					
Children's Services Baseline - Requirement: 4.830% ADR	*203.1*	*168.4*	*161.9*	(6.5)	
Children's Services Baseline - Eligible Items Budgeted	266.6	207.2	207.2	-	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	*24.4*	*20.2*	*19.4*	(0.8)	
Transitional Aged Youth Baseline - Eligible Items Budgeted	31.4	32.4	32.4	-	
Public Education Services Baseline: 0.290% ADR (50% GF)	11.4	10.1	9.7	(0.4)	*
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	104.5	107.8	109.9	2.1	
Public Education Enrichment Fund: 3.057% ADR	*120.5*	*106.6*	*102.5*	*(4.1)*	*
1/3 Annual Contribution to Preschool for All	40.2	35.5	34.2	(1.4)	
2/3 Annual Contribution to SF Unified School District	80.3	71.1	68.3	(2.8)	
Subtotal Childrens Services	534.4	464.1	461.7	(2.4)	
Recreation and Parks					
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	65.3	67.4	68.7	1.3	
Recreation & Parks Baseline - Requirement	*76.2*	*76.2*	*76.2*	-	
Recreation & Parks Baseline - Budgeted	82.1	84.0	84.0	-	
Subtotal Recreation and Parks	147.4	151.4	152.7	1.3	
Other Financial Baselines					
Housing Trust Fund Requirement	*36.8*	*39.6*	*39.6*	-	
Housing Trust Fund Budget	57.1	39.6	39.6	-	*
Dignity Fund	50.1	50.1	50.1	-	*
Street Tree Maintenance Fund	20.3	18.0	17.3	(0.7)	*
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.5	3.8	3.8	-	
City Services Auditor: 0.2% of Citywide Budget	20.1	22.9	22.9	-	
Mission Bay Transportation Improvement Fund	7.6	7.4	3.2	(4.2)	*
Subtotal Other Financial Baselines	158.6	141.7	136.8	(4.9)	
* General Fund Impact				$ (46.4)	

D. Departmental General Fund-Supported Revenue and Expenditures

Table A-3. General Fund Supported Operations ($ Millions)

	Expenditures - Revised Budget	Expenditures -Projected Year End	Revenue Surplus/ (Deficit)	Expenditure Savings/ (Deficit)	Net Surplus/ (Deficit)	*Notes*
City Administrator - General Fund	127.7	127.7	(1.6)	1.6	-	*1*
City Administrator - Convention Facilities Fund	55.9	55.9	(10.2)	1.1	(9.1)	*2*
City Planning	51.3	47.7	(19.4)	3.6	(15.7)	*3*
Fire	395.9	400.49	(8.5)	(4.6)	(13.1)	*4*
Public Works	78.4	74.7	(2.1)	0.3	(1.8)	*5*
Public Health	2,822.3	2,822.3	2.2	-	2.2	*6*
Human Services Agency	1,245.4	1,247.8	12.7	(2.4)	10.2	*7*
Recreation and Park - General Fund	101.2	101.2	(12.4)	-	(12.4)	*8*
Sheriff	245.1	258.14	0.5	(12.0)	(11.5)	*9*
Total			**(38.9)**	**(12.4)**	**(51.3)**	

1 **City Administrator – General Fund** The City Administrator's Office anticipates a General Fund revenue shortfall of $1.6 million, largely due to decreases in county clerk and marriage license fees from fewer in-person services. The department expects to fully offset the shortfall with expenditure savings.

2 **City Administrator – Convention Facilities Fund** The City's Administrator's Office anticipates a net $9.1 million shortfall in the Convention Facilities Fund. Although events are still booked at the Moscone Center for spring of 2021, large events are unlikely to occur this fiscal year and therefore little if any revenue will be collected, resulting in net projected revenue shortfall of $10.2 million. This is consistent with the City's hotel tax projection assumptions. Anticipated expenditure savings of $1.1 million in variable rate debt payments slightly offset the shortfall, resulting in a net shortfall of $9.1 million.

Moscone Expansion District (MED) revenue projections have been updated to align to citywide hotel tax projections, adjusted for timing differences, and are marginally positive compared to budget. As with hotel tax revenues, these depend on the recovery of the hospitality industry in San Francisco, and could deteriorate, however, revenue stabilization reserves required by bond covenants and related interest earnings are projected obviate the need for General Fund backfill in FY 2020-21 and FY 2021-22.

3 **City Planning** The City Planning Department anticipates a $19.4 million revenue shortfall, of which $16.5 million is related to building permit review and $2.8 million is related to planning applications. The shortfall is due to the closure of the Permit Center, metering of daily permit applications, and decline in activity given economic uncertainty. The department expects $3.6 million of expenditure savings to partially offset the revenue shortfall, resulting in a net projected operating shortfall of $15.7 million.

4 **Fire** The Fire department projects a net $13.1 million shortfall, comprised of a $8.5 million revenue shortfall and overspending of $4.6 million. Revenue shortfalls are due to reduced fee revenue related to safety checks for new buildings and reductions and delays in collected license fees. Salary and fringe benefit spending is projected to exceed budget, primarily due to increased overtime related to COVID-related work and leave time.

5 **Public Works** Public Works projects to end the year with an operating deficit of $1.8 million mainly due to a revenue deficit of $2.1 million from shortfalls in Bureau of Street Use and Mapping permit fee revenue

of $1.7 million and $0.3 million in other licenses, fees, and permits revenue, both due to the shelter-in-place order. The department projects a net expenditure surplus of $0.3 million, comprised of $4.3 million in savings on grants to community based organizations for SOMA clean and the cancellation of the Interrupt, Predict and Organize (IPO) program, offset by overspending of $3.9 million in salaries, fringe benefits, and overhead due to deployment of Public Works employees to COVID-19 response.

6 **Public Health** The Department of Public Health projects to end the year with a net operating surplus of $2.2 million. This is due to a one-time increase inpatient revenue of $3.9 million for Medi-Cal outpatient services, offset by a projected Health and Welfare Realignment revenue decrease of $1.1 million and a $0.6 million revenue decrease in Public Health due to the delay in the EPIC program implementation. Spending is anticipated to be within budget.

7 **Human Services Agency** The Human Services Agency projects to end the year with a net operating surplus of $10.2 million. The department projects a net $5.4 million surplus in Aid and Assistance programs, comprised of $5.6 million in expenditure savings partially offset by a $0.2 million revenue deficit. Expenditure savings are due to decreased caseload in the County Adult Assistance Program (CAAP) and reduced savings in CAAP Homeless Aid. The decreased CAAP caseload is primarily caused by the reinstatement of renewal requirements, which also led to the minor revenue shortfall. The department also projects a net $4.9 million surplus in Operations and Administration, largely due to an increase in Medi-Cal funding.

8 **Recreation and Park Department – General Fund** The department expects a $12.4 million General Fund revenue shortfall in rents, concessions, and service charges, due to closures of recreational facilities and activities related to the course of the COVID pandemic. The department projects no variance from its expenditure budget at this time.

9 **Sheriff** The Sheriff's Department projects to end the fiscal year with an operating deficit of $11.5 million. A revenue surplus of $0.5 million, primarily due to reimbursements for provided services of $0.9 million, is offset by deficits in federal prisoner boarding revenue of $0.3 million due to prisoner releases to protect inmates from COVID, and SSA payments of $0.1 million due to falling prison populations. In addition, the department projects an expenditure deficit of $12.0 million from deficits in non-work order salary and fringe benefits mainly due to $8.0 million in increased overtime expenditures due to relocation of department staff from County Jail 4; $0.7 million higher-than-budgeted work order services provided to DPH and DEM; and $3.3 million in expenditures greater than budget for COVID response costs, civil unrest, and fire mutual aid. The Controller's Office will continue to work with the department to ensure it remains within budget.

E. November 2020 Election Results

As of the publication of this report, the following ballot measures affecting the City's General Fund appear to have been passed by voters. Except for Proposition F, the expenditures and revenues associated with these ballot measures were not assumed in the budget. Table 5 below summarizes the fiscal impact of these measures versus the adopted budget. Many of the measures will not have a fiscal impact in the current year.

Table A-4: General Fund Impact of November 2020 Local Ballot Measures ($ millions)

November 2020 Local Ballot Measures	FY 2020-21	
Prop B: Department of Sanitation and Streets, Sanitation and Streets Commission and Public Works Commission	-	1
Prop D: Sheriff Oversight	(0.1)	2
Prop F: Business Tax Overhaul	-	3
Prop H: Neighborhood Commercial Districts and City Planning	-	4
Prop I: Transfer Tax	11.4	5
Prop L: Executive Pay	-	6
Surplus / (Shortfall) from Budget	**11.3**	

1 Passage of Proposition B (Department of Sanitation and Streets, Sanitation and Streets Commission, and Public Works Commission). Proposition B divides the Department of Public Works into two departments: The Department of Sanitation and Streets, which will maintain City streets, City buildings, public restrooms, and street trees, and the Department of Public Works, which will continue to provide all other services provided by the current Department of Public Works. In addition, oversight committees will be created for both new departments. We estimate the cost will be between $2.5 million and $6.0 million beginning in FY 2022-23.

2 Passage of Proposition D (Sheriff Oversight). Proposition D creates the Sheriff's Department Office of Inspector General (OIG) and the Sheriff's Department Oversight Board. The OIG will monitor Sheriff Department operations, including investigative power over certain complaints and in-custody deaths and recommending disciplinary action if an employee violates department policy. The Oversight Board will have the power to appoint or remove the inspector general and seek input regarding the department's operations and jail conditions. Initial Oversight Board work begins in March 2021. Beginning in FY 2021-22, both the Board and OIG are expected to be fully implemented. We estimate the annual cost of this initiative to be approximately $2.7 million.

3 Passage of Proposition F (Business Tax Overhaul). The measure overhauls business tax by eliminating the payroll tax; raising registration fees for larger businesses and decreasing them for smaller businesses; increasing gross receipts tax rates; increasing the administrative office tax rate; and imposing a commercial rent tax should the City lose the litigation concerning Proposition C from the June 2018 election. The adopted budget assumed passage of this measure.

4 Passage of Proposition H (Neighborhood Commercial Districts and City Planning). The measure amends the Planning Code for Neighborhood Commercial Districts to increase the types of permitted uses, including community facilities and restaurants, expedite the approval and inspection process for permits, and eliminate the public notification for permitted uses. We are not currently estimating any change from budget related to this initiative.

5 Passage of Proposition I (Transfer Tax). The measure increases the property transfer tax rate on transactions valued between $10 million and less than $25 million from 2.75% to 5.5%, and the rate on transactions valued at $25 million and above from 3% to 6%. The budget did not assume revenue from this measure. Consistent with the assumptions for the City's existing transfer tax projection, this measure is anticipated to generate an additional $14.4 million in the second half of FY 2020-21, or $11.4 million after baseline allocations.

6 Passage of Proposition L (Executive Pay). The measure imposes a new 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 is projected to result in additional annual revenue to the city in the range of $60 to $140 million. Because the measure takes effect on January 1, 2022, revenues will not be received until FY 2022-23.

F. COVID Emergency Response

Table A-5: COVID Emergency Response Revenues and Expenditures ($ millions)

	Budget			Projection			
		Revenue			Revenue		
Department - Project	Expenditures	FEMA + Grants	CARES CRF + General Fund	Expenditures	FEMA + Grants	CARES CRF + General Fund	Surplus/ (Shortfall)
DEM - COVID Command, Joint Info. & Oth.	16.8	7.7	9.1	17.3	11.8	5.5	3.6
DPH - Isolation & Quarantine	16.7	8.3	8.3	22.5	11.2	11.2	(2.9)
DPH - PPE & Scarce Resources	59.7	-	59.7	30.5	-	30.5	29.2
DPH - Testing	56.9	28.0	29.0	78.5	39.3	39.3	(10.3)
DPH - CARES Provider Relief Fund	-	44.9	(44.9)	-	64.8	(64.8)	19.9
DPH - All Other	136.2	47.9	88.3	136.2	47.9	88.3	(0.0)
DPW - Expanded Pit Stops	17.5	8.0	9.5	13.8	6.6	7.3	2.3
HOM - SIP Hotels	178.7	175.4	3.3	198.5	188.0	10.5	(7.2)
HOM - RVs, Shelter & Safe Sleeping	38.8	34.3	4.4	29.1	19.9	9.2	(4.8)
HOM - Medical Support, Staffing & Oth.	9.6	8.7	0.9	3.9	2.8	1.2	(0.3)
HSA - Feeding	48.6	13.7	34.9	49.5	13.7	35.8	(0.9)
Contingency - Surge Allowance & Revenue Risk					(28.6)	28.6	(28.6)
Total	579.5	376.9	202.6	579.9	405.9	174.0	0.0

As shown on Table A-5, the revised expenditure budget for COVID-specific projects across five central departments providing emergency response care and services during the pandemic in FY 2020-21 is $579.5 million. By far the largest source is $247.8 million in Federal Emergency Management Agency (FEMA) reimbursements, which are contingent on the state of emergency, as determined by FEMA, continuing through June 2021. Other sources include $129.1 million in intergovernmental payments, dedicated revenues, grants, and hospital charges for services and $202.6 million of flexible General Fund revenue including CARES Act – Coronavirus Relief Fund (CRF) monies and General Fund support.

We are not currently projecting a variance from budget given the unpredictable nature of the health emergency and evolving guidance on allowable uses of funds. Detail about each major department providing COVID response services and known revenue and expenditure changes in programmatic areas is provided below.

1 Department of Public Health (DPH) Funds support programs including hospital response, COVID testing, personal protective equipment for City staff and non-profit partners, contact tracing, and isolation and quarantine hotels, among other efforts.

- *Personal Protective Equipment (PPE)* Due to the significant inventory of PPE acquired in FY 2019-20 and current non-surge levels of COVID in the City, the $59.7 million of budget authority available in FY 2020-21 is expected to be underspent by approximately $29.2 million.

- *Testing.* The public COVID testing sites operated by DPH are currently exceeding the anticipated monthly volume of unreimbursed tests resulting a projected shortfall of $10.3 million. DPH is actively exploring changes to billing and protocols to increase insurance reimbursement of these costs. Should additional testing programs be developed for community members and schools, expenditures will vary further from budget.

2 Department of Homelessness and Supportive Housing (HOM) HOM is providing continued emergency response for people experiencing homelessness during the pandemic. This includes an RV site, a congregate shelter site, Safe Sleeping program, and the Shelter in Place (SIP) hotel program.

- *Shelter in Place (SIP) Hotel Program.* The pace for winding down this program by rehousing clients is slower than anticipated and several programmatic costs are expected to exceed original budget projections. These expenditure overages are projected to be partially offset by additional FEMA reimbursements. FEMA will only reimburse the costs of non-congregate shelter for clients who meet the FEMA criteria for vulnerability in the pandemic due to age (65 or older) or an underlying health condition. Initial review of clients shows a lower level of FEMA eligibility compared to budget. The value of the resulting revenue loss is not yet known but is expected to be material – exacerbating the projected deficit of $7.2 million reflected in this report.

- *Congregate Shelter and Safe Sleeping Program*: In September of 2020, FEMA released new guidance on the eligibility of services for reimbursement during the COVID emergency. According to this guidance, congregate shelter is not an eligible intervention after September 15, 2020. Despite reduced expenditure levels, the revenue loss results in a projected deficit of $4.8 million.

3 Human Services Agency (HSA) HSA is operating expanded feeding programs during the COVID emergency including the Great Plates program, which provides three restaurant-delivered meals a day to older adults; groceries through food pantries; and meals to those isolating and quarantining due to COVID exposure or a positive test. The cost of continuing to serve clients not deemed eligible by the State during extensions of the Great Plates program is driving the projected deficit of $0.9 million. Continued extension of the program may increase costs in future projection updates.

4 Department of Public Works (DPW) The department's COVID budget includes funding to temporarily expand the Pit Stop program by extending hours at existing sites and adding new locations. Lower than anticipated service levels result in a projected $2.3 million surplus.

5 Department of Emergency Management (DEM) The department's COVID budget supports the staffing and operations of the COVID Central Command headquartered in the Moscone Center South and ancillary programming including the Joint Information Center. Higher than anticipated FEMA eligibility of costs support the projected surplus of $3.6 million in the department's programs.

Key COVID Response Revenues

The revenue contingency in Table 6 reflects the high level of uncertainty in the key funding streams:

- FEMA Reimbursement. The budget assumes the emergency declaration that provides for FEMA cost sharing continues through the current fiscal year. The current declaration has been indefinitely extended. FEMA will provide a minimum of 30 days' notice prior to the ending of the declaration. Certain programs, notably the non-congregate shelter efforts and the Great Plates food program, are separately authorized by FEMA on a 30-day basis.
- CARES Act Coronavirus Relief Fund (CRF). The budget assumed $82.1 million of CRF revenue to cover costs incurred to respond to the emergency, including those not reimbursed by FEMA.

Actual FY 2019-20 uses were $3.4 million higher than expected, reducing the amount available for FY 2020-21 lower by a like amount. The City has already received these funds, and now must demonstrate enough eligible uses by December 30, 2020 in order to retain them. As of October, $37 million remains to be drawn down.

Reserve Status

Projected reserve ending balances in Table A-6 are based on pre-audit results for FY 2019-20. Pre-audit General Fund revenues ended higher than projected in August 2020. As a result, the FY 2019-20 ending balance of the Budget Stabilization Reserve is higher than previously assumed, and the maximum allowable withdrawal from it may be increased by $4.6 million in FY 2020-21 and $7.6 million in FY 2021-22 above the budgeted levels shown below.

Table A-6: Projected Reserve Balances, FY 2019-20 through FY 2021-22

	FY19-20	FY 2020-21			FY 2021-22		
	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance
General Reserve*	78.5	-	-	78.5	-	-	78.5
Rainy Day Economic Stabilization City Reserve	229.1	-	(114.5)	114.5	-	(57.3)	57.3
Budget Stabilization Reserve	307.8	-	(42.0)	265.8	-	(125.3)	140.5
Subtotal Economic Stabilization Reserves	536.8	-	(156.5)	380.3	-	(182.6)	197.7
Percent of General Fund Revenues	10.0%			7.5%			3.8%
COVID Response and Economic Loss Reserve	507.4	-	-	507.4	-	-	507.4
Budget Stabilization Reserve - One Time Reserve	48.6	-	-	48.6	-	-	48.6
Business Tax Stabilization Reserve	-	149.0	-	149.0	-	(149.0)	-
Public Health Management Reserve	111.1	-	-	111.1	-	-	111.1
Rainy Day Economic Stabilization SFUSD Reserve	34.5	-	-	34.5	-	-	34.5
Recreation & Parks Savings Incentive Reserve	0.8	-	-	0.8	-	-	0.8
Subtotal	702.5	149.0	-	851.5	-	(149.0)	702.5
Annual Operating Reserves							
Litigation Reserve	49.2	11.0	(60.2)	-	11.0	(11.0)	-
Salary and Benefits Reserve	25.4	23.5	(48.8)	-	23.5	(23.5)	-
Total, All Reserves	1,392.3	183.5	(265.5)	1,310.3	34.5	(366.1)	978.7

* A deposit of $0.9million was budgeted in FY 2021-22 to the General Reserve. Based on the latest revenue projection, this deposit is no longer required.

Other Funds

Projected operating results for select funds outside the General Fund are shown in Table A-7.

Table A-7. Other Fund Highlights ($ millions)

	Prior Year		FY 2020-21					FY 2021-22	
	FY 2019-20 Year End Fund Balance	Fund Balance Used in FY 2020-21 Budget	Beginning Fund Balance	Revenue Surplus/ (Deficit)	Expenditure Savings/ (Deficit)	Net Operating Surplus/ (Deficit)	Estimated Ending Fund Balance	Fund Balance Used in FY 2021-22 Budget	*Notes*
Airport Operating Funds	116.7	77.2	39.5	(21.4)	47.6	26.2	65.7	-	*1*
MTA Operating Funds	332.6	147.5	185.0	(182.4)	144.6	(37.8)	147.2	39.1	*2*
Port Operating Funds	68.3	55.1	13.2	-	-	-	13.2	8.5	*3*
PUC Hetch Hetchy Operating Funds	37.6	-	37.6	(1.6)	40.8	39.2	76.8	-	*4*
PUC Wastewater Operating Funds	211.9	12.1	199.8	(1.3)	11.8	10.5	210.3	-	*5*
PUC Water Operating Funds	230.8	27.8	203.1	11.2	14.9	26.1	229.2	22.8	*6*
PUC Clean Power Funds	31.2	-	31.2	(0.4)	19.6	19.2	50.4	-	*7*
Recreation and Park - Marina Fund	(0.8)	-	(0.8)	(1.0)	-	(1.0)	(1.8)	-	8
Recreation and Park - Golf Fund	5.9	-	5.9	(4.5)	-	(4.5)	1.4	-	9

1 **Airport Operating Funds** The Airport began the fiscal year with $39.5 million in available fund balance after a budgeted use of $77.2 million. The department projects a revenue deficit of $21.4 million and expenditure savings of $47.6 million, for a net operating surplus of $26.2 million.

The Airport's revenue deficit is due to over 50% fewer enplaned passengers versus prior projections due to the COVID-19 pandemic. Airline revenues, which include landing fees and terminal rents, are projected to be below budget by $88.4 million. Non-airline revenues, which include duty free rentals, retail, parking, rental cars, ground transportation, and non-airline rentals, are projected to be $176.0 million below budget. Federal stimulus grant funds of $254.8 million will offset revenue losses. The department projects to have salary and benefit savings of $7.4 million, non-personnel services savings of $9.7 million, material and supply savings of $1.2 million, capital outlay savings of $3.5 million, and a savings of $9.9 million in transfers out due to lower annual service payments to the General Fund, resulting in an operating fund balance at fiscal year-end of $65.7 million.

2 **MTA Operating Funds** MTA began the fiscal year with $185.0 million in available fund balance. The department projects to end the year with a $37.8 million operating deficit due to a revenue deficit of $182.4 million, which is partly offset by expenditure savings of $144.6 million. The revenue deficit results from a $34.1 million reduction in General Fund baselines; a $97.3 million deficit in transit fare revenue from capacity restrictions; and a $51 million deficit in parking and traffic revenue from the slow return of citation and garage revenues, discounts applied during shelter-in-place, loss of meter revenue to Shared Spaces, and delayed roll-out of evening and Sunday meters. The expenditure surplus is due to $55.2 million surplus in personnel costs net of overhead cost allocations from a current hiring freeze; $38.9 million surplus in non-personnel services; $25.2 million surplus in materials and supplies; $5 million surplus in judgments, claims, and workers compensation; $4.8 million surplus in taxes, licenses, and permits; and $15.5 million surplus from reserves that will remain unspent. MTA operating funds are projected to end the fiscal year with a balance of $147.2 million, of which $39.1 million has been appropriated in the previously approved FY 2021-22 budget.

3 **Port Operating Funds** The Port projects to be within budget. While some revenues from parking meters and fines is higher than expected for the first quarter, these are expected to be offset by rent forgiveness and deferrals. Expenditures are projected to remain within budget.

4 **Public Utilities Commission - Hetch Hetchy Operating Funds** The Hetch Hetchy Operating Fund began the fiscal year with $37.6 million in available operating fund balance. The Fund is projected to end the year with a net operating surplus of $39.2 million due to revenue shortfalls of $1.6 million offset by $40.8 million of expenditure savings. The revenue deficit is due to $1.9 million in lower-than-budgeted retail electric sales, and $1.4 million less in natural gas and steam revenue due to the shelter-in-place orders, offset by $1.7 million of higher-than-budgeted wholesale electric sales revenue due to higher prices. Expenditure savings of $40.8 million are due to savings of $0.8 million in personnel costs from vacancies; $9.8 million less in power purchases due to lower purchase prices; $1.4 million less than budget for natural gas and steam purchase due to reduced on-site activity at city departments; $27.3 million of savings from closeouts of prior-year projects; and $1.5 million in savings from a budgeted reserve deposit that will not be made. The Fund is projected to end the fiscal year with a balance of $76.8 million.

5 **Public Utilities Commission - Wastewater Operating Funds** The Wastewater Operating Fund began the fiscal year with $199.8 million in available operating fund balance. The Fund is projected to end the year with a net operating surplus of $10.5 million due to a revenue deficit of $1.3 million offset by expenditure savings of $11.8 million. The revenue deficit is from lower-than-budgeted sewer service charges of $1.1 million due to customer discount programs and lower discharge volumes caused by the shelter-in-place orders, and a $0.2 million deficit in miscellaneous income due to a moratorium on collections. Expenditure savings are from $1.0 million of personnel cost savings from position vacancies and $10.8 million of savings from closeouts of prior-year capital and programmatic projects. The Fund is projected to end the fiscal year with a balance of $210.3 million.

6 **Public Utilities Commission - Water Operating Funds** The Water Operating Fund began the fiscal year with $203.1 million in available operating fund balance. The Fund is projected to end the year with a net operating surplus of $26.1 million given a revenue surplus of $11.2 million and expenditure savings of $14.9 million. The revenue surplus is from $19.4 million of wholesale water sales from higher-than-budgeted sales volume, which is partially offset by a $3.4 million deficit in retail water sales revenue from customer discount programs and lower volumes of water sales to commercial customers due to the shelter-in-place order; and a $4.8 million deficit in miscellaneous income due to reductions in water service installations. Expenditure savings include $0.9 million of personnel cost savings from position vacancies, $5.0 million of debt service savings from refunding of Water Revenue Bonds, and $9.0 million of savings from closeouts of prior-year capital and programmatic projects. The Fund is projected to end the fiscal year with a balance of $229.2 million, of which $22.8 million has been appropriated in the Board approved FY 2021-22 budget.

7 **Public Utilities Commission - Clean Power Funds** The Clean Power Fund began the fiscal year with $31.2 million of available operating fund balance. It is projected to end the year with a net operating surplus of $19.2 million due to a revenue deficit of $0.4 million offset by expenditure savings of $19.6 million. The revenue deficit is due to $0.8 million less than budget in product electric sales, offset by Supergreen product electric sales revenue surplus of $0.4 million beyond budget from customer accounts. Expenditure savings include $15.5 million of savings from budgeted reserve deposits that will not be made, $1.0 million of personnel cost savings from vacancies, and $3.1 million of power purchase savings. The Fund is projected to end the fiscal year with a balance of $50.4 million.

8 **Recreation and Park Department – Marina Annual Fund** The Marina Fund began the fiscal year with an abnormal operating fund balance of negative $0.8 million. The department projects a $1.0 million revenue shortfall due to reduced rent and concession revenue and reduced marina fees.

9 **Recreation and Park Department –Golf Annual Fund** The Golf Fund began the fiscal year with $5.9 million of available operating funding balance. The department projects to end the year with a $4.5 million shortfall, due to reduced golf fees and concession revenues. Expenditures are projected to be within budget. The Fund is projected to end the fiscal year with a balance of $1.4 million.