Five Year Financial Plan Update: FY 2022-23 through FY 2025-26

Joint Report for General Fund Operations by the Controller's Office, Mayor's Office, and Board of Supervisors' Budget Analyst

January 12, 2022

City & County Of San Francisco

Executive Summary

PURPOSE

San Francisco Administrative Code Section 3.6(b) requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the City's Five-Year Financial Plan. This report provides updated expenditure and revenue projections for Fiscal Years (FYs) 2022-23, 2023-24, 2024-25, and 2025-26, assuming no changes to currently adopted policies and staffing levels. The next full update of the City's Five-Year Financial Plan will be submitted in December 2022.

OUTLOOK FOR GENERAL FUND-SUPPORTED OPERATIONS

Table 1 summarizes the projected changes in General Fund-supported revenues and expenditures over the next four years. As shown in Table 1, this report projects a surplus of $26.2 million in FY 2022-23 and $81.9 million in FY 2023-24, for a combined $108.1 million surplus for the upcoming two-year budget period. Deficits of $38.6 million and $148.9 million are projected for FY 2024-25 and FY 2025-26.

Table 1. Summary of General Fund Supported Operations
Projected Budgetary Surplus / (Shortfall) ($ Millions)

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
SOURCES Increase / (Decrease)	**40.1**	**323.4**	**522.5**	**710.9**
Uses				
Baselines & Reserves	(112.9)	(202.7)	(271.2)	(318.9)
Salaries & Benefits	(57.8)	(81.7)	(140.6)	(266.3)
Citywide Operating Budget Costs	132.9	58.4	(75.2)	(161.0)
Departmental Costs	24.0	(15.5)	(74.1)	(113.6)
USES Decrease / (Increase)	**(13.9)**	**(241.5)**	**(561.1)**	**(859.8)**
Projected Cumulative Projected Surplus/(Shortfall)	**26.2**	**81.9**	**(38.6)**	**(148.9)**

DRIVERS OF SHORT-TERM SURPLUS

The shorter-term outlook for the coming two fiscal years is significantly improved versus projections in recent years. This improvement is driven by improved projections of key tax revenues and the commencement of new voter-approved taxes, significantly lower pension contributions resulting from recent strong pension fund investment returns, and changes in both the amount and the timing of recognizing federal disaster relief revenues.

Modestly Improved Local Revenue Outlook

General Fund taxes, revenues, and transfers in are projected to grow rapidly in the near term, at 12.2% in FY 2022-23 versus the FY 2021-22 budget, with slower growth rates of 4.3% in FY 2023-24 and approximately 3% in each year thereafter. The anticipated growth in the City's revenue is largely driven by improvements in property tax, real property transfer tax, and sales tax-based State subventions, partially offset by weakness in business and hotel room tax.

Improvements: Property-related taxes are projected to outperform budgeted levels, driven by higher than previously anticipated collection of mid-year reassessments and the return of additional Excess Education Revenue Augmentation Fund (ERAF) contributions to the General Fund. This improvement is in part offset by assumed reduced collections resulting from ongoing reassessments of hotel, retail, office, and multi-family apartment properties. Property transfer tax improvements are driven by stronger than anticipated volume of larger property transactions combined with higher tax rates adopted by the voters in November 2020. Finally, sales tax trends in other parts of California are improving rapidly, resulting in increases in various sales tax-based subventions received from the State.

Weaknesses: Other sources of revenue are assumed to recover more slowly than previously expected. The city's tourism and hospitality sector is projected to rebound in FY 2021-22 and FY 2022-23, but at a slower pace than budgeted given more recent travel and hospitality trends. Local sales tax growth is projected to lag stronger statewide results. The impact of continued telecommuting on office occupancy in San Francisco is projected to continue to drive significant losses of business tax revenue, although this impact is projected to wane over the projection period and occur at a lesser level of loss than our last projection.

Reduced Employer Pension Contributions

In FY 2020-21, the San Francisco Employees' Retirement System (SFERS) generated record-setting returns of 33.7%, bringing total assets to $35.7 billion, an increase of $9.1 billion from the previous fiscal year. These sizeable investment gains above the previously established discount rate of 7.4% are recognized over a five-year period, leading to year-over-year savings for the City's employer contributions to SFERS for the period of this report. The impact of these returns is one of the most significant expenditure changes to City's fiscal outlook, as the employer contribution rate to SFERS drops from approximately 20% in FY 2021-22 to around 10% by FY 2025-26. This results in reduced General Fund contributions of approximately $49 million in the next fiscal year (FY 2022-23) and another $76 million in General Fund savings from FY 2022-23 to FY 2023-24. These savings also drive longer-term reductions in the size of the General Fund deficit projected by FY 2025-26, as compared to prior reports.

Higher Federal Emergency Revenues Forecast

Given recent claiming trends and the extension of the disaster period, the projection assumes that the City's General Fund will receive additional reimbursements from the Federal Emergency Management Agency (FEMA) over the forecast period, although at a slower pace than previously projected. Projections of FEMA reimbursements for COVID-19-related expenditures total $547.7 million over the coming three fiscal years, an improvement of $457.7 million versus budgeted levels. These slower but improved projections are offset by the loss of $312.4 million of federal state and local fiscal recovery funds from the American Rescue Plan Act (ARPA) which were budgeted in the current fiscal year but received and recognized in FY 2020-21, offsetting the effect of the lag in FEMA reimbursements in that prior year. Our projections going forward assume that reimbursements from FEMA will occur approximately 12 to 24 months after eligible expenditures are incurred, a slower rate than the previous practice of budgeting these revenues in the same year in which the expenditures occurred. The General Fund benefit of remaining ARPA allocations is assumed in this projection to be appropriated and spent evenly over the four-year forecast period.

KEY ASSUMPTIONS

Key assumptions affecting the FY 2022-23 through FY 2025-26 projections:

- **Recovery from the COVID-19 pandemic:** San Francisco's economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism, all of which were impacted significantly by the COVID-19 pandemic. This report assumes that with the addition of new revenue sources, San Francisco will recover to prior peak revenue levels over the four-year period. However, the forecast assumes that weakness in tourism and travel is expected to linger even in the last plan year, FY 2025-26, and that office workers will, on average, permanently telecommute for 15% of the time. New revenue sources – including November 2020 Proposition F raising business tax rates, November 2020 Proposition I raising real estate transfer tax rates, November 2020 Proposition L imposing a new tax on executive pay, excess ERAF, and delayed FEMA payments – offset weakness in these areas. The forecast is subject to heightened levels of uncertainty related to the ongoing recovery from the COVID-19 pandemic. Notably, the emergence of the Omicron variant raises uncertainty about the level of travel and pace of return to office. The General Fund Revenue section of this report more fully details revenue assumptions.

- **No major changes to service levels and number of employees:** The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2021-22 and FY 2022-23 budgeted levels unless specified below.

- **Assumes previously negotiated wage increases and inflationary increases for open contracts in line with Consumer Price Index (CPI):** This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed memorandums of understanding (MOUs) through FY 2022-23. Miscellaneous unions have closed MOUs through FY 2021-22. In open contract years, this report projects salary increases equal to the change in CPI using Moody's SF Metropolitan Statistical Area CPI, released in November 2021. This corresponds to 3.25% for FY 2022-23, 2.83% for FY 2023-24, 2.71% for FY 2024-25 and 2.56% for FY 2025-26. We will continue to update our projections as additional information on forecasted inflation is received from Moody's, the California Department of Finance, and others. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels, but rather are used for projection purposes.

- **Pension investment returns of 7.2% per year:** This report assumes the actuarially assumed rate of return of 7.2% per year, as adopted by the Retirement Board in November 2021, a change from the previous rate of 7.4%.

- **CalPERS contributions:** In order to better align shifts in payroll contribution rates between SFERS and the California Public Employees' Retirement System (CalPERS), this report assumes the City pays its CalPERS unfunded actuarial liability (UAL) over a ten-year period, rather than over twenty years, which results in an ongoing cost increase of approximately $11.7 million starting in FY 2022-23.

- **Health insurance cost increases:** This projection assumes that the employer share of health insurance costs for active employees will increase by 4.6% in FY 2022-23, and then 6% in each following year, an average of 5.7% annually over the projection period. Dental insurance costs decrease by 5.7% in FY 2022-23, then increase by 4.2% for each remaining year, an average of 1.7% for the projection period. Retiree health costs are assumed to grow by 2.3% in FY 2022-23, and then 4.6% in each subsequent fiscal year, an average of 4% annually over the projection period.

- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the rate of CPI starting in FY 2023-24 and thereafter. This is the Moody's SF Metropolitan Statistical Area CPI of 2.83% for FY 2023-24, 2.71% for FY 2024-25 and 2.56% for FY 2025-26. The projection reflects the adopted FY 2021-22 and 2022-23 budget, which included a 3.0% cost-of-doing business increase for General Fund nonprofit contracts.

- **Ten-Year Capital Plan, Five-Year Year Information and Communications Technology (ICT) Plan, and inflationary increases on equipment:** The projection assumes the adopted FY 2021-22 funding level for capital, equipment, and information technology (IT). For capital, this report assumes the budgeted Capital Plan level of funding in FYs 2021-22 and 2022-23. In the remaining three years, the report assumes funding will increase by 10% in FY 2023-24 followed by a return to pre-pandemic funding levels in FYs 2024-25 and 2025-26, as is described in the City's FY 2020-29 Ten-Year Capital Plan, which was released in 2021. The IT investment projection assumes full funding of the City's Information and Communications Technology (ICT) Plan in FY 2022-23 through FY 2025-26. For equipment, this plan assumes the budgeted level of funding in FY 2022-23, and growth of CPI in the subsequent three fiscal years.

- **Deposits and withdrawals from reserves:** As a base case projection, the forecast assumes no reserve withdrawals, except what was previously budgeted. The projection assumes deposits to the General Reserve in each fiscal year, consistent with the financial policies adopted by the Board of Supervisors and codified in Administrative Code Section 10.60(b). As the City's economy recovers, the General Reserve value will increase from 1.5% of General Fund revenues in the current year, incrementally increasing to 2.5% by FY 2025-26. Additionally, the projection assumes a deposit of $6.8 million to the Budget Stabilization Reserve in FY 2025-26, as the City's real property transfer tax is expected to exceed the average five-year transfer tax level in that year, triggering a required deposit.

KEY FACTORS THAT COULD AFFECT THESE FORECASTS

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **COVID-19 pandemic and public health response:** The COVID-19 pandemic and its impact on the local public health response is a continuously evolving risk and uncertainty. The projection assumes a modest expenditure for costs related to COVID-19 in FY 2022-23, in accordance with the adopted budget, and no ongoing costs in future years. Any increase in the level of public health response would impact this forecast.

- **Pace of recovery and impact on the local economy:** The pace of recovery of the local economy is also uncertain, particularly the return of office workers and small businesses to downtown, recovery of the hospitality industry, and overall inflationary concerns. It is important to note that local inflation is much lower than national inflation broadly due to the outsized negative economic impact that the COVID-19 pandemic had in the Bay Area as compared to other parts of the country.

- **Market volatility and the impact on pension returns:** As noted, the report assumes the City's retirement fund meets the assumed 7.2% rate of return. Failure to meet that assumed rate of return could impact this forecast.

- **New, unfunded budget commitments:** Legislative or voter-approved increases to existing baselines, set-asides, or other new spending increases without commensurate revenue increases from new funding sources will impact the projections included in this report.

- **Ongoing risk to excess ERAF:** The projection assumes status-quo excess ERAF, which generates approximately $300 million per year and is included as an ongoing source in this forecast. Any legislative changes at the State level to the calculation or amount of excess ERAF could have a material impact on this forecast.

- **Collective bargaining agreement negotiations:** This projection assumes approved wage increases in collective bargaining agreements for public safety through FY 2022-23, and inflation on open contracts in all other years. Other than these costs, this report does not assume any contract changes due to labor negotiations. Wage or benefit changes above or below these assumptions would impact the projection.

SCHEDULE OF UPCOMING REPORTS CONTAINING BUDGET PROJECTIONS

- **Early February - Controller's Six-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2021-22.

- **Mid-March - Update to the Joint Report:** This report will update the revenue and expenditure forecasts for FY 2022-23 through FY 2025-26.

- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2021-22.

- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2022-23 and 2023-24 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

General Fund Projection

Table 2A. Base Case – Key Changes to General Fund Supported Sources and Uses – Incremental – FY 2022-23-FY 2025-26 ($ Millions)

SOURCES Increase / (Decrease)	2022-23	2023-24	2024-25	2025-26
Fund Balance & Reserves				
Use of Prior Year Fund Balance (Non-ARPA) - Gain/(Loss)	(174.0)	-	-	63.4
Use of Prior Year Fund Balance (ARPA) - Gain/(Loss)	(224.9)	-	-	(100.0)
Reserves - Gain/(Loss)	(296.2)	(4.7)	(0.1)	(7.5)
Subtotal Balance & Reserves	**(695.1)**	**(4.7)**	**(0.1)**	**(44.0)**
Revenues				
General Fund Taxes, Revenues and Transfers net of items below	572.7	335.3	283.7	206.0
FEMA Revenue	184.7	(70.7)	(114.0)	-
Public Health - One-time Revenues	(72.7)	-	-	-
Public Health - Operating Revenues	22.5	16.8	18.7	19.5
Other General Fund Support	28.0	6.8	10.9	7.0
Subtotal Revenues	**735.2**	**288.1**	**199.2**	**232.4**
TOTAL CHANGES TO SOURCES	**40.1**	**283.4**	**199.1**	**188.4**
USES Decrease / (Increase)				
Baselines & Reserves				
Contributions to Baselines	(112.9)	(89.8)	(68.5)	(47.6)
Subtotal Baselines	**(112.9)**	**(89.8)**	**(68.5)**	**(47.6)**
Salaries & Benefits				
Previously Negotiated Closed Labor Agreements	(42.5)	(8.6)	-	-
Projected Costs of Open Labor Agreements	(57.0)	(71.7)	(81.0)	(78.0)
Health and Dental Benefits - Current and Retired Employees	(10.1)	(24.5)	(26.1)	(27.5)
Retirement Benefits - Employer Contribution Rates	50.9	82.3	49.0	(19.3)
Other Salaries and Benefits Savings/(Costs)	0.9	(1.4)	(0.9)	(0.8)
Subtotal Salaries & Benefits	**(57.8)**	**(23.9)**	**(58.9)**	**(125.7)**
Citywide Operating Budget Costs				
Hotel Tax for the Arts Backfill	13.4	2.6	-	-
Capital, Equipment, and Technology	78.7	(8.2)	(63.7)	(18.0)
Inflation on Non-personnel Costs and Non-profit Grants	(15.9)	(33.0)	(32.6)	(31.7)
Debt Service and Real Estate	(18.1)	(26.2)	(14.2)	(15.6)
Sewer, Water, and Power Rates	(5.7)	(6.1)	(5.6)	(5.2)
COVID-19 Citywide Expenditures	79.2	14.4	-	-
Other Citywide Costs	1.3	(17.9)	(17.5)	(15.3)
Subtotal Citywide Operating Budget Costs	**132.9**	**(74.5)**	**(133.6)**	**(85.8)**
Departmental Costs				
City Administrator's Office - Convention Facilities Subsidy	10.9	3.6	0.3	3.8
Elections - Number of Scheduled Elections	3.5	(1.9)	1.3	(1.2)
Ethics Commission - Public Financing of Elections	(0.7)	(6.6)	7.2	(2.0)
Mission Bay Transportation Improvement Fund	(1.2)	(0.3)	(3.6)	(0.3)
Affordable and Permanent Supportive Housing Project Costs	(8.2)	(5.1)	(6.2)	(7.8)
Human Services Agency - IHSS and Other Benefit Costs	(6.3)	(12.4)	(24.9)	(9.9)
Public Health - Operating Costs	(50.3)	(17.5)	(24.7)	(23.5)
Proposition B - November 2020 (Department of Sanitation and Streets)	(6.0)	(0.2)	(0.2)	(0.2)
Proposition D - November 2020 (Sheriff Oversight)	(0.9)	(0.1)	(0.1)	(0.1)
One-Time Economic Recovery and Community Support Initiatives	86.8	1.0	-	-
All Other Departmental Savings/(Costs)	(3.7)	(0.1)	(7.8)	1.5
Subtotal Departmental Costs	**24.0**	**(39.5)**	**(58.6)**	**(39.5)**
TOTAL CHANGES TO USES	**(13.9)**	**(227.6)**	**(319.6)**	**(298.6)**
Projected Surplus (Shortfall) vs. Prior Year	**26.2**	**55.7**	**(120.5)**	**(110.3)**
Cumulative Projected Surplus (Shortfall)	**26.2**	**81.9**	**(38.6)**	**(148.9)**
2-Year Number	**108.1**			

Table 2B. Base Case – Key Changes to General Fund-Supported Sources and Uses – Cumulative – FY 2022-23 - FY 2025-26 ($ Millions)

SOURCES Increase / (Decrease)	2022-23	2023-24	2024-25	2025-26
Fund Balance & Reserves				
Use of Prior Year Fund Balance (Non-ARPA) - Gain/(Loss)	(174.0)	(174.0)	(174.0)	(110.6)
Use of Prior Year Fund Balance (ARPA) - Gain/(Loss)	(224.9)	(224.9)	(224.9)	(324.9)
Reserves - Gain/(Loss)	(296.2)	(300.9)	(301.0)	(308.5)
Subtotal Balance & Reserves	**(695.1)**	**(699.8)**	**(699.9)**	**(744.0)**
Revenues				
General Fund Taxes, Revenues and Transfers net of items below	572.7	908.0	1,191.6	1,397.6
FEMA Revenue	184.7	114.0	-	-
Public Health - One-time Revenues	(72.7)	(72.7)	(72.7)	(72.7)
Public Health - Operating Revenues	22.5	39.2	57.9	77.4
Other General Fund Support	28.0	34.8	45.6	52.6
Subtotal Revenues	**735.2**	**1,023.3**	**1,222.5**	**1,454.9**
TOTAL CHANGES TO SOURCES	**40.1**	**323.4**	**522.5**	**710.9**
USES Decrease / (Increase)				
Baselines & Reserves				
Contributions to Baselines	(112.9)	(202.7)	(271.2)	(318.9)
Subtotal Baselines	**(112.9)**	**(202.7)**	**(271.2)**	**(318.9)**
Salaries & Benefits				
Previously Negotiated Closed Labor Agreements	(42.5)	(51.1)	(51.1)	(51.1)
Projected Costs of Open Labor Agreements	(57.0)	(128.7)	(209.7)	(287.7)
Health and Dental Benefits - Current and Retired Employees	(10.1)	(34.7)	(60.7)	(88.2)
Retirement Benefits - Employer Contribution Rates	50.9	133.2	182.2	162.9
Other Salaries and Benefits Savings/(Costs)	0.9	(0.5)	(1.4)	(2.2)
Subtotal Salaries & Benefits	**(57.8)**	**(81.7)**	**(140.6)**	**(266.3)**
Citywide Operating Budget Costs				
Hotel Tax for the Arts Backfill	13.4	16.0	16.0	16.0
Capital, Equipment, and Technology	78.7	70.5	6.9	(11.2)
Inflation on Non-personnel Costs and Non-profit Grants	(15.9)	(49.0)	(81.6)	(113.3)
Debt Service and Real Estate	(18.1)	(44.3)	(58.4)	(74.0)
Sewer, Water, and Power Rates	(5.7)	(11.8)	(17.4)	(22.6)
COVID-19 Citywide Expenditures	79.2	93.6	93.6	93.6
Other Citywide Costs	1.3	(16.6)	(34.2)	(49.4)
Subtotal Citywide Operating Budget Costs	**132.9**	**58.4**	**(75.2)**	**(161.0)**
Departmental Costs				
City Administrator's Office - Convention Facilities Subsidy	10.9	14.6	14.9	18.7
Elections - Number of Scheduled Elections	3.5	1.6	2.9	1.7
Ethics Commission - Public Financing of Elections	(0.7)	(7.2)	-	(2.0)
Mission Bay Transportation Improvement Fund	(1.2)	(1.5)	(5.1)	(5.3)
Affordable and Permanent Supportive Housing Project Costs	(8.2)	(13.2)	(19.4)	(27.2)
Human Services Agency - IHSS and Other Benefit Costs	(6.3)	(18.7)	(43.6)	(53.5)
Public Health - Operating Costs	(50.3)	(67.8)	(92.5)	(116.0)
Proposition B - November 2020 (Department of Sanitation and Streets)	(6.0)	(6.2)	(6.3)	(6.5)
Proposition D - November 2020 (Sheriff Oversight)	(0.9)	(1.0)	(1.1)	(1.2)
One-time Economic Recovery and Community Support Initiatives	86.8	87.8	87.8	87.8
All Other Departmental Savings/(Costs)	(3.7)	(3.8)	(11.7)	(10.2)
Subtotal Departmental Costs	**24.0**	**(15.5)**	**(74.1)**	**(113.6)**
TOTAL CHANGES TO USES	**(13.9)**	**(241.5)**	**(561.1)**	**(859.8)**
Cumulative Projected Surplus (Shortfall)	**26.2**	**81.9**	**(38.6)**	**(148.9)**
2-Year Number	**108.1**			

SOURCES – REVENUES AND TRANSFERS IN

General Context Underlying Revenue Estimates

The COVID-19 pandemic, which began in March 2020, ended the longest period of economic expansion in U.S. history. Within the first month, over 20 million jobs were lost across the country – equal to nearly all the jobs gained during the preceding ten years. In the San Francisco metro division, the job losses were not as severe, but the area still lost nearly 175,000 jobs from March to April 2020, representing about 15% of total employment.

The pandemic, and the public health responses to it, have had a powerful effect on the global economy, and its trajectory over the next five years will continue to be shaped by the path of the virus and the success of efforts to address it. The forecast is subject to heightened levels of uncertainty related to the pandemic. Most recently, the emergence of the Omicron variant raises uncertainty about the level of travel and pace of return to offices. Last year's edition of this report highlighted three major structural challenges to the City's economic recovery: tourism, small businesses, and return to offices. These remain the key determinants of the City's economic recovery.

Revenue projections broadly assume, with the addition of new sources, that the City is able to recover to pre-pandemic levels during the plan period. To the extent this does not happen, or that recovery in certain sources is insufficient to compensate for weaknesses others, the projection will be too optimistic.

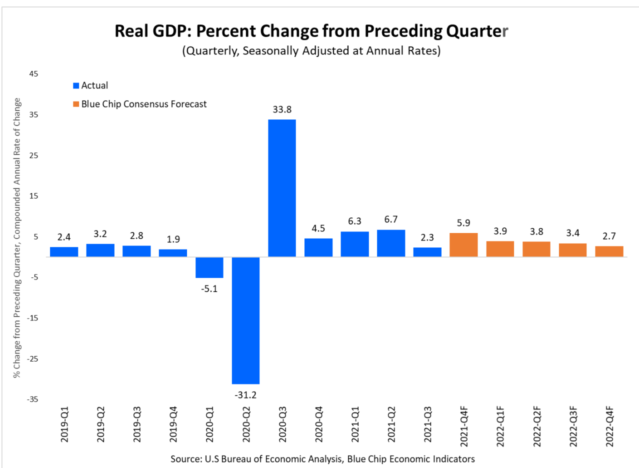
General Fund taxes, revenues, and transfers in are projected to grow rapidly in the near term, at 12.2% in FY 2022-23 versus the FY 2021-22 budget, with slower growth rates of 4.3% in FY 2023-24 and approximately 3% in each year thereafter. Overall, the city's tourism and hospitality sector is expected to rebound in FY 2021-22 and FY 2022-23 through sustained levels of domestic leisure travel, with convention and business travelers following in subsequent years. The forecast accounts for the business and sales tax impacts of small business closures and policy initiatives to waive or defer local licenses and taxes in the near-term but assumes local economic activity recovers to pre-pandemic levels during the plan period. Finally, the impact of telecommuting on offices and businesses in San Francisco's downtown areas are contemplated in the property tax and business tax projections. For property tax, the forecast assumes Proposition 8 reductions result in on-going reductions to assessed values of hotel, retail, office, and multi-family apartment spaces beginning in FY 2021-22. Business tax revenue projections account for a permanent increase in telecommuting, with in-person office work stabilizing for the long term in 2023, and approximately 15% of employees in office-based industries working from home.

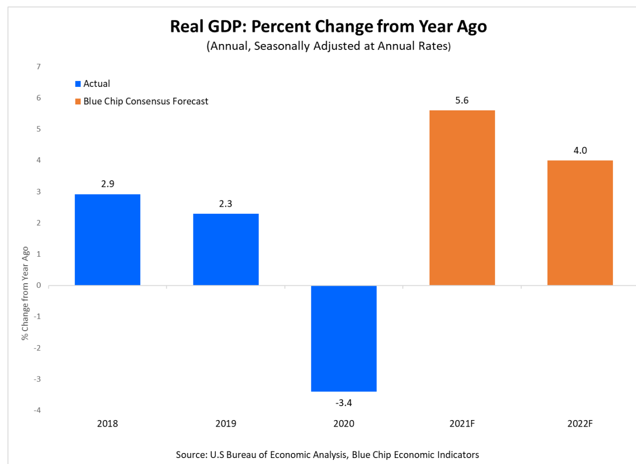
The General Fund revenue forecast includes three voter-approved revenue measures from the November 2020 ballot, including: (1) an overhaul of the business taxes (Proposition F), which increased the tax rates for certain industries; (2) increased real estate transfer tax rates (Proposition I); and 3) a new tax on executive pay (Proposition L). In addition, during FY 2021-22, policymakers postponed the implementation of the local cannabis excise tax from January 1, 2022 to January 1, 2023. These policy initiatives are accounted for in the revenue projections and discussed below.

National Economy

The U.S. economy rebounded quickly after the COVID-19 recession, one of the sharpest economic contractions in history, and is now facing a period of high inflation and supply chain disruptions, in addition to new virus variants. In the wake of the COVID-19 recession, the Federal Reserve lowered its federal funds rate to essentially zero and embarked on an aggressive longer-term bond purchasing program. Since June 2020, the Fed has bought $120 billion in treasury and agency mortgage-backed securities every month, the largest asset purchase program in the Fed's history, including its purchases following the 2008-2009 global financial crisis. To a large extent, both of these policies helped the national economy endure the recent recession and recover much faster than otherwise would have been possible.

According to the latest Blue Chip consensus forecast, the U.S. economy was expected to grow at 5.9% in the 4th quarter of 2021 and finish the year at an annualized rate of 5.6% and 4.1% in 2022. Most independent forecasters expect slower growth in 2023 than in 2022. At the time of this writing, the 2023 Blue Chip consensus forecast was not yet available.





The current economic recovery, as well as the trajectory of the future course of economic expansion, is being shaped by four main factors: inflation, COVID-related supply chain disruptions, expectations of a rising interest rate environment, and the likelihood of less fiscal support in the future.

U.S. inflation for the month of November 2021 was 6.8%, versus 1.2% in November 2020, and average inflation through the first eleven months of 2021 was 4.5%, versus 1.2% through the same period of 2020. Inflation itself has been fueled and shaped by monetary (e.g., near-zero federal funds rate and quantitative easing) and fiscal (e.g., CARES Act and American Rescue Plan Act) policy actions. Supply chain disruptions and labor shortages in the wake of a pandemic shock to the economy further created an inflationary environment. However, with the opening of the economy, most economic forecasters expect these issues will resolve and lessen over time. Furthermore, the Fed's systematic reductions in monthly asset purchases and decreased appetite for fiscal support will significantly dampen inflationary forces.

The Blue Chip consensus forecast expects average inflation of 4.6% in 2021 and 4.4% in 2022. However, there remains significant uncertainty as supply chain bottlenecks are causing substantial strains in the system, which Omicron and other potential new variants could further aggravate. Shipping costs and delivery lags have increased substantially, inventories are low, and businesses are finding it difficult to get critical inputs for production in a timely fashion.

Local Economy

Although the same uncertainty, supply chain bottle necks, and policies that drive national inflation are present locally, San Francisco's lagging economic recovery, in relation to other cities, is anticipated to result in slightly lower levels of inflation. The forecast assumes inflation rates of 3.25% in FY 2022-23, 2.83% in FY 2023-24, 2.71% in FY 2024-25, and 2.56% in FY 2025-26.

After a precipitous drop in spring 2020, local economic indicators have been steadily recovering, though they are far below their pre-pandemic levels. Job growth, small business confidence, office attendance, enplanements at San Francisco International Airport, hotel occupancy, bridge traffic, and BART ridership all displayed measurable increases through summer 2021. As of October 2021, the city's unemployment rate dropped to 3.9%, and the San Francisco metropolitan division had its strongest month of jobs growth since June 2020 with the addition of 15,000 jobs. This growth was led by the professional and business sectors, followed by education, health, and government. In leisure and hospitality, after eight months of continuous strong job growth (averaging about 5,600 per month) this sector only added 900 jobs in October 2021. Improvement in other indicators plateaued. Office attendance, small business formation, hotel rates and occupancy growth flattened in fall 2021. In addition, San Francisco continues to trail the State of California and other parts of the country in its economic recovery given its reliance on international and business travelers and commuters.

Selected General Fund Tax Revenue

Property Tax

General Fund property tax revenues are expected to grow from a budget of $2.12 billion in FY 2021-22 to an estimated $2.69 billion in FY 2025-26. General Fund property tax revenue assumptions include:

Roll growth: The locally assessed secured property roll grows based upon an annual statewide inflation factor capped at 2% and any changes to individual base year property value assessments triggered by changes in ownership or new construction. The unsecured property roll fluctuates based upon the economic cycles and impacts on local businesses.

The change in California CPI (measured October-to-October of the previous two years) is assumed at the annual maximum allowed by the California Constitution of 2%, and changes in ownership and new construction are assumed to add an additional 2% of secured roll growth each fiscal year.

The California Board of Equalization (BOE) assessed board roll and the unsecured roll comprise approximately 6.6% of overall taxable property values in San Francisco and historically change at different rates than the locally assessed secured roll. In this plan, the BOE roll's taxable assessed value is assumed to remain at the FY 2021-22 value of $3.93 billion, and the unsecured roll is assumed to remain at the FY 2021-22 value of $16.97 billion, measured in November 2021, through FY 2025-26.

Proposition 8 temporary reductions and Assessment Appeals Board related reserve deposits: The roll growth assumptions above speak to year-over-year changes received by the Controller's Office from the Office of the Assessor-Recorder on July 1st, after which downward adjustments to assessed values are transmitted throughout the year. As pandemic-related changes in behavior and practices continue to affect San Francisco's travel industry (hotels in particular), retailers, office occupancy, and apartment rents, we are monitoring potential impacts on property tax revenues.

As of November 30, 2021, there were $2.94 billion of assessed value reductions (also referred to as roll corrections) in the local and state secured rolls and unsecured rolls for the 2021 tax year. Prior year roll corrections received since July 1st account for an additional $987.2 million of assessed value roll corrections for on the secured annual tax rolls alone. Additional current and prior year roll corrections are anticipated as assessment appeals and additional information are reviewed by the Assessor's Office and the Assessment Appeals Board (AAB) makes decisions on appeals. Corrections within the current fiscal year are considered as Proposition 8 temporary reductions, though there may be other bases for reductions. These and any future fiscal year reductions will trigger refunds of taxes paid, based upon the original, higher amounts, therefore, revenue projections include Proposition 8 temporary reduction and AAB reserve estimates. These estimates are updated as AAB filing data become available.

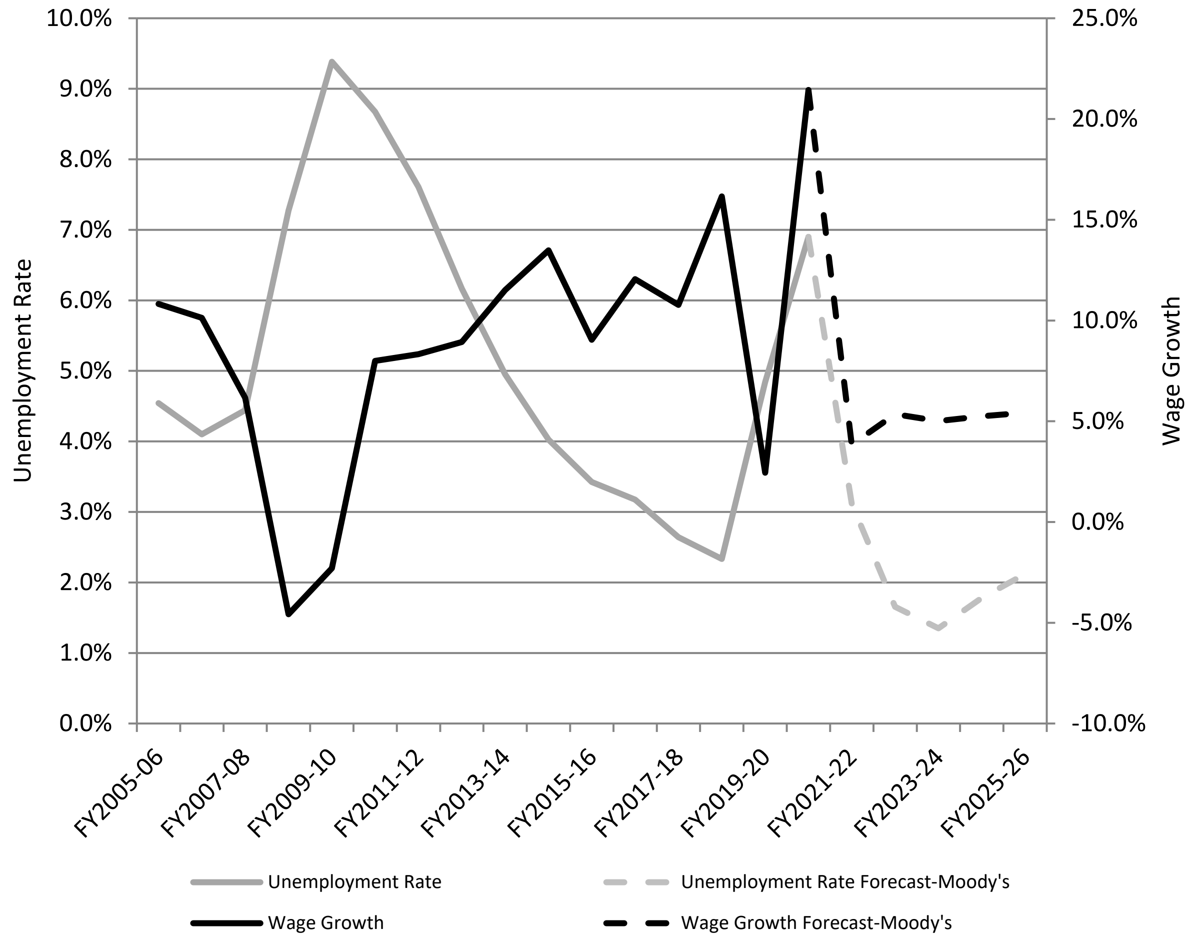
Total estimated value reductions previously assumed in the March 31, 2021 Budget Outlook Update (March Update to the Five-Year Plan) for FY 2022-23 through FY 2025-26 remain unchanged with the exception of the unsecured property assessment roll, which is assumed to change minimally. Total assessment reductions assumed for hotels, retail, office, and multifamily residential properties are $9.9 billion in FY 2022-23, $6.8 billion in FY 2023-24, and $4.0 billion in both FY 2024-25 and FY 2025-26. In addition, another $2 billion in assessment reductions are assumed for other property types each year. General Fund property tax revenue required to fund AAB decisions is assumed at $45.0 million in FY 2022-23 and $40.0 million in FYs 2023-24 through 2025-26.

Supplemental and escape assessments: Supplemental assessments capture changes in value for the portion of the tax year remaining following a trigger date that results in a change in the base year assessed value of a property. A supplemental assessment may also be issued for the full tax year following the tax year in which the change occurred. Escape assessments capture a full year's increase in assessed value up to four years after the trigger date occurred. Projections assume General Fund supplemental and escape assessment revenue of $59.1 million per year for FY 2022-23 through FY 2025-26, of which $9.4 million is escape revenue.

Excess Educational Revenue Augmentation Fund (ERAF) revenues returned to the General Fund: Excess ERAF represents the portion of county, city, and special district property tax allocations that were diverted to ERAF and then reverted to the contributing taxing entity when the accumulated sum exceeded the required level of funding of a county's ERAF. In the City and County of San Francisco, the only taxing entity contributing a portion of its property tax allocations to ERAF is the City itself. This report assumes excess ERAF revenue of $306.1 million in FY 2022-23, $346.6 million in FY 2023-24, $374.0 million in FY 2024-25, and $407.6 million in FY 2025-26. While this revenue fluctuates with underlying property tax performance, it can be dramatically affected by changes in state law and school funding under Proposition 98. Such potential changes are not assumed here.

Business Taxes

Figure 1. San Francisco Unemployment and Wage Growth, FY 2005-06 through FY 2025-26, Actuals and Projected



General Fund business tax revenue is expected to grow from a budget of $957.1 million in FY 2021-22 to $1,096.3 million in FY 2025-26. Business taxes include the gross receipts tax, business registration fees, and the administrative office tax. Revenues from business taxes follow economic conditions in the City. As shown in Figure 1, there was strong wage growth from the end of the last recession until FY 2019-20, the start of the COVID pandemic. Business tax revenue peaked in FY 2018-19 at $917.8 million. Driven by the effects of the pandemic on San Francisco's economy, revenue dropped to $822.2 million in FY 2019-20 and $722.6 million in FY 2020-21.

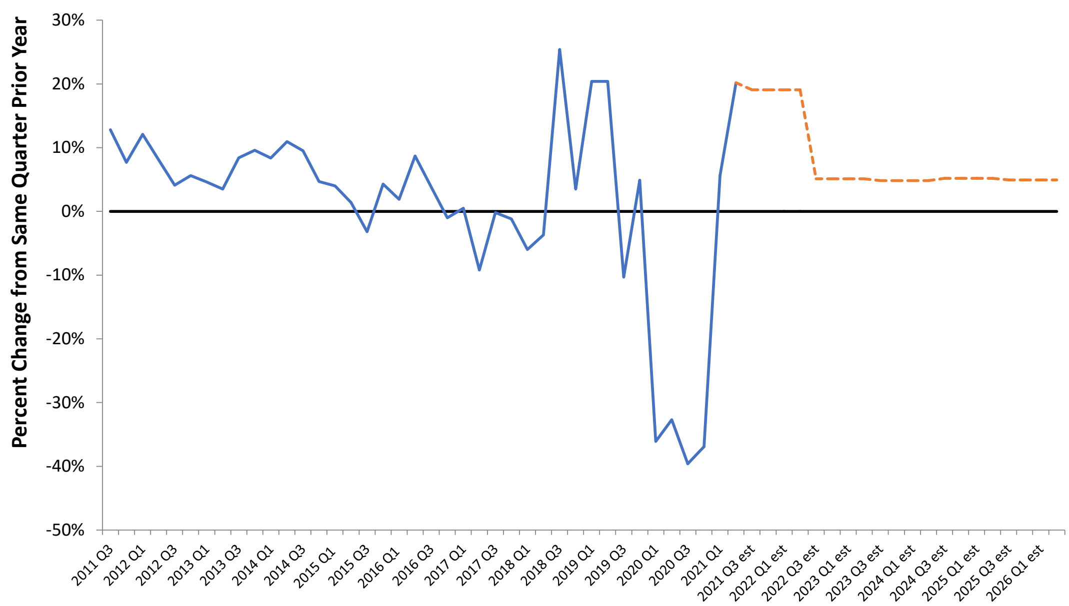
San Francisco gross receipt taxes are determined in part by the proportion of businesses' employees that physically work within the City limits. Responding to the pandemic, workers who previously commuted into the City began telecommuting from home, outside the City, and business tax revenue fell accordingly. The forecast assumes that revenue will increase as workers return to offices in the City, but it also assumes that telecommuting will stabilize for the long term in 2023, with approximately 15% of employees in office-based industries telecommuting from home. As this is an entirely new dynamic for office work, there is a high degree of uncertainty about telecommuting in the future, which creates uncertainty in the revenue forecast as well.

The forecast assumes underlying economic growth of 8% in FY 2021-22, 4% in FY 22-23, and 3% from FY 2023-24 through FY 2025-26. Slowing growth is reflected in Figure 1 with wage growth forecasted to stabilize at approximately 5% per year in FY 2021-22.

In November 2020, voters passed Proposition F, which eliminated the payroll tax and modified gross receipt tax rates. Most gross receipt tax rates increased by 40% for tax year 2021 over the prior year with much smaller increases through 2024. In some industries that were particularly hurt during the pandemic, such as retail trade and food services, tax rates were lowered for businesses with less than $25 million in gross receipts through 2022. The measure also reduced business registration fees for businesses with less than $1 million in gross receipts and raised the small business exemption for gross receipts taxes to $2 million. The impacts of Proposition F are accounted for in the projection.

Sales Tax

Figure 2. Change in Local Sales Tax Revenues from Same Quarter Prior Year FY 2011-12 through FY 2025-26



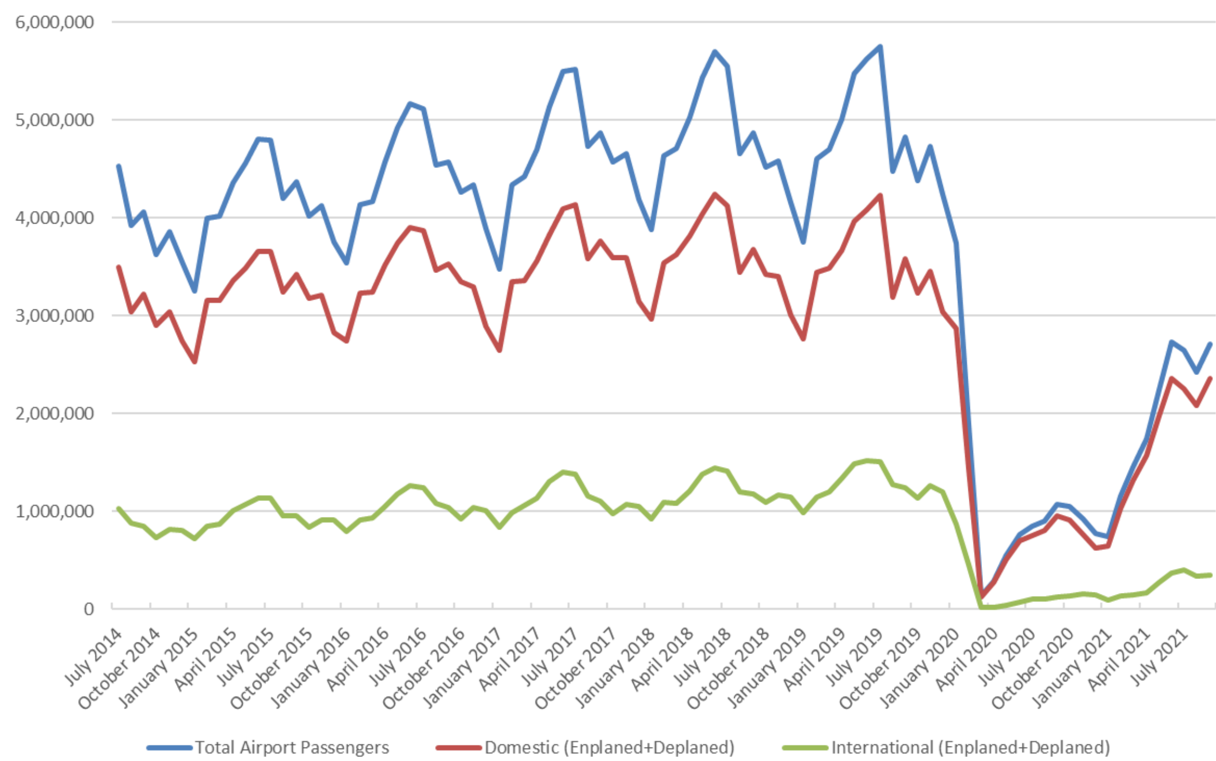
*Projected. Data adjusted for corrections by the California Department of Tax and Fee Administration.

Sales tax revenues are expected to grow from a budgeted $145.7 million in FY 2021-22 to $212.7 million by FY 2025-26. Sales tax experienced significant losses in FY 2019-20 and FY 2020-21 as a result of the public health crisis. During the pandemic, the City has seen lower daytime populations from the lack of travelers and in-commuters shopping and eating in restaurants. In addition, it is estimated that San Francisco's resident population declined between 2 to 7 percent between 2019 and 2020 as a result of out-migration. As businesses reopened and restrictions on restaurants, hospitality, and travel eased in mid-2021, sales taxes in San Francisco and in the State improved. In FY 2020-21 Q3 and Q4, San Francisco saw 5.6% and 20.2% growth, respectfully, over the same quarter prior year. State sales taxes grew 33.1% and 31.7% in the same periods. Sales tax revenues are projected to grow rapidly in FY 2021-22 from their nadir in FY 2020-21, but projected to not reach pre-pandemic levels until FY 2025-26.

Hotel Tax

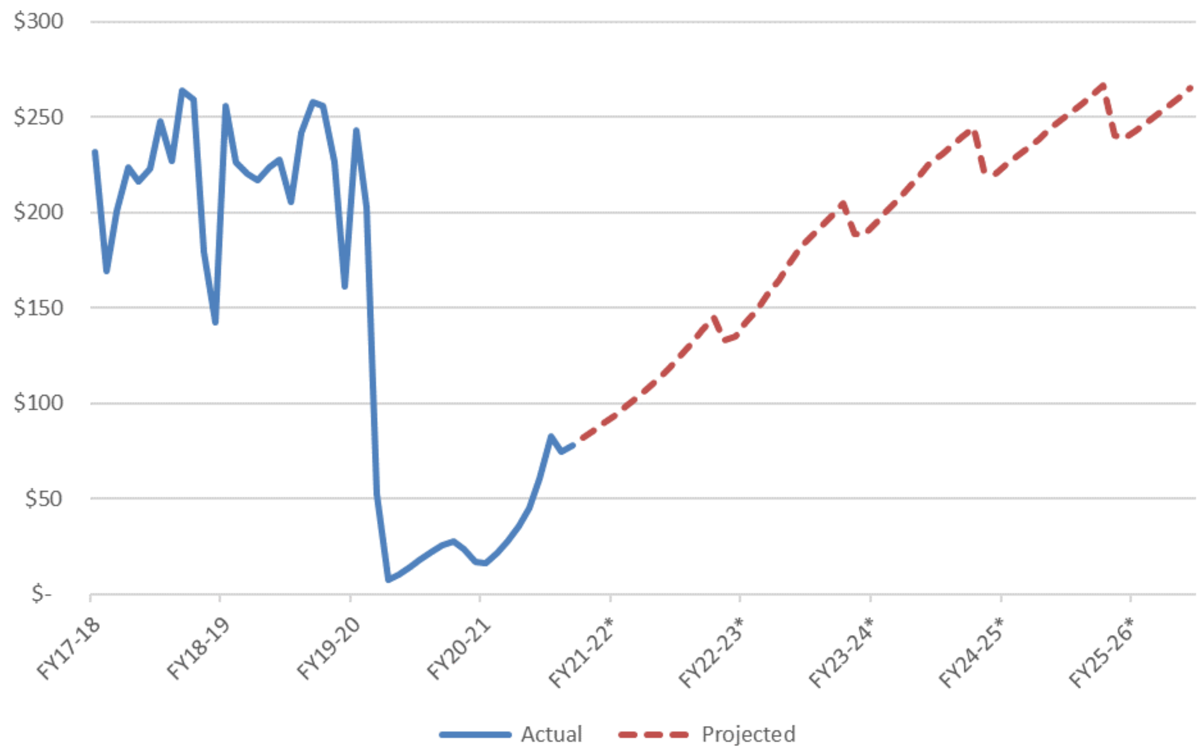
General Fund Hotel tax is expected to grow from a budgeted $78.5 million in FY 2021-22 to $335.2 million by FY 2025-26. Recovery of hotel tax is reliant on visitors to the City. The forecast assumes recovery of the hospitality industry is led by the return of domestic leisure travelers in FY 2021-22 and FY 2022-23. The return of business travelers, group and convention center events, and international leisure travelers are expected to trail, slowly growing back to pre-pandemic levels during calendar year 2026. As shown in Figure 3 below, as of September 2021, total airline passengers at San Francisco International Airport (SFO) are less than 50% of pre-pandemic levels, with international travel growing at a much slower rate than domestic travel. Given the time needed to plan large gatherings, reluctance to host large in-person gatherings with the Delta and Omicron coronavirus variants, and uncertainty regarding in-person versus remote work going forward, we expect hotel room bookings related to conventions at San Francisco's Moscone Center to continue to be the last part of the hotel room tax base to recover. Because conventions drive up hotel room rates through compression pricing, the return of conferences and conventions will be a key factor in recovery of hotel tax revenues to prior levels. As a result, hotel tax is not expected to recover to pre-pandemic levels until calendar year 2026.

Figure 3. San Francisco International Airport Passengers, July 2014 through September 2021



Hotel tax revenue is influenced by three factors – average daily room rates, occupancy rate, and supply of available rooms – represented by revenue per available room (RevPAR). Due to the pandemic and associated travel bans and shelter-in-place orders, RevPAR dropped to an all-time low of $14.40 in April 2020. As a result of low occupancy rates and hotel closures, we refer to the "Total Room Inventory" (TRI) methodology for calculating occupancy and RevPAR, which allows for consistent comparisons to pre-pandemic RevPAR values. FY 2018-19 average RevPAR was $224.20. TRI RevPAR in April 2020 was $7.56 and has slowly been recovering as restrictions ease and vaccines rollout. FY 2020-21 average TRI RevPAR was $28.50, and San Francisco collected a total of $42.2 million of hotel tax revenue, of which $33.2 million was allocated to the General Fund. The difference between total (i.e., across all funds) and General Fund hotel tax is primarily due to funding requirements set forth in November 2018 Proposition E, which allocated 1.5% of the 14% hotel tax rate (or approximately 10.7% of the total hotel tax revenue) to arts programs outside of the General Fund. In FY 2020-21, the allocation to the arts was $4.5 million. The hotel tax forecast assumes RevPAR of $94.26, $148.04, $201.84, and $234.25, and $254.43 for FY 2021-22 through FY 2025-26.

Figure 4. Actual and Projected San Francisco RevPAR (Revenue Per Available Room)



Source: FY 2017-18 to FY 2020-21 SF Travel. FY 2021-22 to FY 2025-26: Controller's Office.

Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is projected to increase from $350.1 million as budgeted in FY 2021-22 to $456.2 million in FY 2022-23 through FY 2025-26, the rate-adjusted long-run average. RPTT is one of the most volatile of all revenue sources and is highly sensitive to economic cycles, interest rates, and other factors affecting global investment decisions. Due to the progressive structure of the tax, a small number of transactions generates a disproportionate amount of revenue. For example, in FY 2020-21 transactions over $10.0 million accounted for 1.0% of the number of total transactions but generated 61.4% of the revenue. These high-value transactions are the primary reason for revenue volatility.

In November 2020, voters approved Proposition I, which doubled the transfer tax rate on real estate transactions over $10.0 million. Proposition I is projected to generate $170.6 million in each of the forecast years, from FY 2022-23 through FY 2025-26. This forecast does not assume behavioral changes due to this rate increase given the difficulty of predicting what form they might take, although they are likely given the tax avoidance measures observed after previous rate increases approved in November 2018. The highly progressive rates for the largest transactions will increase existing revenue volatility.

Revenue generated by Proposition I has been discussed as a source for new program expenditures. To the extent that these revenues are programmed for new uses, projected shortfalls will increase commensurately.

Federal Emergency Management Agency (FEMA) Revenue

The plan assumes that the City's General Fund will receive FEMA reimbursements for COVID-19-related expenditures of $249.0 million in FY 2021-22 (shown as fund balance, see fund balance discussion below), $184.7 million in FY 2022-23 and $114.0 million in FY 2023-24.

In prior budgets and forecasts, the City assumed it would receive FEMA reimbursements in the same fiscal year in which eligible services were provided. However, over the course of the pandemic response, as the City gained experience with FEMA's review and obligation process, it has become clear that reimbursements will lag by a year and more from the time that services were provided. In FY 2020-21, the City anticipated FEMA reimbursements of $345.7 million but in fact, recorded -$22.3 million of FEMA revenue, the negative amount required to correct overstated FEMA revenues from FY 2019-20 to arrive at a correct two-year figure.

The City was able to largely offset this shortfall by recognizing $312.4 million of unbudgeted American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Fund (SLFRF) in FY 2020-21. FEMA reimbursement projections have been pushed out through FY 2023-24 and represent a surplus in those years relative to prior forecasts, as the shortfall in FY 2020-21 was closed. ARPA is further discussed in the fund balance section below.

Table 3A. Summary of General Fund Revenues and Transfers FY 2020-21 through FY 2025-26 ($ Millions)

	FY2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Year-End	Original Budget	Projection	Projection	Projection	Projection
Property Taxes	$ 2,344.0	$ 2,115.6	$ 2,298.1	$ 2,441.6	$ 2,568.0	$ 2,688.6
Business Taxes	722.6	957.1	966.9	1,017.6	1,075.9	1,096.3
Sales Tax	146.9	145.7	183.8	192.7	202.7	212.7
Hotel Room Tax	33.2	78.5	191.3	262.3	305.2	335.2
Utility Users Tax	81.4	77.7	83.7	84.9	86.1	87.4
Parking Tax	47.6	55.9	80.2	82.6	84.9	87.4
Real Property Transfer Tax	344.7	350.1	456.2	456.2	456.2	456.2
Sugar Sweetened Beverage Tax	10.4	12.2	14.0	13.7	13.4	13.2
Stadium Admission Tax	0.2	3.6	5.4	11.3	11.3	11.3
Access Line Tax	44.8	49.6	52.5	54.0	55.5	57.0
Cannabis Tax	-	4.4	-	10.5	10.5	10.5
Executive Pay	-	-	60.0	80.0	100.0	100.0
Local Tax Revenues	**3,775.6**	**3,850.5**	**4,392.1**	**4,707.3**	**4,969.8**	**5,155.7**
Licenses, Permits & Franchises	20.0	27.9	28.3	28.3	28.3	28.3
Fines, Forfeitures & Penalties	4.4	4.0	3.1	3.1	3.1	3.1
Interest & Investment Income	31.7	36.2	19.9	21.9	24.2	27.1
Rents & Concessions	5.0	11.7	13.1	13.1	13.1	13.1
Licenses, Fines, Interest, Rent	**61.1**	**80.0**	**64.4**	**66.4**	**68.7**	**71.6**
Social Service Subventions	404.5	63.0	308.5	308.5	308.5	308.5
Other Grants & Subventions	275.0	296.6	188.4	117.7	3.7	3.7
Federal Subventions	**679.5**	**359.6**	**496.9**	**426.2**	**312.2**	**312.2**
Social Service Subventions	243.6	247.9	251.3	251.3	251.3	251.3
Health & Welfare Realignment - Sales Tax	172.7	188.9	223.8	233.6	244.1	254.9
Health & Welfare Realignment - VLF	38.3	49.5	49.5	50.8	53.2	53.1
Health & Welfare Realignment - CalWORKs M	24.3	14.3	16.1	16.1	16.1	16.1
Health/Mental Health Subventions	209.9	182.9	142.7	142.7	142.7	142.7
Public Safety Sales Tax	105.0	82.0	83.9	88.6	92.1	95.9
Motor Vehicle In-Lieu (County & City)	1.2	-	-	-	-	-
Public Safety Realignment (AB109)	38.4	51.5	62.2	64.3	66.9	69.6
Other Grants & Subventions	63.1	37.3	30.1	30.1	30.1	30.1
State Subventions	**896.6**	**854.4**	**859.6**	**877.6**	**896.5**	**913.7**
General Government Service Charges	48.5	56.4	55.7	55.7	55.7	55.7
Public Safety Service Charges	36.1	42.9	43.0	43.0	43.0	43.0
Recreation Charges - Rec/Park	7.9	18.9	28.3	28.3	28.3	28.3
MediCal, MediCare & Health Svc. Chgs.	60.7	80.3	80.3	80.3	80.3	80.3
Other Service Charges	48.4	33.0	25.2	25.2	25.2	25.2
Charges for Services	**201.7**	**231.5**	**232.5**	**232.5**	**232.5**	**232.5**
Recovery of General Gov't Costs	21.8	23.6	23.6	23.6	23.6	23.6
Other Revenues	46.9	27.0	26.7	26.7	26.7	26.7
TOTAL REVENUES	**5,683.2**	**5,426.6**	**6,095.8**	**6,360.3**	**6,530.0**	**6,736.0**
Transfers in to General Fund						
Airport	15.0	23.0	35.0	40.0	47.5	51.2
Commercial Rent Tax Transfer In	74.1	32.8	33.9	34.5	34.5	34.5
Other Transfers	327.9	102.5	99.1	99.1	99.1	99.1
Total Transfers-In	**416.9**	**158.3**	**168.1**	**173.6**	**181.1**	**184.8**
TOTAL GF Revenues and Transfers-In	**6,100.2**	**5,584.9**	**6,263.8**	**6,533.9**	**6,711.1**	**6,920.7**

Table 3B. Year-Over-Year Change in Projected General Fund Revenues FY 2020-21 through FY 2025-26

	FY2022-23	FY2023-24	FY2024-25	FY2025-26
	% Chg from FY 2021-22 Projection	**% Chg from FY 2022-23 Projection**	**% Chg from FY 2023-24 Projection**	**% Chg from FY 2024-25 Projection**
Property Taxes	8.6%	6.2%	5.2%	4.7%
Business Taxes	1.0%	5.2%	5.7%	1.9%
Sales Tax	26.1%	4.8%	5.2%	4.9%
Hotel Room Tax	143.8%	37.1%	16.3%	9.8%
Utility Users Tax	7.8%	1.5%	1.4%	1.4%
Parking Tax	43.4%	3.0%	2.9%	2.8%
Real Property Transfer Tax	30.3%	0.0%	0.0%	0.0%
Sugar Sweetened Beverage Tax	14.5%	-2.0%	-2.0%	-2.0%
Stadium Admission Tax	50.0%	109.3%	0.0%	0.0%
Access Line Tax	5.8%	2.8%	2.9%	2.7%
Cannabis Tax	-100.0%	N/A	0.0%	0.0%
Executive Pay	N/A	33.3%	25.0%	0.0%
Subtotal - Tax Revenues	**14.1%**	**7.2%**	**5.6%**	**3.7%**
Licenses, Permits & Franchises	1.3%	0.0%	0.0%	0.0%
Fines, Forfeitures & Penalties	-23.5%	0.0%	0.0%	0.0%
Interest & Investment Income	-45.1%	10.1%	10.5%	11.9%
Rents & Concessions	11.9%	0.0%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**-19.5%**	**3.1%**	**3.5%**	**4.2%**
Social Service Subventions	389.4%	0.0%	0.0%	0.0%
Other Grants & Subventions	-36.5%	-37.5%	-96.8%	0.0%
Subtotal - Federal Subventions	**38.2%**	**-14.2%**	**-26.7%**	**0.0%**
Social Service Subventions	1.4%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	18.4%	4.4%	4.5%	4.4%
Health & Welfare Realignment - VLF	0.1%	2.6%	4.6%	-0.1%
Health & Welfare Realignment - CalWORKs MOE	12.4%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	-22.0%	0.0%	0.0%	0.0%
Public Safety Sales Tax	2.3%	5.6%	4.0%	4.1%
Motor Vehicle In-Lieu (County & City)	N/A	N/A	N/A	N/A
Public Safety Realignment (AB109)	20.7%	3.5%	4.0%	4.1%
Other Grants & Subventions	-19.4%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**0.6%**	**2.1%**	**2.1%**	**1.9%**
General Government Service Charges	-1.3%	0.0%	0.0%	0.0%
Public Safety Service Charges	0.2%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	50.0%	0.0%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	0.0%	0.0%	0.0%	0.0%
Other Service Charges	-23.8%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**0.4%**	**0.0%**	**0.0%**	**0.0%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**-1.0%**	**0.0%**	**0.0%**	**0.0%**
TOTAL REVENUES	**12.3%**	**4.3%**	**2.7%**	**3.2%**
Transfers in to General Fund				
Airport	**52.2%**	**14.3%**	**18.8%**	**7.8%**
Commercial Rent Tax Transfer In	**3.5%**	**1.5%**	**0.0%**	**0.0%**
Other Transfers	**-3.3%**	**0.0%**	**0.0%**	**0.0%**
Total Transfers In	**6.1%**	**3.3%**	**4.3%**	**2.0%**
TOTAL GF Revenues and Transfers-In	**12.2%**	**4.3%**	**2.7%**	**3.1%**

SOURCES – ONE-TIME SOURCES INCLUDING FUND BALANCE & ONE-TIME RESERVES

Fund Balance

This plan assumes the use of budgeted and anticipated fund balance of $363.4 million. This amount includes:

- $300.0 million of American Rescue Plan Act (ARPA) funds previously appropriated in FY 2022-23 in the FY 2021-22 and FY 2022-23 adopted budget, and,
- $63.4 million of anticipated surpluses. This includes a $31.8 million improvement in FY 2020-21 ending balance available for appropriation, as recently reported by the Controller's Office. An additional $31.6 million is projected available in FY 2021-22. These current year projections will be updated by the Controller in the Six Month Budget Status Report, issued in February.

The $31.6 million in FY 2021-22 is the net result of $58.4 million in revenue improvements, as strong FY 2021-22 revenue results carry into FY 2021-22, offset in part by additional emergency appropriations authorized to support ongoing COVID response activities.

The $300.0 million of fund balance generated by ARPA is assumed to be spent over the first three plan years, FY 2022-23 through FY 2024-25. The $63.4 million of fund balance generated by activity in the prior and current year is assumed to be spent in the last plan year, FY 2025-26.

Reserves

The City has a number of reserves intended to reduce the effect of revenue volatility on the City's budget and service levels, particularly in the case of economic shocks. Other reserves fund citywide expenses for labor, litigation, and other costs. Table 4 outlines the projected uses, deposits, and balances of General Fund reserves assumed in the plan.

Table 4. Projected Uses, Deposits & Balances of Reserves FY 2020-21 through FY 2025-26 ($ Millions)

	FY 2020-21	FY 2021-22			FY 2022-23			FY 2023-24			FY 2024-25			FY 2025-26		
	Pre-Audit Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	**$ 78.3**	**3.1**	**(9.4)**	**$ 72.1**	**34.4**	**-**	**$ 106.5**	**$ 23.8**	**-**	**$ 130.3**	**$ 22.7**	**-**	**$ 152.9**	**$ 22.1**	**-**	**$ 175.1**
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5	-	-	114.5
Budget Stabilization Reserve	265.8	-	(0.0)	265.8	-	-	265.8	-	-	265.8	-	-	265.8	6.8	-	272.6
Economic Stabilization Reserves	**380.3**	**-**	**(0.0)**	**380.3**	**-**	**-**	**380.3**	**-**	**-**	**380.3**	**-**	**-**	**380.3**	**6.8**	**-**	**387.1**
Percent of General Fund Revenues	*6.7%*			*6.6%*			*6.2%*			*6.0%*			*5.8%*			*5.7%*
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Budget Stabilization Reserve - One Time Reserve	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8	-	-	54.8
COVID Response and Economic Loss Reserve	113.5	-	(99.5)	14.0	-	(14.0)	-	-	-	-	-	-	-	-	-	-
Federal and State Emergency Grant Disallowance Reserve	100.0	-	(18.7)	81.3	-	-	81.3	-	-	81.3	-	-	81.3	-	-	81.3
Fiscal Cliff Reserve	293.9		(64.2)	229.8			229.8	-	-	229.8	-	-	229.8	-	-	229.8
Business Tax Stabilization Reserve	149.0	-	(149.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Receipts Tax Prepayment Reserve	26.0	-	(26.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Health Management Reserve	104.1	-	-	104.1	-	-	104.1	-	-	104.1	-	-	104.1	-	-	104.1
Free City College Reserve	6.3	-	-	6.3	-	-	6.3	-	-	6.3	-	-	6.3	-	-	6.3
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0	-	-	1.0
Urgent Needs Reserve	6.5	-	-	6.5	-	-	6.5	-	-	6.5	-	-	6.5	-	-	6.5
Hotel Tax Loss Contingency Reserve	6.0	2.5	(5.0)	3.5	-	-	3.5	-	-	3.5	-	-	3.5	-	-	3.5
Other Reserves	**862.2**	**2.5**	**(362.4)**	**502.3**	**-**	**(14.0)**	**488.3**	**-**	**-**	**488.3**	**-**	**-**	**488.3**	**-**	**-**	**488.3**
Litigation Reserve	-	10.8	(10.8)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-	11.0	(11.0)	-
Technical Adjustments Reserve	-	2.5	(2.5)	-	2.5	(2.5)	-	2.5	(2.5)	-	2.5	(2.5)	-	2.5	(2.5)	-
Salary and Benefits Reserve	5.1	42.3	(47.4)	-	43.7	(43.7)	-	45.0	(45.0)	-	46.2	(46.2)	-	47.4	(47.4)	-
Annual Operating Reserves	**5.1**	**55.6**	**(60.7)**	**-**	**57.2**	**(57.2)**	**-**	**58.5**	**(58.5)**	**-**	**59.7**	**(59.7)**	**-**	**60.9**	**(60.9)**	**-**
TOTAL, General Fund Reserves	**1,325.9**	**61.2**	**(432.4)**	**954.7**	**91.5**	**(71.2)**	**975.1**	**82.3**	**(58.5)**	**998.9**	**82.4**	**(59.7)**	**1,021.6**	**89.9**	**(60.9)**	**1,050.5**

General Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve required balance to be 1.5% of General Fund revenue in FY 2021-22, when the City makes a small withdrawal from its economic stabilization reserves. In subsequent years, the required starting balance is assumed to rise incrementally to 1.75% of General Fund revenue in FY 2022-23, 2.0% in FY 2023-24, 2.25% in FY 2024-25, and 2.5% in FY 2025-26. Deposits to the General Reserve are projected to be $3.0 million, $34.4 million, $23.8 million, $22.7 million, and $22.1 million in FY 2021-22 through FY 2025-26, respectively. In FY 2021-22, General Reserve withdrawals totaling $9.4 million supporting two supplemental budget appropriations that have been approved. One supplemental appropriates $6.9 million to the Department of Elections for additional costs of unforeseen elections and another supplemental appropriates $2.5 million for Fire Department paramedic staffing.

Economic Stabilization Reserves (Rainy Day and Budget Stabilization Reserves): Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of revenue growth over 5%, which can be used when revenues decline. Administrative Code Section 10.60(b) establishes a Budget Stabilization Reserve funded by certain one-time revenues, which can be used when revenues decline. This report reflects a minimal withdrawal of the Rainy Day Reserve in FY 2021-22, as is budgeted. No further deposits or withdrawals are assumed in either reserve during the forecast years.

COVID Response and Economic Loss Reserve, Federal State and Emergency Grant Disallowance Reserve, and Fiscal Cliff Reserve: In the FY 2020-21 and FY 2021-22 budget, the balances of seven existing reserves were consolidated into a single COVID Response and Economic Loss Reserve of $507.4 million at the close of FY 2019-20. In the FY 2021-22 and FY 2022-23 budget, the balance of the COVID Response and Economic Loss Reserve was reduced to $113.5 million, while $100.0 million was allocated to the Federal and State Emergency Grant Disallowance Reserve and $293.9 million was allocated to the Fiscal Cliff Reserve at the close of FY 2020-21. Reserve uses include:

- The adopted FY 2021-22 and FY 2022-23 budget uses the entirety of $113.5 million of the COVID Response and Economic Loss Reserve, $99.5 million in FY 2021-22 and $14.0 FY 2022-23.
- The budget also uses $18.7 million of Federal and State Emergency Grant Disallowance Reserve in FY 2021-22.
- The Board of Supervisors passed a supplemental appropriation to appropriate $64.2 million of the Fiscal Cliff Reserve to support rent relief and the acquisition of affordable, social housing.

Business Tax Stabilization Reserve and Gross Receipts Tax Prepayment Reserve: The adopted FY 2021-22 and FY 2022-23 budget assumes the use of $149.0 million of Business Tax Stabilization Reserve in FY 2021-22, to smooth out the benefits of November 2020 Proposition F business tax rate increase. Additionally, at FY 2020-21 close, the City made a deposit of $26.0 million to a newly created Gross Receipts Tax Prepayment Reserve because gross receipts tax payments for tax year 2021 were collected and recognized in FY 2020-21, but those receipts were assumed to in the FY 2021-22 budget. This reserve is spent in FY 2021-22 to match the budget assumption.

Salary and Benefits Reserve: This plan assumes inflating the Salary and Benefits Reserve by the same rate that wages are assumed to increase, to support costs related to labor agreements not budgeted in individual departments. This reserve grows from a budget of $42.3 million in FY 2021-22 to $47.4 million by FY 2025-26.

SOURCES – OTHER CITYWIDE AND DEPARTMENTAL REVENUES

Public Health – One-Time and Operating Revenues

The Department of Public Health (DPH) projects a revenue decrease of $50.2 million in FY 2022-23 as compared to the prior fiscal year, followed by increases of $16.8 million in FY 2023-24, $18.7 million in FY 2024-25, and $19.5 million in FY 2025-26. The decrease in revenue in FY 2022-23 is largely attributed to the expiration of one-time sources budgeted in FY 2021-22. These decreases are partially offset by projected growth in revenues at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital. The future annual increases in revenues are driven by fee-for-service and capitation payments at the Zuckerberg San Francisco General Hospital, which are assumed to increase by an average of 2.75% each year, as well as an average annual 1.8% increase in the per diem rates at Laguna Honda Hospital.

Other General Fund-Supported Revenues

Other General Fund supported revenues are projected to increase by $28.0 million in FY 2022-23, $6.8 million in FY 2023-24, $10.9 million in FY 2024-25, and $7.0 million in FY 2025-26. These revenues include the expiration of the one-time small business fee waiver program, State and Federal revenues supporting the Human Services Agency, the Airport's annual service payment to the General Fund, as well as other small revenue changes. Major changes include:

- **Business Fee Waivers:** The FY 2021-22 adopted budget assumed $12 million in revenue reductions due to waiving City permit, license, and registration fees for new small businesses. This Joint Report assumes the City will resume collection of these revenues in FY 2022-23, resulting in a revenue increase in FY 2022-23, as compared to the prior fiscal year.

- **Airport Revenues:** The General Fund receives a portion of Airport concessions revenue annually. For FY 2022-23 through FY 2025-26, the Airport projects these revenues to increase by $12.0 million, $5.0 million, $7.5 million, and $3.5 million, respectively. The increase in the first year is due to forecasted travel resumption given the lift of the Stay At Home order, continuing vaccination efforts, and lifting of certain travel restrictions. There are also expected increases attributable to the opening of additional gates in the Harvey Milk Terminal 1 and the T2 to T3 secure connector. Increases in the final three years are driven by projected growth in passenger activity.

USES – BASELINES

The Charter specifies baseline-funding levels for various programs or functions that are generally linked to changes in discretionary General Fund revenues, though some are a function of citywide expenditures or base-year program expenditure levels.

As a result of growing discretionary revenue, the General Fund's mandated contribution to baselines and set-asides is increasing by $112.9 million in FY 2022-23, $202.7 million in FY 2023-24, $271.2 million in FY 2024-25, and to a total of $318.9 million in FY 2025-26.

Projected baseline contributions, property tax set-asides and spending requirements are summarized below and in Table 5. Please note that Table 5 includes both General Fund contributions to baselines and, property tax set-asides, as well as non-General Fund contributions to baselines and other mandated spending requirements. Thus, the total amounts do not match the changes in the General Fund projection presented in Table 1 and described above.

Table 5. Baselines, Tax Set-Asides and Other Mandated Expenditures FY 2020-21 through FY 2025-26 ($ Millions)

	FY 2020-21 Actuals	FY 2021-22 Budget	FY2022-23 Projection	FY 2023-24 Projection	FY2024-25 Projection	FY 2025-26 Projection
General Fund Aggregate Discretionary Revenue (ADR)	$ 3,766.0	$ 3,847.5	$ 4,364.2	$ 4,684.3	$ 4,951.1	$ 5,164.1
Municipal Transportation Agency (MTA)						
MTA - Municipal Railway Baseline: 6.686% ADR	251.8	257.2	291.8	313.2	331.0	345.3
MTA - Central Subway	-	11.7	16.5	17.5	18.3	19.0
MTA - Parking & Traffic Baseline: 2.507% ADR	94.4	96.5	109.4	117.4	124.1	129.5
MTA - Population Adjustment	55.6	57.6	59.9	94.2	109.7	115.6
MTA - 80% Parking Tax In-Lieu	38.0	44.7	64.1	66.0	68.0	69.9
Subtotal Municipal Transportation Agency	$ 439.8	$ 467.7	$ 541.8	$ 608.4	$ 651.1	$ 679.3
Library Preservation Fund						
Library - Baseline: 2.286% ADR	86.1	87.9	99.8	107.1	113.2	118.0
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	67.4	68.9	73.3	77.3	81.2	84.4
Subtotal Library	153.4	156.9	173.1	184.4	194.3	202.4
Children's Services						
Children's Services Baseline - Requirement: 4.830% ADR	168.4	185.8	210.8	226.2	239.1	249.4
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	20.2	22.3	25.3	27.2	28.7	30.0
Early Care and Education Baseline (Jun 2018 Prop C) - Requirement: 2.2122% ADR	79.7	85.1	96.5	103.6	109.5	114.2
Public Education Services Baseline: 0.290% ADR (50% GF)	10.9	11.2	12.7	13.6	14.4	15.0
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	107.8	110.3	117.3	123.7	129.8	135.1
Public Education Enrichment Fund: 3.057% ADR	115.1	117.6	133.4	143.2	151.4	157.9
1/3 Annual Contribution to Preschool for All	38.4	39.2	44.5	47.7	50.5	52.6
2/3 Annual Contribution to SF Unified School District	76.7	78.4	88.9	95.5	100.9	105.2
Subtotal Childrens Services (Required)	502.1	532.3	596.0	637.5	672.9	701.5
Recreation and Parks						
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	67.4	68.9	73.3	77.3	81.2	84.4
Recreation & Parks Baseline - Requirement	76.2	79.2	82.2	85.2	88.2	91.2
Subtotal Recreation and Parks (Required)	143.5	148.1	155.5	162.5	169.3	175.6
Other Financial Baselines						
Our City, Our Home Baseline (Nov 2018 Prop C) - Requirement	215.0	215.0	215.0	215.0	215.0	215.0
Housing Trust Fund Requirement	39.6	42.4	45.2	48.0	50.8	53.6
Dignity Fund	50.1	53.1	56.1	59.1	62.1	65.1
Street Tree Maintenance Fund	19.4	19.8	22.5	24.1	25.5	26.6
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.8	3.7	4.0	4.2	4.3	4.5
City Services Auditor: 0.2% of Citywide Budget	23.0	23.4	23.5	24.0	24.6	25.1
Mission Bay Transportation Improvement Fund	7.4	7.6	8.8	9.1	12.7	13.0
Subtotal Other Financial Baselines (Required)	358.2	365.1	375.1	383.5	395.0	402.8
Total Financial Baselines	1,597.1	1,670.1	1,841.5	1,976.3	2,082.6	2,161.6

Note: Table shows required funding level.

Municipal Transportation Agency: Charter Section 8A.105 establishes a minimum level of funding for the Municipal Transportation Agency (MTA) and the Parking and Traffic Commission within the MTA. Funding for these two baselines is adjusted annually by the percent increase or decrease in General Fund Aggregate Discretionary Revenue (ADR). In addition, this baseline is required to be adjusted for significant service increases. Beginning in FY 2021-22, the MTA baseline will be increased due to the anticipated opening of the Central Subway for revenue service. Also included in the MTA baseline total is an amount equal to 80% of annual parking tax revenue as mandated by Charter Section 16.110.

Proposition B, passed by the voters in November 2014, additionally adjusts these baselines by the growth in population; first, in FY 2015-16 by the cumulative growth in population during the most recent ten-year period, and subsequently by the annual growth in population. The populations baseline is only adjusted for population increases, not population decreases.

Combining all required baselines and parking tax transfers, the MTA is budgeted to receive $467.7 million in FY 2021-22 increasing to $679.3 million by FY 2025-26.

Library Preservation Fund: 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. In addition, the Charter established a property tax allocation of $0.025 for each $100 valuation of taxable property. The baseline and property tax set-aside will expire in FY 2022-23. This report assumes that either voters will approve a proposed future extension of the baseline and set aside or that policymakers will continue them after their expiration. The combined baseline and property tax set-aside for the Library is budgeted to be $156.9 million in FY 2021-22 increasing to $202.4 million by FY 2025-26.

Children's Services: Several voter-approved measures support children's services in the City. These include the Children and Transitional Aged Youth (TAY) baselines, Early Care and Education baseline, Children's Fund property tax set-aside, and the Public Education Enrichment Fund. Together, these requirements total $532.3 million in FY 2021-22 as budgeted, increasing to $701.5 million by FY 2025-26.

- **Children and TAY Baseline:** Charter Section 16.108 established a Children and Youth Fund for Children and TAY, where a base amount of required spending was established, adjusted annually by changes in ADR.
- **Early Care and Education Baseline:** June 2018 Proposition C established a special purpose commercial rent tax and an Early Care and Education baseline, where a base amount of required spending was established, adjusted annually by changes in ADR. The measure is currently in litigation. Table 5 shows expenditure amounts required by the measure.
- **Children and Youth Fund Property Tax Set-aside:** November 2014 Proposition C extended a property tax set-aside for Children and Youth for 25 years, until June 30, 2041, and increased the property tax set-aside from $0.03 for each $100 of assessed property value in FY 2014-15 growing to $0.04 by FY 2018-19. In addition, Proposition C added a new priority population to benefit Transitional Aged Youth (TAY).
- **Public Education Enrichment Fund, Contribution and Baseline:** November 2014 Proposition C also extended the Public Education Enrichment Fund Annual Contribution (PEEF) for 26 years, until June 30, 2041, eliminated a provision that allowed the City to defer up to a quarter of the contribution to PEEF in any year the City had a budget shortfall of $100 million or more, and eliminated a credit for in-kind services allowed as an offset against the contribution.

Recreation and Parks: Similar to the Library, Charter Section Charter Sec. 16.107 establishes a property tax allocation of $0.025 for each $100 valuation of taxable property for the Recreation and Parks Department's Open Space Fund. In June 2016, voters adopted Proposition B, a charter amendment to establish additional baseline appropriations to the Recreation and Parks Department. The measure requires the City to increase appropriations by $3.0 million annually through FY 2026-27, after which the baseline is adjusted by changes ADR. The combined baseline and property tax set-aside for the Recreation and Parks Department is projected to be $148.1 million in FY 2021-22 as budgeted, increasing to $175.6 million by FY 2025-26.

Other Baseline and Mandate Requirements: The City is required to contribute General Fund revenues or maintain expenditure levels in various other areas, including the Our City, Our Homes Baseline; Housing Trust Fund; Dignity Fund; Street Tree Maintenance Fund; Symphony Baseline; City Services Auditor Baseline; and Mission Bay Transportation Improvement Fund. The FY 2021-22 budget prefunded $17.6 million of future Housing Trust Fund requirements, which reduced the necessary future payments over a five-year term beginning in FY 2023-24. The prepayment is projected to generate General Fund savings of $0.7 million in FY 2023-24. Combined, these baselines and mandate requirements are projected to total $365.1 million in FY 2021-22 as budgeted, increasing to $402.8 million by FY 2025-26.

USES – SALARIES AND BENEFITS

The City and County of San Francisco employs over 30,000 people, making salaries and benefits one of the largest expenditures for the General Fund. This report projects General Fund supported salaries and fringe benefits to increase by $57.8 million in FY 2022-23, $23.9 million in FY 2023-24, $58.9 million in FY 2024-25, and another $125.7 million in FY 2025-26. These increases, discussed in greater detail below, reflect current staffing costs and provisions in negotiated collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs. For years in which collective bargaining agreements have not yet been established, the projection assumes salary and benefits grow at the rate of CPI, which is 3.25% for FY 2022-23.

Growth in salary and benefits had been escalating for many years and now, while personnel costs continue to be a major cost driver, the projection this year is markedly lower due to significant changes in the City's pension obligations, discussed in more detail below. The reduction in planned pension contributions over the four years of the report is largely responsible for driving down the FY 2025-26 projected cost growth in salary and benefits from over $560 million, as estimated in the January 2021 Five-Year Financial Plan, to the current estimate, which is around $266 million of additional cost from FY 2021-22 to FY 2025-26.

Previously Negotiated Closed Labor Agreements & Current Staffing Costs

This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements, as well as other costs to maintain budgeted staffing levels. These costs are projected to be an additional $42.5 million from the current fiscal year to FY 2022-23 and an additional cost of $8.6 million for FY 2023-24, after which all unions have open contracts. The assumptions for open contracts are discussed in the next section. Police and Firefighters' unions have closed MOUs through FY 2022-23. For Police Officers' unions, negotiated wage increases are effectively 5% in FY 2022-23, which includes a 2% increase the union agreed to defer from FY 2020-21. Another 1% deferred wage increase is projected in FY 2023-24. For Firefighters' unions, negotiated wage increases are effectively 4% in FY 2022-23, including a 1% deferred wage increase. Another 2% deferred wage increase is projected in FY 2023-24.

Projected Costs of Open Labor Agreements

Miscellaneous employee unions will have open contracts starting in FY 2022-23. Therefore, beginning in FY 2022-23, this plan projects negotiated salary and related benefits increases equal to the change in the CPI using the Moody's SF Metropolitan Statistical Area CPI. This corresponds to 3.25% for FY 2022-23, 2.83% for FY 2023-24, 2.71% for FY 2024-25, and 2.56% for FY 2025-26.

Police and Firefighters' unions have open contracts starting in FY 2023-24 and will enter negotiations for MOUs with the City in spring 2023. Similarly for projection purposes, this plan applies CPI for those open contracts.

The additional salary and benefit costs for open labor agreements, using these assumptions, are projected to be $57.0 million in FY 2022-23, $71.7 million in FY 2023-24, $81.0 million in FY 2024-25, and an additional $78.0 million in FY 2025-26. These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be conducted in spring 2022 for miscellaneous bargaining units and the following year for Police and Fire unions.

Health and Dental Benefits for Current Employees

Each year, the San Francisco Health Service System (HSS) negotiates subsequent year rates in the spring. The HSS Board adopts these rates in June, with approval by the Board of Supervisors in July. HSS holds open enrollment for employees every October for coverage starting in January of the new calendar year.

Projections in this report assume average increases of approximately 5.7% in health rates in each year for active employees. Dental rates for active employees are lower, with rates dropping by 6.5% from FY 2021-22 to FY 2022-23. A significant reduction in claims during the COVID-19 pandemic in FY 2020-21 and FY 2021-22 resulted in this rate reduction. Dental rates are then projected to increase by 4.2% each year starting in FY 2023-24. Given these assumptions, health and dental insurance premium costs paid by the City for current employees are projected to increase by $5.3 million in FY 2022-23, $18.4 million in FY 2023-24, $19.6 million in FY 2024-25 and another $20.8 million in FY 2025-26.

These rates are driven by the number of active employees enrolled, utilization, and the cost of health care. While the number of City employees is assumed to remain relatively stable, price increases on the provider side for pharmacy, high-cost claims, and more employees seeking health care could result in an increase in health care costs above what is assumed in this report. Uncertainties include the rising cost of pharmaceuticals and latent demand in services during recovery from the pandemic, both of which can result in increased costs of health care, and ultimately higher premiums.

Health and Dental Benefits for Retired City Employees

Charter Section A8.428 mandates health coverage for retired City employees. The projection assumes that the cost of medical benefits for retirees will increase by an average of 4.0% per year over the next four years, which is slower growth than projected in last year's Five-Year Financial Plan projection. This is partially driven by suppression of claims during the pandemic. Federal Medicare funding for Medicare eligible retirees is further helping drive rates down, resulting in moderate growth for the period of the projection. General Fund support for retiree health costs increases by $4.8 million in FY 2022-23, $6.1 million in FY 2023-24, $6.4 million in FY 2024-25, and $6.7 million in FY 2025-26.

Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring employees hired after January 10, 2009 and the City to contribute 2% and 1% of pre-tax compensation, respectively, into a Retiree Health Care Trust Fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's effects by requiring all remaining employees to begin contributing to this fund beginning in FY 2016-17 with corresponding employer contribution. Starting July 1, 2016, employees hired before January 10, 2009 began contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% in each subsequent year, up to a maximum of 1%, with the City matching the contribution commensurately.

The key uncertainties for retiree health are the impact of the increasing cost of pharmaceuticals and the number of employees entering the retirement system.

Retirement Benefits - Employer Contribution Rates

The majority of City employees are part of the San Francisco Employees' Retirement System (SFERS), which serves nearly 70,000 active and retired employees. There have been a number of recent changes affecting the City's required contributions to SFERS since the publication of the Five-Year Financial Plan in January 2021, which ultimately resulted in significant projected annual savings to the General Fund.

In FY 2020-21, SFERS generated a return of 33.7%, the highest fiscal year return in its history. This brings total assets to $35.7 billion, an increase of $9.1 billion from the previous fiscal year. These sizeable investment gains above the previously established discount rate of 7.4% are recognized over a five-year period, leading to year-over-year savings for the City's employer contributions to the fund for the period of this report.

Additionally, in November 2021, the Retirement Board voted to lower the assumed rate of return, or discount rate, from 7.4% to 7.2%, thereby increasing the actuarially required employer contributions. However, the record returns from the previous fiscal year more than offset any cost increases generated by the change in the discount rate.

Employer contribution rates are based on projections prepared by the Retirement System's actuary in fall 2021. The maximum employer contribution rate for non-safety employees in salary band 2 is 20.2% in the current fiscal year. This rate is projected to decrease to 17.3% in FY 2022-23, 13.4% in FY 2023-24, 11.1% in FY 2024-25, and drop to just 9.7% in FY 2025-26. Rates for police and fire safety employees vary based on date of hire. This report assumes the weighted average employer contribution rate for FY 2021-22 for police officers and firefighters was 19.6% in the current fiscal year. This rate is projected to decrease to 16.7% in FY 2022-23, 13.1% in FY 2023-24, 11.1% in FY 2024-25, and 10% in FY 2025-26.

SFERS requires that the City pay into the Retiree Health Care Trust Fund (RHCTF) when the employer contribution rate drops below the normal cost rate of around 10%. Due to this, the City will make a RHCTF contributions starting in FY 2025-26 at a General Fund cost of $49.5 million.

For CalPERS members, the employer portion of the rate in the current year is 54.6% and is projected to decrease to 53.8% in FY 2022-23, then remain at around 53.7% for the remaining years of the projection.

The report also assumes that the City continues to pay down its CalPERS unfunded actuarial liability (UAL) over a ten-year period to better align shifts in payroll contribution rates between SFERS and

CalPERS. This results in a cost of $11.7 million in FY 2022-23 and slight savings there-after in each year of the projection period.

The net result of these changes to the employer share for SFERS and CalPERS contribution rates is a decrease in total General Fund support of $50.9 million in FY 2022-23, $82.3 million in FY 2023-24, $49.0 million in FY 2024-25, and an increase in cost of $19.3 million in FY 2025-26. The cost in the final year of the projection is due to required RHCTF contribution discussed above. Market volatility and in turn, failure to meet the assumed rate of return or future, as well as unbudgeted supplemental cost-of-living adjustments (COLAs) could dramatically impact this forecast.

Table 6 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion.

Table 6. Estimated Employer Contribution Rates for the Retirement System

San Francisco Employees Retirement System (SFERS)

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Estimated Total Contribution Rates	31.9%	27.4%	22.4%	19.0%	16.5%
Non-Safety Employees					
Employee Contribution (1)					
Band 1, < $32.57/hour	7.5%	7.5%	7.5%	7.5%	7.5%
Band 2, < $65.15/hour	11.0%	9.5%	8.5%	7.5%	6.5%
Band 3, > $65.15/hour	11.5%	10.0%	9.0%	7.5%	6.0%
Additional Rate Factors					
Band 1, < $32.57/hour	0.86%	0.68%	0.51%	0.39%	0.31%
Band 2, < $65.15/hour	0.73%	0.61%	0.47%	0.39%	0.34%
Band 3, > $65.15/hour	0.72%	0.59%	0.46%	0.39%	0.36%
Estimated Net Employer Contribution (1)					
Band 1, < $32.57/hour	23.5%	19.2%	14.4%	11.1%	8.7%
Band 2, < $65.15/hour	20.2%	17.3%	13.4%	11.1%	9.7%
Band 3, > $65.15/hour	19.7%	16.8%	12.9%	11.1%	10.1%
Police and Fire Safety Employees (2)					
Estimated Total Contribution Rates	32.6%	28.1%	23.1%	19.7%	17.2%
Employee Contribution & additional rate fac	13.0%	11.4%	9.9%	8.6%	7.2%
Estimated Net Employer Contribution	19.6%	16.7%	13.1%	11.1%	10.0%

California Public Employees Retirement System (CalPERS)

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Total Estimated Contribution Rate	70.2%	68.8%	68.7%	68.7%	68.7%
Employee Contribution & additional rate fac	15.6%	15.0%	15.0%	15.0%	15.0%
Estimated Net Employer Contribution	54.6%	53.8%	53.7%	53.7%	53.7%

(1) Employees' contribution is based on wages. The wages shown are based on the estimated FY 2022-23 wage floors.

(2) Employees' base contribution rates vary with hire date.

Other Salaries and Benefits Changes

Other salary and benefit cost changes include some administrative costs for the Health Service System, contributions towards pre-funding retiree health costs, and life insurance. Cost growth is expected to be modest with savings of $0.9 million in FY 2022-23, then around $1 million of additional cost in the subsequent years of the projection.

USES – CITYWIDE OPERATING BUDGET COSTS

Over the next five years, the City will also incur non-salary operating costs. Citywide non-salary operating costs are projected to decrease by $132.9 million in FY 2022-23 primarily due to large one-time General Fund investments in the prior Fiscal Year (FY 2021-22), such as capital projects and other citywide programs. The expenditures are projected to then increase by $74.5 million, $133.6 million, and $85.8 million in FY 2023-24, FY 2024-25, and FY 2025-26, respectively, primarily due to CPI increases for other ongoing citywide non-salary operating costs. The impacts and costs associated with these increases span multiple departments and are described in more detail below.

Hotel Tax for the Arts Backfill

Proposition E, passed by the voters in 2018, allocates a portion of the City's hotel tax revenue to various arts and culture programs. Significant reductions in hotel tax revenue as a result of COVID-19 has led to projected funding shortfalls for these arts programs and organizations. The adopted budget included $16.1 million in FY 2021-22 and $2.6 million in FY 2022-23 to fully backfill the projected shortfalls, resulting in a $13.4 million savings in FY 2022-23 and another $2.6 million savings in FY 2023-24 from the prior year. This Joint Report reflects the adopted budget levels of funding; decisions to backfill future projected shortfalls will be a policy matter for the upcoming budget process.

Capital, Equipment, and Technology

Changes in funding for capital, equipment, and technology will result in General Fund cost decrease of $78.7 million in FY 2022-23, followed by an increase of $8.2 million in FY 2023-24, $63.7 million in FY 2024-25, and $18.0 million in FY 2025-26.

This projection assumes partial funding of the City's General Fund capital program in FY 2022-23, consistent with the adopted budget, 10% growth in FY 2023-24, and an increase in FY 2024-25 and FY 2025-26 to return funding levels to the pre-pandemic FY 2020-29 Ten-Year Capital Plan. This projection aligns with the updated FY 2022-31 Ten-Year Capital Plan, which was released in spring 2021. This projection results in a decreased cost of $0.7 million in FY 2022-23, and then increased costs of $7.8 million in FY 2023-24, $56.3 million in FY 2024-25, and $9.8 million in FY 2025-26.

Citywide IT and communications costs for annual citywide technology projects are projected to decrease by $0.8 million in FY 2022-23, as reflected in the adopted budget. Technology costs are then projected to increase by $1.3 million in FY 2023-24, $1.5 million in FY 2024-25, and $0.4 million in FY 2025-26, consistent with the City's latest Information and Communication Technology (ICT) Plan for FY 2021-22 through FY 2025-26.

This report also assumes an increase in funding for major IT investments in the amount of $8.2 million in FY 2022-23, $6.2 million in FY 2023-24, $0.5 million in FY 2024-25, and $2.6 million in FY 2025-26.

These funding levels are also consistent with the City's ICT Plan, and assume fully funding FY 2022-23 through FY 2025-26, in accordance with the plan. Major IT projects assumed to receive funding in this estimate include the cost of updating the Assessor-Recorder's property assessment and tax system, the cost of the citywide public safety radio replacement project, as well as the cost of replacing the City's computer-aided dispatch system.

Additionally, the Department of Technology's rates are projected to increase by $3.2 million in FY 2022-23. Rates are then projected to further increase by $3.2 million in FY 2023-24, $3.3 million in FY 2024-25, and $3.4 million in FY 2025-26, due to assumed inflationary increases on the City's network infrastructure and SFGovTV costs, as well as increased costs for major technology contracts.

Finally, the City will incur costs to furnish and equip new and upgraded City facilities. These costs will increase by $14.4 million in FY 2020-21, decrease by $17.9 million in FY 2021-22 and $5.5 million in FY 2022-23, and subsequently increase by $5.3 million in FY 2023-24. These costs are related to projects such as the rebuilt Fire Station 35; the new Ambulance Deployment facility; the new facility for the San Francisco Police Department (SFPD's) Forensic Services Division and Traffic Company; the new SFPD Storage facility; the new office building and one-stop permit shop at 49 South Van Ness; and other Certificates of Participation and General Obligation bond funded capital projects.

Citywide equipment costs are projected to increase by $0.9 million in FY 2022-23, as reflected in the previously adopted FY 2022-23 budget. Increased cost assumptions based on CPI result in annual $0.2 million increases in FY 2023-24, FY 2024-25, and FY 2025-26. Equipment is defined as an item costing $5,000 or more with an expected life span of three years or more. This projection assumes that no equipment purchases will be funded through the use of lease revenue bonds in any of the next four years. By using cash instead of debt financing, the City saves on financing costs, reducing the overall cost of equipment purchases over the long term.

Inflation on Non-Personnel Costs and Non-Profit Grants

This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the CPI rate of 3.25% for FY 2022-23, 2.83% for FY 2023-24, 2.71% for FY 2024-25, and 2.56% for FY 2025-26. For FY 2022-23, the projection includes the adopted FY 2022-23 budgeted level of cost increases, including the annualization of a 3% cost-of-doing business increase for non-profit providers budgeted in FY 2021-22. After FY 2022-23, assuming CPI inflation results in a total General Fund cost increase of $33.0 million in FY 2023-24, $32.6 million in FY 2024-25, and $31.7 million in FY 2025-26.

Debt Service and Real Estate

Over the next four years, total debt service and real estate costs are projected to increase by $18.1 million in FY 2022-23, $26.2 million in FY 2023-24, $14.2 million in FY 2024-25, and $15.6 million in FY 2025-26. This projection is based on current debt payment requirements and projected debt service costs for investments anticipated in the Ten-Year Capital Plan, as well as cost increases related to the City's leased and owned real estate portfolio. This projection does not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection.

The increases over the next four years are primarily due to the repayment of Certificates of Participation (COPs) for major City Capital projects, including the exit and relocation from the Department of Public

Health office building, the relocation of administrative staff from the Hall of Justice, the City's critical repairs and recovery stimulus COP program, and debt service payments on other large capital facilities. The updated COP schedule reflects a shifting of anticipated issuances into the time horizon of this report, resulting in increased costs in the near term. Many of these projects also involve changing or new lease costs as City staff are relocated, or as existing leases expire and are reset to current market rates. These costs are captured in the total debt service and real estate cost increase above.

Sewer, Water, and Power Rates

The Base Case assumes increased General Fund transfers to the Public Utilities Commission (PUC) for the cost of sewer, water, and power expenses. Power rates are projected to increase by three cents per kilowatt hour per year. Additionally, the Power Enterprise bills and pays for the cost of natural gas provided by Pacific Gas & Electric and the City Administrator's Department of General Services to City departments. These costs are based on projected commodity costs and transportation rates. Due to significant operating environment shifts, sewer and water rates are assumed to stay flat in FY 2022-23. The water rates are assumed to increase by 6% annually throughout the remainder of the projection period; while, sewer rates are assumed to increase by 8% in FY 2023-24, and increase by another 7% in both FY 2024-25 and FY 2025-26. The projection assumes drought conditions and therefore, incorporates conservation and simultaneous drought surcharges across all four fiscal years. As a result of these conditions, along with significant increases in the power rates, the projection assumes increases of $5.7 million, $6.1 million, $5.6 million, and $5.2 million, respectively, in each year of the projection.

COVID-19 Citywide Expenditures

The local cost of initiatives directly responding to the COVID-19 pandemic is projected to decrease by $79.2 million in FY 2022-23, followed by a further decrease of $14.4 million in FY 2023-24. This projection assumes the costs incurred by the General Fund related to COVID-19 response efforts will be significantly lower in FY 2022-23 than prior years. Starting in FY 2023-24, no ongoing costs are assumed.

Other Citywide Costs

This category includes increases in other costs across citywide services, including fleet, risk management, and workers' compensation. It also includes one-time citywide initiatives that were newly added in FY 2021-22, such as the Alternative Response pilot and Downtown Recovery program, efforts that span multiple departments. The cost of providing Workers' Compensation, in particular, is projected to grow much faster than CPI due to an increase in the number of claims in the last year, higher fee schedules and disability rates set by the state, and overall medical cost increases.

These items together result in decreased General Fund cost of $1.3 million in FY 2022-23 due to assuming one-time citywide programs not continuing in future, then increase in General Fund costs of $17.9 million in FY 2023-24, $17.5 million in FY 2024-25, and $15.3 million in FY 2025-26 due to other projected cost increases for fleet, risk management, and workers' compensation.

USES – DEPARTMENTAL COSTS

This section provides a high-level overview of significant departmental costs over the next four years. Departmental costs are expected to decrease by $24.0 million in FY 2022-23, largely due to one-time funding in FY 2021-22 that offset general fund uses for a variety of economic recovery initiatives. Costs then increase to $39.5 million in FY 2023-24, $58.6 million in FY 2024-25, and $39.5 million in FY 2025-26. This growth is due to CPI increase for ongoing departmental non-salary operating costs, as well as changes to major aid programs administered by the Human Services Agency (HSA). The impacts and costs associated with these increases span multiple departments and are described in more detail below.

City Administrator's Office – Convention Facilities Subsidy

This plan assumes the General Fund subsidy to the Convention Facilities Fund will decrease by $10.9 million in FY 2022-23 due to a one-time General Fund subsidy budgeted in FY 2021-22. The subsidy will then reduce further to create General Fund savings of $3.6 million in FY 2023-24, $0.3 million in FY 2024-25, and $3.8 million in FY 2025-26. These savings offset some projected costs from cancelled or delayed events and debt payments.

Elections – Number of Scheduled Elections

The number of elections and the associated costs for holding elections vary annually. Table 7 includes the schedule for elections over the projection period. This schedule results in projected incremental savings of $3.5 million in FY 2022-23 compared to FY 2021-22 due to running only one election, an additional projected cost of $1.9 million in FY 2023-24, a savings of $1.3 million in FY 2024-25, and a cost of $1.2 million in FY 2025-26. Any special election not included in this projection would result in increased General Fund costs dependent on the complexity of the ballot and the size of the electorate.

Table 7. Schedule of Upcoming Elections, FY 2020-21 through FY 2023-24

Fiscal Year	Date	Type
2021-22	June 2022	Statewide Direct Primary Election
2022-23	November 2022	Consolidated General Election
2023-24	November 2023	Municipal Election
2023-24	March 2024	Consolidated Presidential Primary Election
2024-25	November 2024	Consolidated General Election
2025-26	June 2026	Statewide Direct Primary Election

Ethics Commission – Public Financing of Elections

The Ethics Commission administers the Election Campaign Fund. Per the charter, the City must appropriate $2.75 per resident each fiscal year. In the case of a Mayoral vacancy, the fund is required to contain $8.00 per resident for that election and for the next regularly scheduled Mayoral election. Funds not used in one election are carried over for use in the following election and any funds in excess of $7.0 million shall be returned to the General Fund.

This projection assumes that the General Fund will appropriate an amount equal to $8.00 per resident in FY 2023-24 and that eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals. Costs are projected to increase by $0.7 million in FY 2022-23, increase by $6.6 million in FY 2023-24, decline by $7.2 million in FY 2024-25, and finally increase by $2.0 million in FY 2025-26. These costs are dependent on the actual amount of funds disbursed in Mayoral and Supervisorial campaigns.

Mission Bay Transportation Improvement Fund

In 2019, the Golden State Warriors completed construction of the Chase Center, a multipurpose event center, retail, and office project at 16th Street and 3rd Street in Mission Bay. In November 2015, the Mayor and Board of Supervisors approved the creation of the Mission Bay Transportation Improvement Fund to pay for public infrastructure improvements, equipment, and public services to address the community's transportation needs and other impacts in connection with events at the center. The event center opened in September 2019, and this report assumes increased costs that will be offset by increased revenue. This report projects estimated annual incremental project costs of $1.2 million in FY 2022-23, $0.3 million in FY 2023-24, $3.6 million in FY 2024-25, and $0.3 million in FY 2025-26. These costs will be funded entirely with revenues generated by the arena and event space through increased property, business, sales, hotel, utility user, and stadium admission taxes.

Affordable & Permanent Supportive Housing Project Costs

The City expects to incur costs in all years of the projection related to its current affordable and Permanent Supportive Housing (PSH) projects. The Local Operating Subsidy Program (LOSP) subsidizes housing for formerly homeless individuals and families. This City-funded subsidy enables formerly homeless individuals and families to stay securely housed and receive services from the Department of Homelessness and Supportive Housing by providing long term financial support for operating and maintaining permanently affordable housing properties. LOSP program costs are projected to increase due to several large supportive housing projects opening in the next few years. This projection also includes projected inflationary master lease costs for PSH sites in the City's portfolio. The master lease portfolio added 65 new units in 2021. The master lease costs are projected to increase due to inflation and the addition of new units. Costs associated with 833 Bryant, a PSH site that added 145 new PSH units to the City's portfolio in FY 2020-21, are expected to increase slightly in FY 2022-23 and then remain constant.

Costs related to these projects are projected to require an increase of $8.2 million in FY 2022-23, $5.1 million in FY 2023-24, $6.2 million in FY 2024-25, and $7.8 million in FY 2025-26.

Human Services Agency – IHSS and Other Benefit Costs

Changes to major aid programs administered by the Human Services Agency (HSA), including In-Home Supportive Services (IHSS) and the Title IV-E Waiver, will result in increased General Fund support over the next four years. General Fund costs are projected to grow by $6.3 million in FY 2022-23, $12.4 million in FY 2023-24, $24.9 million in FY 2024-25, and $9.9 million in FY 2025-26.

- **In-Home Supportive Services.** In-Home Supportive Services (IHSS) is an entitlement program that provides homecare services to 22,000 low-income elderly, disabled, and/or blind San

Franciscans, enabling them to live safely in their own homes rather than in a nursing home or other group care facility. The program employs over 20,000 individuals in San Francisco as independent providers who assist clients with domestic and personal care services.

The local share of the IHSS program, which is funded with a mix of federal Medic-aid, State, and local funds, is paid using a "maintenance of effort" (MOE) framework. Per state statute, this cost increases 4% annually and for a share of locally-negotiated cost increases. Locally, the City has made legislative changes that further increased the costs of the IHSS program. The Minimum Compensation Ordinance (MCO), which passed in fall 2018, raised the base wages for several types of workers, including IHSS workers, above the San Francisco minimum wage. By FY 2022-23, the MCO base wage for IHSS care providers is slated to reach $18.75 per hour, subject to annual appropriation, and increase by CPI on July 1 of every subsequent year, beginning in July 2023. The City's share of the increased wages for IHSS workers is reflected as an increase to the IHSS MOE. Overall, the MOE is projected to grow to a $196.2 million General Fund cost by FY 2025-26.

Based on current estimates, City costs for IHSS are expected to increase annually by $14.2 million in FY 2022-23, $10.9 million in FY 2023-24, $8.9 million in FY 2024-25, and $8.8 million in FY 2025-26.

- **Title IV-E Waiver.** Another set of benefit-related costs within the Human Services Agency (HSA) is due to changes in federal funding for family and children's services, such as foster care. The Title IV-E Waiver, in effect since September 2014, has allowed San Francisco's child welfare and juvenile justice departments to shift federal out-of-home placement dollars to preventive services. Under the IV-E waiver, San Francisco invested in programs and services for families and children with the goals of improving permanency outcomes, increasing child safety, promoting family engagement, and decreasing re-entry. The waiver ended in fall 2019, so these investments are no longer eligible for the same levels of federal funding. While new federal funding under the Families First Preventative Services Act (FFPSA) will offset some local costs, the City still anticipates a net revenue loss from the end of the waiver and temporary transition funding. This report assumes that the City maintains the level of service in the adopted FY 2021-22 budget and uses one-time sources from FFPSA transition funding and savings through FY 2023-24 to cover the funding gap caused by the loss of federal funding. This will result in a saving of $4.0 million in FY 2022-23 mainly due to FFPSA transition funding, no General Fund cost in FY 2023-24, a $13.8 million cost in FY 2024-25, and no additional incremental cost in FY 2025-26.

- **Other public benefit costs.** Finally, HSA projects that aid payments to clients (including programs such as County Adult Assistance Programs (CAAP), Foster Care, CalWORKs, Care Not Cash, and others) will decrease by $3.9 million in FY 2022-23. Costs are then expected to increase by $1.5 million in FY 2023-24, $2.2 million in FY 2024-25, and $1.1 million in FY 2025-26. These changes are primarily due to a projected surge of CAAP aid enrollment over the next fiscal year, which will then flatten in subsequent years as the economy gradually recovers from the COVID-19 pandemic and economic impacts.

Public Health – Operating and One-Time Costs for Capital Projects

Department of Public Health (DPH) operating costs are expected to increase by $50.3 million in FY 2022-23, $17.5 million in FY 2023-24, $24.7 million in FY 2024-25, and $23.5 million in FY 2025-26. These increases reflect the inflationary pressures exceeding regular CPI increases at the department's hospitals and clinics related to pharmaceuticals, FF&E costs, and cost increases related to the UCSF Affiliation Agreement, which provides the clinical staff at Zuckerberg San Francisco General Hospital. The increase in operating costs in the first year of this projection is additionally driven by a decrease in City Option revenues which cannot be recognized until the completion of a three-year escheatment process as determined by the City Attorney, creating a net General Fund cost.

Proposition B – November 2020 (Sanitation and Streets Department and Commission and Public Works Commission)

In November 2020, San Francisco voters approved Proposition B, creating the Sanitation and Streets Department (SAS), Sanitation and Streets Commission, and the Public Works Commission. The SAS will begin operations no sooner than July 1, 2022. Based on current estimates, costs for the new department and commissions are expected to be $6.0 million in FY 2022-23, and increase by CPI thereafter, resulting in additional costs of $0.2 million in FY 2023-24, FY 2024-25, and FY 2025-26.

Proposition D – November 2020 (Sheriff's Department Oversight Board and the Office of the Inspector General)

In November 2020, San Francisco voters approved Proposition D, creating the Sheriff's Department Oversight Board (SDOB) and Office of the Inspector General (OIG). The SDOB and OIG will begin once the SDOB members are finalized and the SDOB selects an Inspector General to oversee the department. Based on current estimates, costs for this new department and board are budgeted to increase by $0.9 million in FY 2022-23, with CPI increases thereafter, resulting in added costs of $0.1 million in FY 2023-24, FY 2024-25, and FY 2025-26.

One-Time Economic Recovery and Community Support Initiatives

The FY 2021-22 budget included one-time funding for a variety of economic recovery and community support initiatives, as well as some one-time investments intended to reduce future cost pressures on the General Fund. This projection assumes the expiration of these one-time funds, including $32.0 million for rental assistance, $23.0 million for cash-funding of HOPE SF debt obligations, $15.0 million for learning loss recovery, and $10.0 million for the Housing Innovation Fund. Costs related to these projects are projected to decrease by $86.8 million in FY 2022-23, then by another $1 million in FY 2023-24 with no further changes in later years.

All Other Departmental Savings/(Costs)

This section includes other departmental changes including the expiration of limited-term project costs and several other small changes. Major costs include the City's commitment to funding Free City College, which grows at the rate of CPI, and the addition of 50 paramedics in the Fire Department, due to a supplemental appropriation and salary ordinance in FY 2021-22 to address key staffing shortages. These items together result in General Fund costs of $3.7 million in FY 2022-23, $0.1 million in FY 2023-24, $7.8 million in FY 2024-25, and then savings of $1.5 million in FY 2025-26.