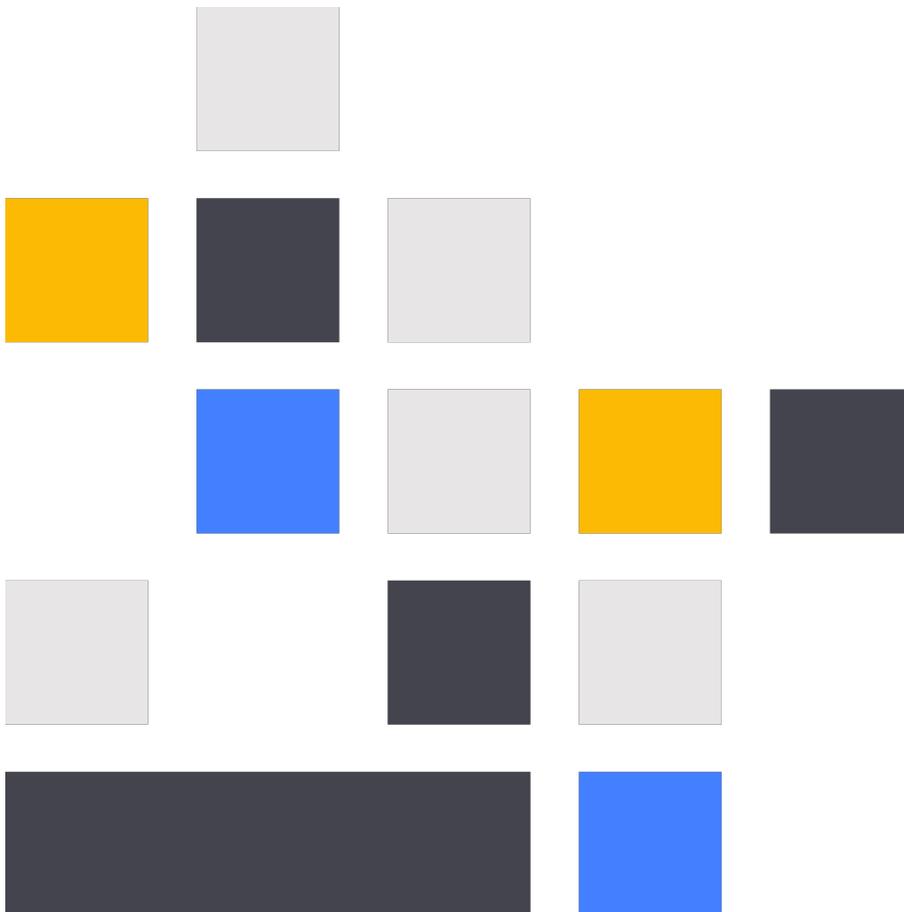


FY 2021-22 and FY 2022-23 Revenue Letter

Controller's Discussion of the Mayor's Proposed Budget

The Charter requires that the Controller comment on revenue estimates assumed in the Mayor's FY 2021-22 and FY 2022-23 proposed budget. We find tax revenue assumptions to be reasonable, but caution they are highly dependent on the course of economic reopening, will require frequent monitoring, and are subject to updates as conditions change. The budget relies heavily on federal stimulus funds to support operations during the two-year budget period, and a structural gap is likely to persist following the exhaustion of those funds. Voter-approved baseline requirements are funded at or above required levels.



June 8, 2021

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

About the Budget & Analysis Division

The Budget and Analysis Division (BAD) manages the technical development of the City's annual budget, including forecasting tax revenues, costing and budgeting labor and benefit costs, and assisting the Mayor and Board of Supervisors with costing and budgeting of policy initiatives. The group manages the City's adherence to voter-approved spending requirements and financial policies and produces a variety of reports, including quarterly budget status updates and various fee-related reports. Additionally, the division manages property tax apportionment, rate setting, and reporting to the state, places special assessments on property tax bills, and processes the Assessor's changes to prior and current year property tax rolls.

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Executive Summary

The Charter and other local laws require the Controller to comment on the reasonableness of the projected revenues assumed in the Mayor's Proposed Budget, as well on whether various other financial requirements are met. In this report, we present our findings related to those requirements and financial risks the City faces over the coming several fiscal years.

Overview of key assumptions and requirements in the Mayor's Proposed Budget:

- **Tax revenue assumptions are reasonable and based on the expectation that San Francisco's economy will recover from the public health emergency over several years.** The budget broadly assumes General Fund revenue recovers to pre-pandemic levels by FY 2023-24, with significant projected growth during the two budget years. However, the impact of the pandemic on specific revenues, including hotel, sales and parking taxes, is assumed to linger until FY 2025-26.

In FY 2021-22, the largest increases in General Fund tax revenues are in property, business, and transfer taxes, with increases of \$96.0 million, \$130.7 million, and \$212.1 million, respectively, from the FY 2020-21 original budget. This growth is partially offset by significant reductions in sales and hotel tax versus pre-pandemic levels. In FY 2022-23, General Fund revenue continues to grow from FY 2021-22, with continued strength in property and transfer taxes and rapid growth in business and hotel tax, as the city continues its economic recovery. FY 2022-23 also assumes \$60.0 million in revenue from a new tax on executive pay approved by voters in November 2020.

The revenue outlook for the City is closely tied to the recovery of sectors most affected by the pandemic: tourism, office industries, and small businesses. The extent to which changes in these sectors, including the prevalence of telecommuting, patterns of out-migration, resumption of conventions and international travel, are temporary or permanent will be critically important to the City's tax base. The Controller's Office will closely monitor and report on revenues during the upcoming fiscal year, and active management of the City's budget will likely be required by the Mayor and Board of Supervisors.

- **The budget assumes very significant levels of one-time federal funding, primarily from the American Rescue Plan Act (ARPA) of March 2021.** The budget appropriates \$624.8 million of ARPA Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) over the two budget years. As discussed in the March 2021 Update to the Five Year Financial Plan, this single source is largely responsible for balancing projected shortfalls in FY 2021-22 and FY 2022-23.
- **The budget relies on other one-time sources including \$267.5 million of reserves and use of the \$157.3 million current year fund balance projected in the Controller's Nine-Month Report.** The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. As defined by this policy, the FY 2021-22 budget relies on \$267.5

million of one-time sources, to support \$468.9 million of one-time expenditures, complying with the City's nonrecurring revenue policy.

- **The Mayor's budget includes, for the first time, several new general and special purpose taxes.** Some of these are sources the City has experience collecting and projecting, including the transportation network tax (November 2019 Proposition D, effective FY 2019-20), the transfer tax rate increase (authorized by November 2020 Proposition I, effective FY 2020-21), the business tax overhaul which adjusted gross receipts tax and business registration rates (authorized by November 2020 Proposition D, effective FY 2021-22), commercial rents tax (authorized by June 2018 Proposition C, effective FY 2020-21), and homeless gross receipts tax (November 2020 Proposition C, effective FY 2020-21). The risk with these sources is largely commercial real estate volatility and recovery of office-using business sectors. Others are sources that the City has little to no experience collecting or projecting, including the retail vacancy tax (authorized by March 2020 Proposition D, effective FY 2022-23), the cannabis tax (authorized by November 2018 Proposition D, effective FY 2021-22), and the tax on executive pay (authorized by November 2020 Proposition L, effective FY 2022-23), a volatile revenue source due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, and possible tax-avoidance behavior, that is budgeted at \$60 million in FY 2022-23.
- **The budget preserves the balances of the City's economic stabilization reserves, and code-mandated reserves are funded and maintained at required levels.** The Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"), as well as \$54.8 million in the Budget Stabilization One-Time reserve. Pursuant to the City's financial policies, Economic Stabilization Reserves can be fully drawn by FY 2022-23, split 50% in each of the budget years, and the Budget Stabilization One-Time Reserve can be used on one-time uses at any time. General Reserve funding levels in the budget are at code-mandated levels.
- **Voter-adopted spending requirements are met, or exceeded, at a total cost exceeding \$1.4 billion annually.** The financial baselines include mandated spending for transit, libraries, schools, early childhood education, homelessness housing and services, street trees, and other programs. Several programs are funded above the required levels, including the Children's Services baseline, Transitional Aged Youth baseline, Recreation and Parks baseline, the Our City, Our Home Baseline (November 2018 Prop C), and the Early Care and Education baseline (June 2018 Prop C). Finally, the budget prefunds \$17.6 million of future Housing Trust Fund requirements in FY 2021-22, which will reduce payments over a five year term beginning in FY 2023-24.
- **The Mayor's budget adheres to the Minimum Compensation Rate.** The Minimum Compensation Ordinance, Section 12P of the Administrative Code, sets a minimum compensation rate for employees at public entities and nonprofit organizations that have contracts with the City. For public entities, the minimum compensation rate is scheduled to increase from \$17.25 to \$18.00 on July 1, 2021. For nonprofits, the minimum compensation is scheduled to increase at the rate of inflation from \$17.05 to \$17.34 (1.7 percent). These increases only go into effect if sufficient funds are appropriated to fund the increases. The proposed budget includes appropriations for the increase in the minimum compensation rate for public

entities. It also includes a “cost of doing business” appropriation that provides nonprofits an increase of three percent to their budgets, which is sufficient to support the minimum compensation increase for nonprofits. These compensation increases, therefore, will be effective on July 1, 2021.

Overview of key financial risks:

- While we find the revenues assumptions in the Mayor’s proposed budget to be reasonable, we believe the City faces several key financial risks in coming fiscal years. These risks include (1) disallowance of claims for federal revenues assumed in the City’s emergency response budgets, (2) a slower recovery than assumed in the budget, and (3) the projected structural budget gap following depletion of one-time federal stimulus funds.
 - **Federal revenue risk.** In total since the beginning of the public health emergency, the City has budgeted to receive \$430 million of reimbursements from the Federal Emergency Management Agency (FEMA), including \$49.5 million in the proposed FY 2021-22 budget. Of this total, the City has submitted claims to date of \$180.5 million, of which \$36.3 million have approved and \$14.6 million have been paid. The balance is subject to risk of both lower claiming than that assumed in the budget and potential disallowance of claimed costs. The federal reimbursement and auditing process will likely continue for the coming fiscal year at a minimum, leaving a key risk to budgeted revenues.
 - **Economic risk.** The budget assumes an economic recovery will drive annual tax revenue growth of \$251.2 million in FY 2021-22 and \$502.7 million in FY 2022-23. While these assumptions track to our economic and financial projections, they are subject to significant uncertainty. Key factors to monitor include whether public conditions in the City will remain relatively favorable and continue to permit a growing amount of economic activity to resume; whether large-scale telecommuting will wane rapidly in the coming two fiscal year as assumed in these projections; and whether the local hospitality and convention industries will recover at the pace underpinning these tax revenue projections. Modest changes in these key factors would drive significant variances in actual financial revenue performance.
 - **Structural budget challenges in future fiscal years.** As noted above, the Mayor’s proposed budget is balanced with a heavy reliance on one-time sources, most notably federal stimulus funds allocated to the City under the ARPA. As proposed, these funds would be depleted over the two-year budget period, leaving a structural budget challenge, projected to be \$350 million in FY 2023-24 and \$499.3 million in FY 2025-26 in the March 2021 update to the Five-Year Financial Plan. While these projected future year shortfalls are modestly mitigated by actions proposed in the Mayor’s proposed budget, significant gaps are likely to remain in fiscal years beyond the two-year budget period.
- The Mayor’s proposed budget preserves and repurposes several key reserve balances in response to these risks. The Mayor’s proposed budget reassigns \$100.0 million of the COVID

Response and Economic Loss contingency reserve to a Federal and State Emergency Grant Disallowance Reserve to manage potential revenue shortfalls related to potential reimbursement disallowances and \$293.9 million to a Fiscal Cliff Reserve for the purpose of managing anticipated budget shortfalls in FY 2023-24 and beyond. Additionally, the Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"), as well as \$54.8 million in the Budget Stabilization One-Time reserve.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines & Mandated Funding Requirements

Appendix 1. General Fund Sources

As shown in Exhibit 1, the Mayor's proposed budget for FY 2021-22 includes \$6.3 billion in General Fund sources and \$13.1 billion in all funds sources, representing an increase from the FY 2020-21 original budget of 1.7 percent in the General Fund and a decrease of 3.9 percent in all funds. The Mayor's proposed budget for FY 2022-23 includes \$6.3 billion in General Fund sources, unchanged from the FY 2021-22 proposed budget, and \$12.8 billion in all funds sources, a 2.5 percent decrease from FY 2021-22 proposed budget.

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

General Fund			
	FY 2020-21	FY 2021-22	FY 2022-23
	Budget	Proposed	Proposed
Fund Balance	\$ 370.4	\$ 470.1	\$ 312.4
Use of Reserves	156.5	253.5	14.0
Regular Revenues	5,227.2	5,427.6	5,817.6
Transfers In to the General Fund	447.1	158.3	162.9
Total GF Sources	\$ 6,201.2	\$ 6,309.5	\$ 6,307.0
<i>Change from Prior Year</i>		<i>\$ 108.3</i>	<i>\$ (2.5)</i>
<i>Percentage Change</i>		<i>1.7%</i>	<i>0.0%</i>
All Funds			
	FY 2020-21	FY 2021-22	FY 2022-23
	Budget	Proposed	Proposed
Fund Balance	\$ 826.9	\$ 830.9	\$ 441.6
Use of Reserves	178.7	286.8	43.3
Regular Revenues	12,609.1	11,964.0	12,273.4
Total All-Funds Sources	\$ 13,614.6	\$ 13,081.7	\$ 12,758.3
<i>Change from Prior Year</i>		<i>\$ (532.9)</i>	<i>\$ (323.5)</i>
<i>Percentage Change</i>		<i>-3.9%</i>	<i>-2.5%</i>

Note: Totals may appear to differ from sum of line items due to rounding

Exhibit 1-1 provides a summary of the General Fund sources in the Mayor's proposed budget.

Exhibit 1-1. General Fund Sources (\$ millions)

Sources of Funds	FY 2020-21 Budget	FY 2020-21 Nine-Month	FY 2021-22 Proposed	FY 2022-23 Proposed	Notes
Fund Balance and Reserves					
Prior Year Fund Balance	\$ 370.4	\$ 370.4	\$ 470.1	\$ 312.4	1
Use of Reserves	156.5	208.3	253.5	14.0	2
<i>Subtotal</i>	526.9	578.7	723.6	326.4	
Regular Revenues					
Property Taxes	2,019.6	2,311.6	2,115.6	2,211.7	3
Traditional Property Tax	1,832.6	1,935.0	1,870.6	1,951.6	
Excess ERAF	187.0	376.6	245.0	260.1	
Business Taxes	826.4	632.4	957.1	1,065.4	4
Sales Tax (Bradley Burns 1%)	183.7	132.2	145.7	174.9	5
Hotel Room Tax	126.2	20.6	78.5	235.3	6
Utility Users Tax	81.1	74.2	77.7	83.7	7
Parking Tax	59.4	43.0	55.9	68.8	8
Real Property Transfer Tax	138.0	326.3	350.1	373.9	9
Stadium Admissions Tax	2.5	0.2	3.6	5.4	10
Cannabis Tax	4.3	-	4.4	8.8	11
Executive Pay Tax	-	-	-	60.0	12
Sugar Sweetened Beverage Tax	14.0	10.5	12.2	14.0	13
Access Line Tax	48.9	48.3	49.6	51.3	14
Licenses, Permits & Franchises	23.2	16.6	27.9	28.0	
Fines and Forfeitures	2.3	2.3	4.0	3.1	
Interest & Investment Income	23.5	34.7	36.2	38.3	15
Rents & Concessions	10.9	10.9	11.7	13.1	
Intergovernmental - Federal	616.7	746.4	378.5	312.2	16
Federal Emergency Management Agency	237.2	332.0	49.5	-	
Coronavirus Relief Fund	82.1	82.1	-	-	
Other	297.4	332.3	329.1	312.2	
Intergovernmental - State	761.1	794.5	836.5	787.0	
Public Safety Sales Tax	97.1	107.6	82.0	80.4	17
1991 Health & Welfare Realignment -					
Sales Tax and VLF	190.1	211.1	231.6	223.4	18
Public Safety Realignment	36.1	38.8	45.2	45.2	19
Other	437.9	437.0	477.7	438.0	20
Intergovernmental Revenues - Other	2.9	10.7	2.8	2.5	
Charges for Services	235.5	216.2	231.5	232.5	
Recovery of General Government Costs	21.8	21.8	23.6	23.6	
Other Revenues	25.3	44.2	24.2	24.3	
<i>Subtotal Regular Revenues</i>	\$ 5,227.2	\$ 5,497.7	\$ 5,427.6	\$ 5,817.6	
Transfers In to the General Fund	447.1	429.3	158.3	162.9	21
Total Sources	\$ 6,201.2	\$ 6,505.8	\$ 6,309.5	\$ 6,307.0	

NOTES

1. Prior Year Fund Balance

The proposed budget assumes \$782.5 million in unassigned General Fund surplus will be available in the two budget years. In May 2021, the Controller's Nine Month Report projected a mid-year surplus of \$157.3 million. After the publication of the Nine-Month report, \$624.8 million of American Recovery Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) was determined to be available to balance the upcoming budget. Due to timing and revenue recognition issues, those funds are evenly budgeted as "Prior Year Fund Balance" in each of the two fiscal years, instead of as a "federal grants and subventions." Pending final guidance from the United States Treasury Department, Annual Appropriations Ordinance Administration Provision 32.2 allows the City Controller to reclassify this and other revenue federal and state emergency-related revenue budgets to manage timing differences and cash flow needs driven by changing guidance and approvals from granting agencies, provided that such adjustments shall not change cumulative total revenue budgets. An additional \$0.4 million of expenditure savings was also identified after the publication of the Nine Month Report. The use of fund balance in the Mayor's budget does not assume current year appropriations of \$26.7 million supporting rent relief and social housing, pending at the Board of Supervisors.

Exhibit 1-2. Composition of FY 2020-21 Fund Balance Appropriated in the Budget (\$ millions)

Projected in May 2021 Nine Month Report	\$	157.3
Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) of the American Recovery Plan Act*		624.8
Additional Fund Balance Projected Post Nine-Month		0.4
Total Use of Fund Balance	\$	782.5

* Half of ARPA funds (\$312.4m) are assumed to be used in each fiscal year, FY 2020-21 and FY 2021-22.

2. Use of Reserves

As shown in Exhibit 1-3, the Mayor's proposed budget uses of \$267.5 million in prior year reserves. See Appendix 2 for more details.

Exhibit 1-3. General Fund Use of Prior Year Reserves (\$ millions)

General Fund - Use of Prior Year Reserves	FY 2021-22		FY 2022-23	
		Proposed Budget		Proposed Budget
COVID Response and Economic Loss Reserve	\$	99.5	\$	14.0
Business Tax Stabilization Reserve		149.0		-
Hotel Tax Contingency Reserve		5.0		-
Total Use of Prior Year Reserves	\$	253.5	\$	14.0

3. Property Tax

The FY 2021-22 General Fund share of property tax revenue is budgeted at \$2,115.6 million, which is \$96.0 million (4.8 percent) more than the FY 2020-21 budget and 196.0 less (9.3 percent) from the Nine Month Report. The FY 2022-23 General Fund share of property tax revenue is budgeted at \$2,211.7

million, which is \$96.1 million (4.5 percent) more than the proposed FY 2021-22 budget. The largest driver of these year-to-year variances is related to excess Educational Revenue Augmentation Fund (ERAF) assumptions. Excess ERAF is budgeted at \$245.0 million in FY 2021-22, which is \$58.0 million (31.0 percent) more than the original FY 2020-21 budget, and \$260.1 million in FY 2022-23, which is \$15.1 million (6.2 percent) more than the FY 2021-22 proposed budget. In accordance with State Controller's Office guidance on the calculation of excess ERAF, the budget assumes ERAF is allocated to the School District for charter schools in the "in lieu" amount, and that historical "residual tax increment" in San Francisco is recognized in ERAF calculations, consistent with fiscal year 2020-21 Nine-Month Report projections.

Changes in property tax revenues will lag other COVID-induced revenue changes due to statutory deadlines related to the January 1 property lien date. FY 2020-21 revenues were largely based on values as of the January 1, 2020 lien date, which predated the pandemic in the United States. FY 2021-22 revenues are largely based on values as of January 1, 2021, and we anticipate significant growth in both the number and value of assessment appeals by the September 15 filing date. The FY 2021-22 locally assessed secured property roll growth budget assumption is essentially flat, as 3.2 percent growth in the working roll is offset by just under \$10 billion in assumed reductions in hotel, retail, office and multifamily residential assessed values, reflecting declines of 20 percent, 20 percent, 5 percent, and 3 percent, respectively. A 20 percent reduction in unsecured business property tax assessments is included in the projection, reflecting the possibility of business closures.

4. Business Tax

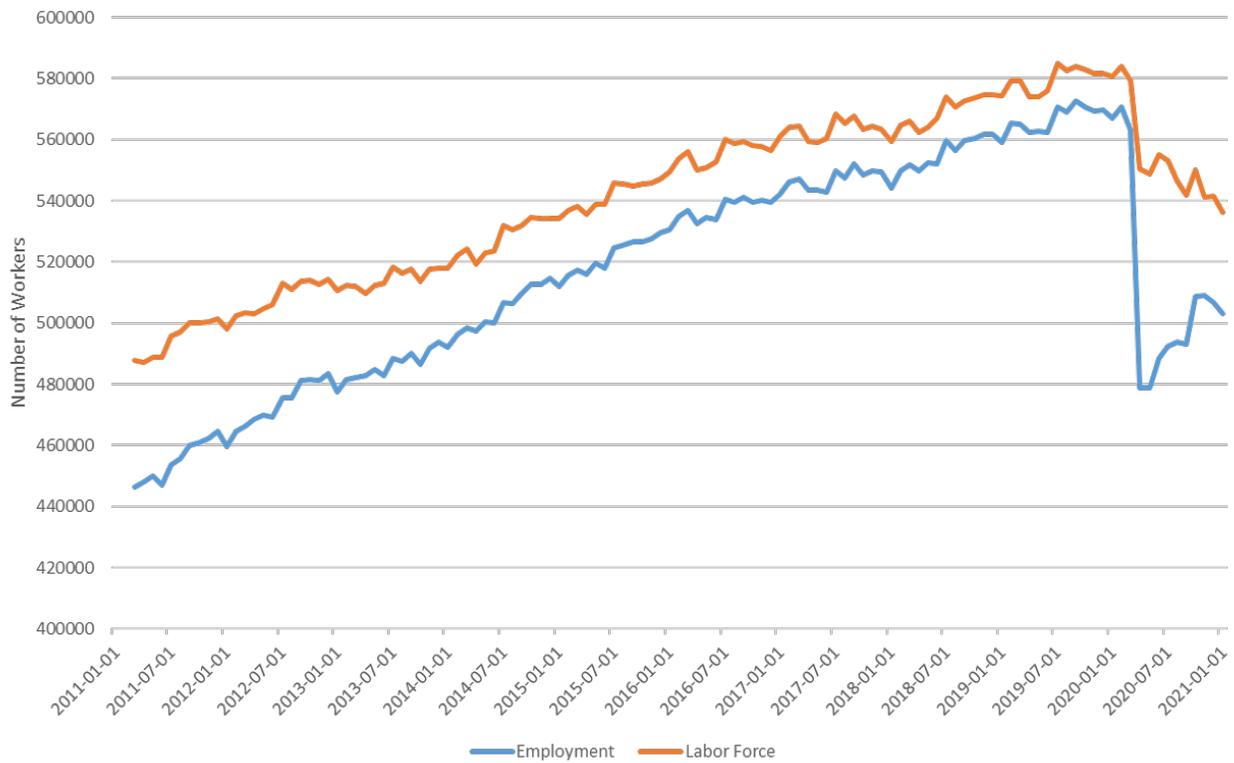
FY 2021-22 business tax revenue is budgeted at \$957.1 million, which is \$130.7 million (15.8 percent) more than what was budgeted in FY 2020-21 and \$324.7 million more (51.3 percent) than the Nine-Month Report. FY 2022-23 business tax revenue is budgeted at \$1,065.4 million, which is an additional \$108.3 million (11.3 percent) higher than the proposed FY 2021-22 budget. Business tax revenue is comprised of business registration fees, administrative office tax, and gross receipts tax. Projected increases are driven by our expectation of strong economic growth of 6 percent in tax year 2021 and 4 percent in tax year 2022 as businesses reopen to full capacity and recover from the COVID public health emergency. In addition, we expect workers in office-using sectors to transition from near full-time telecommuting at the end of FY 2020-21 to an average of 25% telecommuting by the end of FY 2022-23, which could result in increased apportionments of gross receipts to the City.

Economic Growth. Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The response to the COVID emergency has significantly affected them, and the City's economic condition is still in distress relative to pre-pandemic levels. The unemployment rate peaked at 12.6 percent in April 2020 and declined steadily since then, reaching 5.4 percent in March 2021, higher than at any point pre-pandemic since 2013. In January and February 2020, before shelter-in-place was first instituted, weekly initial claims for unemployment were less than 1,000. As of May 2021, weekly initial claims remained just over 4,000, a number which has remained level since October 2021. With low COVID case rates and high vaccination rates, the City's economic condition is projected to continue improving.

Exhibit 1-4 shows monthly labor force and employment levels for the previous ten years through March 2021. In April 2020, during the most restrictive phase of the shelter-in-place order, employment fell to a level not seen since the end of 2012. While employment has generally increased since May 2020, it remains well below the long-term trajectory. The labor force, which is the number of people employed

or seeking work, has continued to decline. The estimated impact of the pandemic on San Francisco’s population varies from a decline of roughly 2 to 7 percent between 2019 and 2020.

Exhibit 1-4. San Francisco Employment and Labor Force, January 2011 through June 2020



Source: Bureau of Labor Statistics

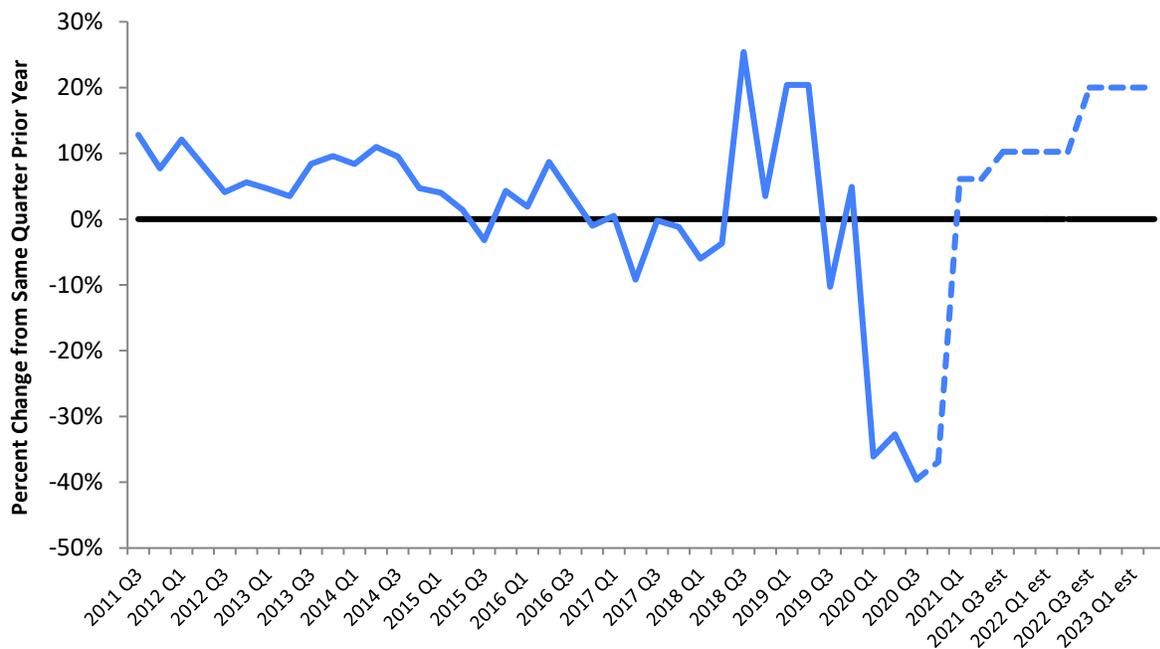
Return to Office. Remote work occurring outside the City creates fiscal risk, because for certain categories of businesses, the gross receipts tax is dependent on their San Francisco payroll, and firms only need to calculate their San Francisco payroll expense for employees that physically work within the City’s geographic boundaries. Approximately half of the workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Some of the City’s largest employers in these sectors have indicated that employees may be able to work from home permanently or with a hybrid schedule after COVID restrictions have been lifted. For example, Twitter plans to let employees work from home indefinitely and Google expects most employees to work in the office a few days per week. Although some San Francisco residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes. In the long term, we expect the number of days worked at home for employees in office-centric sectors to remain at 25 percent above pre-pandemic levels.

5. Sales Tax

In FY 2021-22, local sales tax revenue is budgeted at \$145.7 million, which is \$37.9 million (20.7 percent) less than what was budgeted in FY 2020-21 and \$13.5 million more (10.2 percent) than projected in the Nine-Month Report. FY 2022-23 local sales tax revenue is budgeted at \$174.9 million, which is \$29.1 million (20.0 percent) higher than the proposed FY 2021-22 budget. The decline in FY 2021-22 is due to

poor performance in FY 2020-21, resulting in a much lower sales tax level from which the City must recover. Besides lower daytime population from the lack of travelers and in-commuters who shop and dine out, San Francisco also experienced significant out-migration of its residents during the COVID public health emergency. The estimated impact of the pandemic on San Francisco’s population varies from a decline of roughly 2 to 7 percent between 2019 and 2020. As a result, sales tax collected from online retailers did not offset losses at brick-and-mortar stores in San Francisco, unlike nearly every other California county. Additionally, many businesses were closed or operating at reduced capacity during FY 2020-21, with restrictions slowly loosening up in Spring 2021. As businesses reopen to full capacity over FY 2021-22 and FY 2022-23, the budget assumes rapid growth in sales tax revenue from restaurant, hospitality and non-essential retail activity, but it will not reach pre-pandemic levels until FY 2025-26.

Exhibit 1-5. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2011-12 to FY 2022-23



6. Hotel Tax

General Fund hotel tax revenue is budgeted at \$78.5 million in FY 2021-22, which is \$47.8 million (37.8 percent) less than what was budgeted in FY 2020-21 and \$57.8 million more (280.1 percent) than the projection in the Nine-Month Report. FY 2022-23 revenue is budgeted at \$235.3 million, an increase of \$156.9 million (199.9 percent) from the proposed FY 2021-22 budget. Total hotel tax revenue across all funds is budgeted at \$92.9 million in FY 2021-22, \$63.7 million (40.7 percent) less than budgeted in FY 2020-21. FY 2022-23 hotel tax revenue is budgeted at \$268.6 million across all funds, \$175.6 million (189.0 percent) more than budgeted in FY 2021-22.

The difference between total and General Fund hotel tax is primarily due to funding requirements set forth in November 2018 Proposition E, which allocated 1.5% of the 14% hotel tax rate (or approximately 10.7% of

the total hotel tax revenue) to arts programs outside of the General Fund. Due to the unprecedented decline in hotel tax revenues, these allocations are budgeted at \$9.9 million in FY 2021-22 and \$28.7 million in FY 2022-23. Both are short of the 10% ceiling and floor authorized in the Proposition E. The Mayor's budget proposes General Fund backfill of the arts allocations to the 10% levels in both budget years.

Exhibit 1-6. Hotel Tax Allocations for Arts Programming in FY 2021-22 and FY 2022-23

Arts Programming	FY21-22			FY22-23		
	Hotel Tax	Backfill	Total	Hotel Tax	Backfill	Total
Arts Impact Endowment	0.8	1.5	2.2	2.2	0.2	2.5
Cultural Centers	1.2	2.2	3.4	3.4	0.3	3.7
Cultural Equity Endowment	2.0	3.7	5.7	5.7	0.5	6.3
Cultural Districts	0.9	1.7	2.7	2.7	0.2	2.9
Grants For the Arts	5.1	9.5	14.5	14.6	1.3	16.0
Total	9.9	18.6	28.5	28.7	2.6	31.4

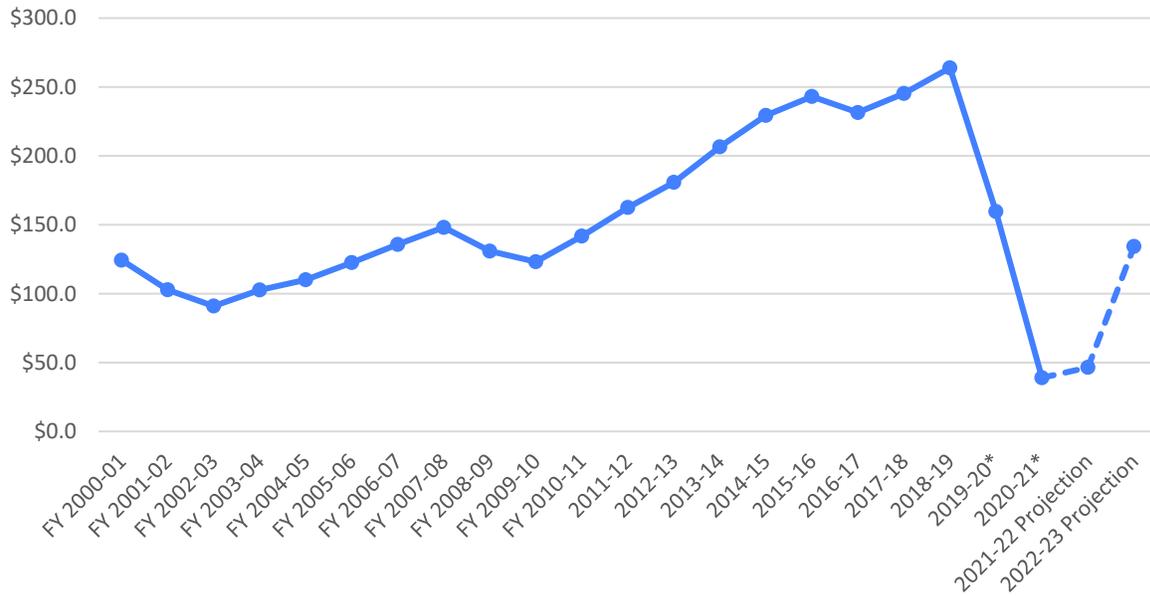
The projected FY 2021-22 revenue decline is due to the unprecedented drop off in hotel occupancy and rates in FY 2020-21, resulting in a much lower hotel tax level from which the City must recover. Global travel restrictions, the cancellation of conventions, and overall shape of the pandemic were among the factors which led to closure of a large portion of the City's hotels, and hotel tax was significantly depressed in FY 2020-21. The City's five-year forecast anticipates hotel tax will return to pre-pandemic levels by FY 2025-26, with pent-up demand for leisure travel initially driving growth in FY 2021-22 and the resumption of large group events at full capacity contributing to additional rapid growth in FY 2022-23.

San Francisco's hotel tax is derived from hotel stays from individual business travelers, group events such as conferences and meetings, and leisure tourists. These visitors primarily travel to the City by air. In April 2020, at the height of the first peak of the COVID pandemic, enplanements at SFO decreased by 97% compared to prior year. While air travel has grown since April 2020, the recovery in San Francisco has lagged other metropolitan areas, with FY 2020-21 average enplanements 78.9% below FY 2019-20 enplanements. San Francisco International Airport's (SFO) geographic location lends itself to being the "gateway to Asia," and a hub for international travel, which is anticipated to lag domestic travel. The budget assumes the recovery in hotel tax begins with visits to the City from domestic leisure tourists, with the return of business travelers, group events, and international visitors following, given the time needed to plan large gathering and reestablish policies for in-person business meetings. Conventions drive up hotel room rates through compression pricing, which is important to the full recovery of the City's hotel tax base.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of occupancy and average daily room rates (ADR). Exhibit 1-7 shows a history of annual RevPAR. Despite some slowdown in the growth in the hospitality industry after the 9/11 attacks in 2001 and the global financial crisis in 2008, average annual RevPAR has generally grown at a steady rate from FY 2000-01 to FY 2018-19. In FY 2018-19, RevPAR reached all-time high of \$263.90. In the first eight months of FY 2019-20, RevPAR declined to \$224.50. Due to the COVID-19 pandemic and associated flight bans and shelter-in-place orders, RevPAR reached an historic all-time low of \$14.40 in April 2020. RevPAR has fluctuated throughout over the course of FY 2021-21, bringing the annual average up to \$37.60 as of March 2021. In April 2021, with a successful local rollout of COVID vaccines and loosened restriction, RevPAR

increased to \$51.30. The budget assumes RevPAR will increase significantly in the next two fiscal years. However, RevPAR is not expected to recover to pre-pandemic levels until FY 2025-26.

**Exhibit 1-7. Average Annual Revenue Per Available Room (RevPAR)
FY 2000-01 to FY 2022-23**



* Data from FY 2011-12 to FY 2017-18 from CBRE. Data from FY 2018-19 to FY 2020-21 from SF Travel.

7. Utility Users Tax

Utility user tax revenue is budgeted at \$77.7 million in FY 2021-22, which is \$3.4 million (4.2 percent) less than what was budgeted in FY 2020-21 and \$3.5 million more (4.7 percent) than the Nine-Month Report. FY 2022-23 revenue is budgeted at \$83.7 million, which is \$6.1 million (7.8 percent) higher than the proposed FY 2021-22 budget. The budget reflects increased commercial gas and electric utility usage as COVID restrictions are lifted and more workers return to the office, but lower than pre-pandemic levels due to continued telecommuting.

8. Parking Tax

Parking tax revenue is budgeted at \$55.9 million in FY 2021-22, which is \$3.5 million (5.8 percent) less than what was budgeted in FY 2020-21, and \$12.9 million (30.0 percent) more than the Nine-Month Report projection. FY 2022-23 revenue is budgeted at \$68.8 million, which is \$12.9 million (23.1 percent) higher than the proposed FY 2021-22 budget. As businesses reopen, parking tax revenues will increase, but they are not expected to reach pre-pandemic levels in the next two years due to an increase in employees working from home rather than commuting into the City. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the Municipal Transportation Agency for public transit as mandated by Charter Section 8A.105.

9. Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is budgeted at \$350.1 million in FY 2020-21, which is \$212.2 million (153.7 percent) more than the FY 2020-21 budget and \$23.8 million more (7.3 percent) from the

Nine-Month Report. In FY 2022-23, RPTT revenue is budgeted at \$373.9 million, an increase of \$23.8 million (6.8 percent) above the proposed FY 2021-22 budget. The budget includes the effects of November 2020 Proposition I, which doubled transfer tax rates on transactions greater than \$10.0 million. The impact of Proposition I is estimated to be \$127.0 million in FY 2021-22 and \$135.7 million in FY 2022-23, or \$101.6 million and \$108.5 million, respectively, net of baseline funding requirements. Transfer tax is anticipated to increase each year toward its rate-adjusted long-term average by FY 2023-24. Considering the highly volatile nature of this revenue source, the Controller’s Office monitors collections throughout the fiscal year and provides regular updates to the Mayor and Board of Supervisors.

Exhibit 1-8 shows revenue collections beginning in FY 2000-01. As the City’s most volatile revenue source, collections can see large year-over-year changes that have exceeded 70% in some instances. The volatility is seen with month-to-month revenue as well: In the past ten years, the lowest monthly revenue total was in February 2021 (\$7.1 million) and the highest was in March 2021 (\$88.2 million). The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track well with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016 and 2021.

Exhibit 1-8. Historical Real Property Transfer Tax Revenue (\$ millions), FY 2000-01 through FY 2022-23

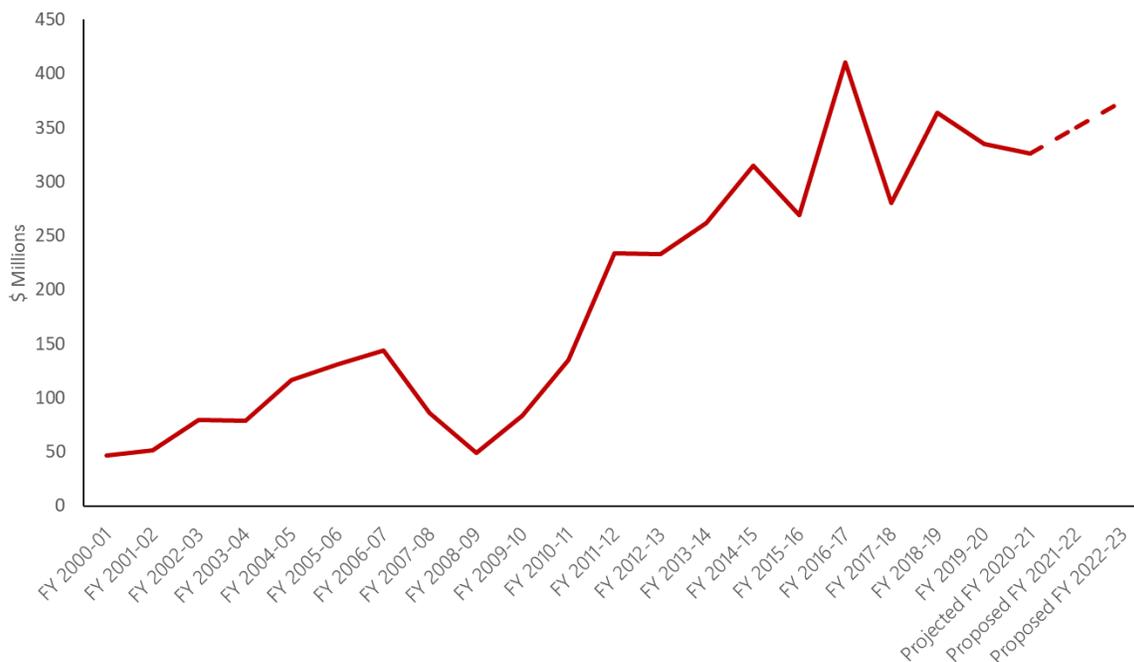
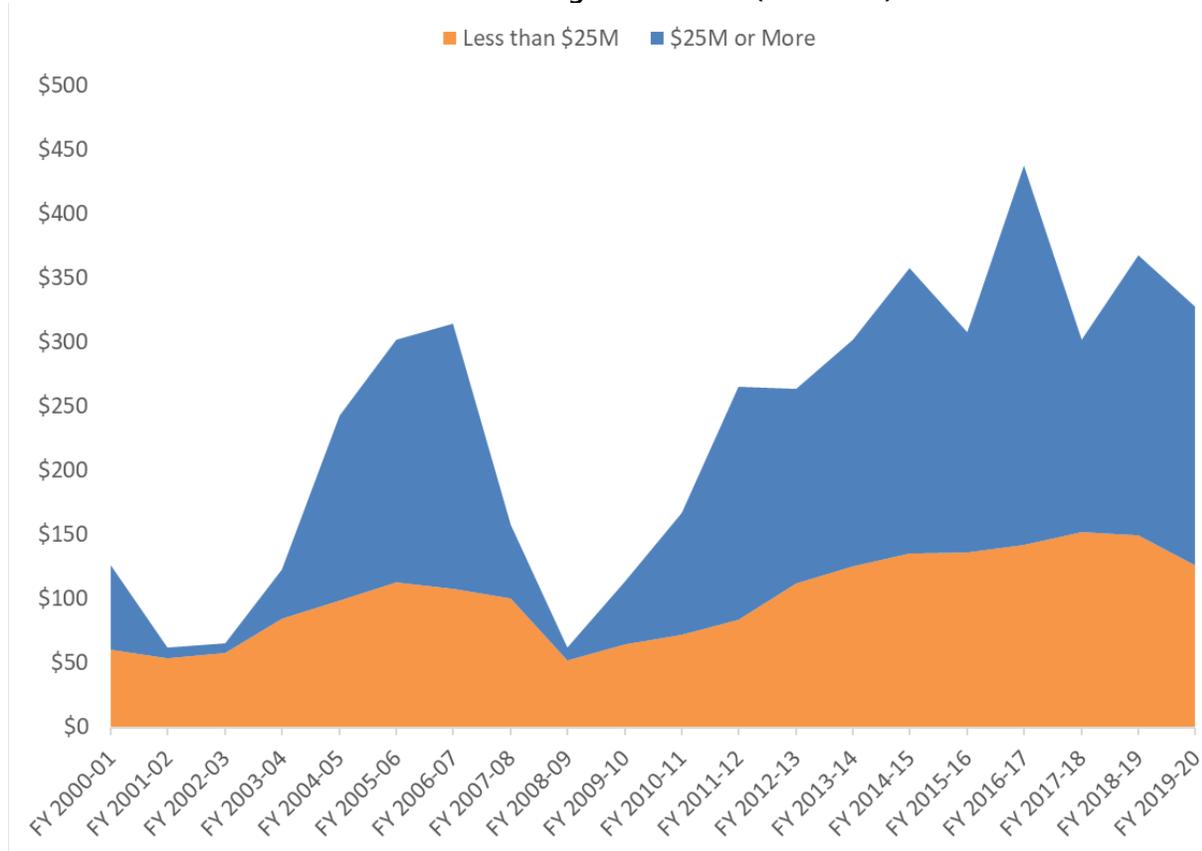


Exhibit 1-9 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Prop W (November 2016), Prop N (November 2010), and Prop N (November 2008), and demonstrates how RPTT is driven by the sale of high-value (largely commercial) properties over \$25 million. In FY 2008-09, transactions above \$25 million would have generated only \$10.6 million under the current rates compared to the peak in FY 2016-17, when these transactions generated \$295.8 million. Since the end of the recession in FY 2009-10, these large transactions made up on average 58.0 percent of total revenue but only 0.6 percent of the transaction count. This means RPTT revenue is determined by a handful of

transactions. In the past two recessions, revenue collected on large transactions fell dramatically, as shown by the narrowing between the blue and orange lines in FY 2001-03 and FY 2008-09.

Exhibit 1-9. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-01 through FY 2019-20 (\$ millions)



Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. No deposits are expected during FY 2021-22 or FY 2022-23 as RPTT revenue is projected to be below the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve.

10. Stadium Admissions Tax

Stadium admissions tax revenue is budgeted at \$3.6 million in FY 2021-22, \$1.1 million (44.0 percent) more than the FY 2020-21 budget and \$3.4 million (1,500 percent) more than the Nine-Month report projection. Baseball and basketball events have already resumed with limited capacity and the first concerts at Chase Arena are expected in September 2021. FY 2022-23 stadium admission tax revenue is budgeted at \$5.4 million, \$1.8 million (50 percent) more than the proposed FY 2021-22 budget. Attendance at large events and the schedule of events are expected to return to full capacity by FY 2022-23.

11. Cannabis Tax

Cannabis tax revenue is budgeted at \$4.4 million in FY 2021-22, \$0.2 million (3.5 percent) more than the FY 2020-21 budget and \$4.4 million more than the Nine-Month report projection. FY 2022-23 revenue is budgeted at \$8.8 million, which is \$4.4 million (100 percent) higher than the proposed FY 2021-22 budget. In November 2018, voters approved a new gross receipts tax (Proposition D) of 1% to 5% on marijuana businesses and permits the City to tax businesses that do not have a physical presence in the city. The excise tax on cannabis was initially set to take effect on January 1, 2021. However, in November 2020, the Mayor and Board of Supervisors delayed the imposition of the tax to January 1, 2022 and increased the exemption thresholds. FY 2022-23 will be the first full fiscal year that the tax will have been collected.

12. Tax on Executive Pay

The Tax on Executive Pay is budgeted at \$60.0 million in FY 2022-23. In November 2020, voters adopted Proposition L, a new tax on businesses in the City, where compensation of the businesses' highest-paid managerial employee compared to the median compensation paid to the businesses' employees based in the City exceeds a ratio of 100:1. The measure takes effect on January 1, 2022 for tax year 2022, so revenues will not be received until FY 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, and tax-avoidance risk associated with tax increases. Estimates based on prior years' activity may not be predictive of future revenues.

13. Sugar Sweetened Beverage Tax

Sugar Sweetened Beverage Tax revenue is budgeted at \$12.2 million in FY 2021-22, \$1.8 million (12.6 percent) less than the FY 2020-21 budget and \$1.7 million (16.5 percent) more than the Nine-Month report projection. FY 2022-23 revenue is budgeted at \$14.0 million, which is \$1.8 million (14.5 percent) higher than the proposed FY 2021-22 budget. The City's one cent per ounce tax on sugar sweetened beverages became effective January 1, 2018. Pandemic restrictions on restaurant operations have reduced revenue collections in FY 2020-21. By FY 2022-23, we assume collections will recover to a pre-pandemic amount of \$14.0 million, then slowly decline in future years as consumers switch to beverages not subject to the tax.

14. Access Line Tax

FY 2021-22 access line tax revenue is budgeted at \$49.6 million, or \$0.7 million (1.4 percent) higher than was budgeted in FY 2020-21 and \$1.3 million (2.8 percent) more than the Nine-Month report projection. FY 2022-23 revenue is budgeted at \$51.3 million, or \$1.7 million (3.3 percent) higher than the proposed FY 2021-22 budget. Budgets reflect inflationary increases to the access line tax rate as described in Business and Tax Regulations Code Section 784.

15. Interest & Investment Income

Interest and investment income for FY 2021-22 is budgeted at \$36.2 million, an increase of \$12.8 million (54.3 percent) from the FY 2020-21 budget and \$1.6 million (4.6 percent) from the projection in the Nine-Month Report. FY 2022-23 revenue is budgeted at \$38.3 million, \$2.1 million (5.7 percent) more than budgeted in FY 2021-22. This increase is a result of higher cash balances due to slower than anticipated spending. The Federal Reserve continues to keep interest rates low, so growth in interest and investment income has moderated from prior years.

16. Intergovernmental – Federal

Federal support in the General Fund is budgeted at \$378.5 million for FY 2021-22, which represents a decrease of \$238.2 million (38.6 percent) from the FY 2020-21 budget. FY 2022-23 revenue is budgeted

at \$312.2 million, which is \$66.3 million (17.5 percent) less than the proposed FY 2021-22 budget. The FY 2021-22 decrease is driven by a reduction in Federal Emergency Management Agency (FEMA) reimbursements for COVID-related expenditures from a full fiscal year in FY 2020-21 to just one quarter of FY 2021-22, as well as the loss of CARES Act Coronavirus Relief Fund monies. The FY 2022-23 decrease is driven by the sunset of FEMA reimbursements. Adjusting for the receipt of ARPA CSLFRF revenues of \$312.8 million in FY 2020-21 and FY 2021-22 but spent as fund balance in the budget, the change in federal revenue would be an increase of \$74.6 million in FY 2021-22 and a decrease of \$66.3 million in FY 2022-23.

17. Intergovernmental – State – Public Safety Sales Tax

Public safety sales tax revenue is budgeted at \$82.0 million in FY 2021-22, a decrease of \$15.1 million (15.5 percent) from the FY 2020-21 budget and \$25.6 million (23.8 percent) decrease from the Nine-Month Report. FY 2022-23 revenue is budgeted at \$80.4 million, which is \$1.6 million (2.0 percent) less than the proposed FY 2021-22 budget. Public safety sales tax revenue is based on two factors, the statewide sales tax revenue and the County's portion of statewide sales tax in the most recent calendar year. While statewide revenue is projected to grow in the budget period, the County's allocation factor is anticipated to shrink, resulting in reduced local revenues. During the pandemic, San Francisco sales tax revenue declined significantly and at a faster rate than any other county in California, given lowered visitor and residential activity. In addition, in FY 2020-21, a large online retailer restructured its business operations, shifting sales tax previously apportioned to San Francisco to counties with distribution centers.

18. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2021-22, the General Fund share of 1991 realignment revenue is budgeted at \$231.6 million, or \$41.5 million (21.8 percent) more than the FY 2020-21 budget and \$20.5 million (9.7percent) more than the projection in the Nine-Month Report. The FY 2022-23 revenue is budgeted at \$223.4 million, which is \$8.2 million (3.5 percent) less than the proposed FY 2021-22 budget. The increase in FY 2021-22 is due to better state sales tax performance in FY 2020-21, which results in growth funding for FY 2021-22. Growth funding is projected to decline in FY 2022-23, as the state's overall sales tax recovery is anticipated to slow.

19. Intergovernmental – State – Public Safety Realignment

Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. This revenue is budgeted at \$45.2 million in FY 2021-22, a \$9.1 million (25.3 percent) increase from the FY 2020-21 budget and \$6.4 million (16.5 percent) more than FY 2020-21 as projected in the Nine-Month Report. The FY 2022-23 proposed budget remains the same as FY 2021-22 proposed budget at \$45.2 million. The increase in FY 2021-22 is primarily due to better state sales tax performance, resulting in growth payments for both FY 2021-22 and FY 2022-23.

20. Intergovernmental – State – Other

Other state funding is budgeted at \$477.7 million in FY 2021-22, an increase of \$61.9 million (14.9 percent) from the FY 2020-21 budget and \$40.6 million (9.3 percent) more than the projection in the Nine-Month Report. In FY 2022-23, other state funding is budgeted at \$438.0 million, a decrease of \$39.7 million (8.3 percent) from the FY 2021-22 proposed budget. The increase in FY 2021-22 is attributable to a series of increases including \$31.6 million in Short-Doyle Medi-Cal funds, \$19.6 million for the State Whole Person Care Pilot Program, \$8.1 million for child welfare services, \$7.3 million for Medi-Cal eligibility determination services, \$5.0 million for food stamps, \$4.5 million in IHSS Public Authority funding, and \$4.3 million for foster care services, partially offset by the decrease of \$15.2 in 1991 Health and Welfare Realignment in the

CalWORKs Maintenance of Effort subaccount, \$2.0 million in the Kinship Guardian Assistance Payment (Kin-GAP) Program, and \$1.6 million in foster care administrative funding. The decrease in FY 2022-23 is primarily due to the anticipated wind down of the Whole Person Care Pilot Program, a reduction of \$40.2 million that is only marginally offset by an increase of \$0.3 million in IHSS Contract Mode funding and \$0.3 million in child welfare services.

21. Operating Transfers In

Transfers-in to the General Fund are budgeted at \$158.3 million in FY 2021-22, a decrease of \$288.8 million (64.6 percent) from the FY 2020-21 budget. In FY 2022-23, transfers-in are budgeted at \$162.9 million, an increase of 4.6 million (2.9 percent) from the FY 2021-22 proposed budget. The large reduction in transfers in is due to the loss of one-time advance repayments associated with two recent voter approved taxes, the commercial rent tax (June 2018 Proposition C) and the homeless gross receipts tax (November 2018 Proposition C). The transfers in include a portion of Airport concessions revenue and 15% of commercial rent tax collections as authorized by June 2018 Proposition C.

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor's proposed budget includes the use of \$253.5 million and \$14.0 million from reserves in FY 2021-22 and FY 2022-23, respectively. The Mayor's proposed budget also includes \$58.9 million and \$62.8 million in deposits to General Fund reserves during FY 2021-22 and FY 2022-23, respectively. These appear to be prudent and reflect anticipated General Reserve, Memoranda of Understanding (MOU), litigation, and general contingency reserve requirements.

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

	FY 2020-21		FY 2021-22		FY 2022-23		Projected Ending Balance	Note
	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	Deposits	Withdrawals		
General Reserve	78.3	3.1	-	81.4	5.8	-	87.3	1
Rainy Day Economic Stabilization City Reserve	114.5	-	-	114.5	-	-	114.5	2
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8	3
Subtotal Economic Stabilization Reserves	380.3	-	-	380.3	-	-	380.3	
Percent of General Fund Revenues	6.9%			7.0%			6.5%	
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0	2
Budget Stabilization Reserve - One Time Reserve	54.8	-	-	54.8	-	-	54.8	3
COVID Response and Economic Loss Reserve	113.5	-	(99.5)	14.0	-	(14.0)	-	4
Federal and State Emergency Grant Disallowance Reserve	100.0	-	-	100.0	-	-	100.0	5
Fiscal Cliff Reserve	293.9	-	-	293.9	-	-	293.9	6
Business Tax Stabilization Reserve	149.0	-	(149.0)	-	-	-	-	7
Public Health Management Reserve	59.5	-	-	59.5	-	-	59.5	8
Recreation & Parks Savings Incentive Reserve	-	-	-	-	-	-	-	9
Free City College Reserve	2.0	-	-	2.0	-	-	2.0	10
Mission Bay Transportation Improvement Fund - Overlapping Event Reserve	1.0	-	-	1.0	-	-	1.0	11
Urgent Needs Reserve	6.5	-	-	6.5	-	-	6.5	12
Hotel Tax Loss Contingency Reserve	5.0	2.5	(5.0)	2.5	-	-	2.5	13
Subtotal	786.2	2.5	(253.5)	535.2	-	(14.0)	521.2	
Annual Operating Reserves								
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	14
Reserve for Technical Adjustments	-	5.0	(5.0)	-	5.0	(5.0)	-	15
Salary and Benefits Reserve	-	37.3	(37.3)	-	41.0	(41.0)	-	16
Subtotal	-	53.3	(53.3)	-	57.0	(57.0)	-	
Total, All Reserves	1,244.9	58.9	(306.8)	997.0	62.8	(70.9)	988.8	

NOTES

1. General Reserve

The General Reserve, established in Administrative Code Section 10.60, is intended to address revenue and expenditure issues not anticipated during budget development, and is typically used to fund supplemental appropriations or to offset significant revenue losses following the adoption of the budget.

The policy required the General Reserve to increase to 3.0 percent of General Fund revenue by FY 2020-21, with unused General Reserve carried forward from the prior year into the new budget year. However, in years when the City withdraws from the Rainy Day reserves, the required balance of the General Reserve is reset to 1.5 percent of General Fund revenue, growing to 3.0 percent of General Fund revenues in 0.25 percent annual increments thereafter. Given de minimis proposed withdrawals from the Rainy Day Reserve in the Mayor's proposed budget, the General Reserve required funding level is maintained at 1.5% of the General Fund, requiring deposits of \$3.1 and \$5.8 in FY 2021-22 and FY 2022-23, respectively, given projected increases in overall General Fund revenue.

2. Rainy Day Reserves

The Rainy Day Reserve is established in Charter Section 9.113.5 and is funded by excess revenue growth in good years. During a recession, the maximum allowable withdrawal from the City's Rainy Day Economic Stabilization Reserve is 50 percent of the balance in each year. Rainy Day Reserve balances are comprised of three separate reserves: City Rainy Day Economic Stabilization Reserve, SFUSD Rainy Day Economic Stabilization Reserve, and the City's Rainy Day One-Time Reserve.

The Mayor's budget maintains an anticipated balance of \$114.5 from FY 2020-21. Per the voter-adopted policy, the City is eligible to withdraw \$57.3 million in FY 2021-22 and the remaining \$57.3 million in FY 2022-23.

No deposits or withdrawals of the City's Rainy Day One-Time Reserve and SFUSD's Rainy Day Economic Stabilization Reserve are budgeted in either year.

3. Budget Stabilization Reserve

Established by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by 75 percent of three volatile sources: real property transfer tax revenue adjusted for rate increases, ending unassigned fund balance, and certain asset sales. No deposit is budgeted to this reserve in either budget year.

During a recession, the maximum allowable withdrawal from the combined balance of City's Rainy Day Economic Stabilization Reserve and the Budget Stabilization Reserve is 30% in the first year and 50% in the second year, and the remainder in the third year. The Mayor's budget maintains an anticipated balance of \$265.8 million. Per the policy, the maximum allowable withdrawal from the Budget Stabilization Reserve is \$132.9 million in FY 2021-22 and the remaining \$132.9 million in FY 2022-23. The policy may be suspended for a given fiscal year by a 2/3rds vote of the Board of Supervisors.

4. COVID Response and Economic Loss Reserve

Section 32 of the administrative provisions of the FY 2020-21 Annual Appropriations Ordinance established a COVID Response and Economic Loss Reserve, which has an anticipated balance of \$507.4 million in FY 2020-21. The FY 2020-21 ending balance of the COVID reserve does not assume current year appropriation of \$12.5m supporting free MUNI, pending at the Board of Supervisors. The Mayor's budget appropriates withdrawals of \$99.5 million and \$14.0 million in FY 2021-22 and FY 2022-23. The remaining balance is reassigned to the Federal and State Emergency Grant Disallowance Reserve and the Fiscal Cliff Reserve as detailed below.

5. Federal and State Emergency Grant Disallowance Reserve

Section 32 of the administrative provisions of the Mayor's proposed budget establishes a Federal and State Emergency Grant Disallowance Reserve of \$100.0 million for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies. This reserve is comprised of a portion of the remaining balance of the COVID-19 Response and Economic Loss Contingency Reserve.

6. Fiscal Cliff Reserve

Section 32.1 of the administrative provisions of the Mayor's proposed budget establishes a Fiscal Cliff Reserve of \$293.9 million for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. This reserve is comprised of the balance of the COVID-19 Response and

Economic Loss Contingency Reserve (COVID Reserve) remaining after funding the Federal and State Emergency Grant Disallowance Reserve in Section 32 and accounting for the use of the COVID Reserve in the FY 2021-22 and FY 2022-23 budget.

7. Business Tax Stabilization Reserve

The Business Tax Stabilization Reserve was created in Section 35 of the administrative provisions of the FY 2020-21 Annual Appropriations Ordinance to equalize the benefit of large one-time advance repayments associated with Commercial Rent Tax (June 2018 Proposition C) and Homeless Gross Receipts Tax (November 2018 Proposition C) budgeted in FY 2020-21 and FY 2021-22. The proposed budget spends the \$149.0 million balance of this reserve in FY 2021-22.

8. Public Health Revenue Management Reserve

The Public Health Management Reserve is authorized under Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance, authorizing the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. The FY 2020-21 ending balance of the reserve is projected to be \$59.5 million, as reported in the Nine-Month Report. There are no anticipated deposits or withdrawals from this reserve.

9. Recreation & Parks Savings Incentive Reserve

The Recreation and Park Savings Incentive Reserve is established by Charter Section 16.107(c) and prior to Proposition B, passed by the voters on June 7, 2016, was funded by the retention of year-end net expenditure savings and revenue surplus from the Recreation and Park Department. Proposition B eliminated the ability to retain expenditure savings while preserving deposits from surplus revenue. Any withdrawals from the reserve must go towards one-time expenditures. The Nine-Month Report assumed the reserve would be fully spent in the current fiscal year.

10. Free City College Reserve

The Free City College Reserve was authorized by Administrative Code Section 10.100-288 in November 2016 to provide a degree of funding stability to the Free City College Program. The initial deposit of \$1.0 million was made in FY 2017-18. By the end of FY 2018-19, the ending balance of this reserve was \$2.0 million. In September 2019, Ordinance 175-19 revised the funding mechanism for this reserve. From FY 2019-20 to 2022-23, any unspent funds for the Free City College Program for that year shall be deposited in the reserve. From FY 2023-24 to 2028-29, 50% of unspent funds shall be deposited in the reserve. Due to the pandemic, the annual audit for the Free City College Program for FY 2019-20 is delayed. The FY 2020-21 ending balance of the reserve is projected to be \$2.0 million.

11. Mission Bay Transportation Improvement Fund Overlapping Event Reserve

The Mission Bay Transportation Fund was authorized in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena are dedicated to this fund. When the arena is fully operational, the fund is expected to receive more than \$12 million annually. The legislation establishing the fund created a reserve of \$1.0 million to address transportation and other community needs when overlapping events occur at both the Chase Center and Oracle Park. No deposits or withdrawals to this reserve are assumed in the Mayor's proposed budget.

12. Urgent Needs Reserve

The Urgent Needs Reserve was established in ordinance 44-21, which was finally approved on April 9, 2021 to support unanticipated needs in the current fiscal year. The Mayor's proposed budget does not draw on the \$6.5 million balance of this reserve.

13. Hotel Tax Loss Contingency Reserve

Ordinance 44-21 created a Hotel Tax Loss Contingency Reserve of \$6.0 million in FY 2020-21 to ensure continuity in funding for arts programming, should there be unanticipated fluctuations in hotel tax as the City's economy recovers from the economic effects of the COVID public health emergency. One million (\$1.0 million) of the reserve is expected to be used in FY 2020-21 and the Mayor's proposed budget uses \$5.0 million of this reserve in FY 2021-22. In addition, the Mayor's budget deposits \$2.5 million to this reserve in FY 2021-22.

14. Litigation Reserve

The Mayor's proposed budget includes \$11.0 million for the litigation reserve in both FY 2021-22 and FY 2022-23. The reserve provides funding for judgments and claims paid out during the budget period based on historical experience and consistent with the level adopted in the Five Year Financial Plan. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City.

15. Reserve for Technical Adjustments

Reserves of \$5.0 million in each budget year allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

16. Salary & Benefits Reserve

The Mayor's proposed budget provides \$37.3 million and \$40.9 million in FY 2021-22 and 2022-23, respectively, to cover costs related to adopted MOUs with labor organizations based on projected reserve uses in FY 2020-21.

Appendix 3. One-time Sources and Nonrecurring Revenue Policy

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance is budgeted at \$470.1 million for FY 2021-22 and \$312.4 million for FY 2022-23, which includes \$312.4 million in anticipated federal stimulus revenues allocated from the American Rescue Plan Act (ARPA) in each fiscal year. These amounts are below the prior five-year average of year-end fund balance of \$539.6 million (average of FY 2015-16 through FY 2019-20 ending fund balance) for FY 2021-22 budget and projected balance of \$539.4 million (average of FY 2016-17 through FY 2020-21) for FY 2022-23 budget. Thus, for the purposes of the non-recurring revenue policy, the use of fund balance is not considered a one-time source. The proposed budget also uses \$267.5 million in prior year reserves, \$253.5 million in FY 2021-22 and \$14.0 million in FY 2022-23. As shown in Exhibit 3-1, the budget contains \$267.5 million of budgeted nonrecurring sources and \$468.9 million nonrecurring expenditures. Therefore, the Controller's Office certifies compliance with the policy.

Exhibit 3.1. General Fund Nonrecurring Sources & Uses (\$ millions)

	FY 2021-22	FY 2022-23	
One-Time Sources	Proposed	Proposed	Total
Prior Year Reserves			
COVID Response and Economic Loss Reserve	99.5	14.0	113.5
Business Tax Stabilization Reserve	149.0	-	149.0
Hotel Tax Contingency Reserve	5.0	-	5.0
Total One-Time Sources	\$ 253.5	\$ 14.0	\$ 267.5
One-Time Uses			
Capital	\$ 143.0	\$ 50.9	193.9
Equipment	10.1	5.5	15.6
CalPERS Prepayment	5.0	5.0	10.0
Learning Loss	15.0	-	15.0
COIT Annual and Major IT projects	14.3	22.2	36.5
COVID Operations	149.0	14.0	163.0
Hotel Tax Backfill	16.2	2.6	18.8
Public Health One-Time	14.2	-	14.2
Other	2.0	-	2.0
Total One-Time Uses	\$ 368.7	\$ 100.2	\$ 468.9

Appendix 4. Baselines & Mandated Funding Requirements

Voter-approved levels of funding or staffing are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines & Mandated Funding Requirements (\$ millions)

	FY 2020-21 Original Budget	FY2021-22 Proposed Budget	FY2022-23 Proposed Budget	Note
General Fund Aggregate Discretionary Revenue (ADR)	\$ 3,486.8	\$ 3,847.5	\$ 4,355.2	
Financial Baselines				
Municipal Transportation Agency (MTA)				
MTA - Municipal Railway Baseline: 6.686% ADR	240.7	268.9	307.7	
MTA - Parking & Traffic Baseline: 2.507% ADR	87.4	96.5	109.2	
MTA - Population Adjustment	55.4	57.6	59.8	
MTA - 80% Parking Tax In-Lieu	47.5	44.7	55.0	
Subtotal Municipal Transportation Agency	\$ 431.0	\$ 467.7	\$ 531.7	1
Library Preservation Fund				
Library - Baseline: 2.286% ADR	79.7	87.9	99.6	2
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	67.4	68.9	71.9	3
Subtotal Library	147.1	156.9	171.5	
Children's Services				
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	168.4	185.8	210.3	4
Children's Services Baseline - Eligible Items Budgeted	207.2	223.1	210.4	
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	20.2	22.3	25.3	5
Transitional Aged Youth Baseline - Eligible Items Budgeted	32.7	36.2	36.2	
Public Education Services Baseline: 0.290% ADR	10.1	10.4	11.2	6
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	107.8	110.3	115.1	3
<i>Public Education Enrichment Fund: 3.057% ADR</i>	106.6	117.6	133.1	7
1/3 Annual Contribution to Preschool for All	35.5	39.2	44.4	
2/3 Annual Contribution to SF Unified School District	71.1	78.4	88.8	
Subtotal Childrens Services	464.4	497.6	506.0	
Recreation and Parks				
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	67.4	68.9	71.9	3
<i>Recreation & Parks Baseline - Requirement</i>	76.2	79.2	82.2	8
Recreation & Parks Baseline - Budgeted	83.4	93.5	85.9	
Subtotal Recreation and Parks	150.8	162.4	157.8	
Other Financial Baselines				
<i>Housing Trust Fund Requirement</i>	39.6	42.4	45.2	
Housing Trust Fund - Budgeted	39.6	60.0	45.2	9
Dignity Fund	50.1	53.1	56.1	10
Street Tree Maintenance Fund	18.0	19.8	22.4	11
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	3.8	3.7	3.9	12
City Services Auditor: 0.2% of Citywide Budget	23.0	23.4	22.3	13
Mission Bay Transportation Improvement Fund	7.4	7.6	8.8	14
Subtotal Other Financial Baselines	134.5	160.1	149.9	
Total Financial Baselines	\$ 1,327.7	\$ 1,444.7	\$ 1,516.9	
Recently Adopted Expenditure Requirements				
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	215.0	215.0	215.0	15
Our City, Our Home Budget	266.8	324.0	337.2	
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	79.7	85.1	96.3	16
Early Care and Education Budget	86.2	91.3	96.5	
Staffing and Service-Driven Baselines				
Police Minimum Staffing		Not Applicable (Repealed)		17

NOTES

1. Municipal Transportation Agency (MTA) Baselines

Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). This baseline is required to be adjusted for significant service increases. Beginning in FY 2021-22, the MTA baseline will increase due to operating costs associated with the opening of the Central Subway.

Beginning in FY 2002-03, this Charter section also established a minimum level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. Proposition B, passed by the voters in November 2014, requires that in addition to adjusting annually for the change in ADR, these baseline amounts be increased for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. Additionally, 80 percent of parking tax revenue is allocated to the MTA.

In total, the Mayor's proposed budget includes funding for these MTA baselines at the required levels of \$467.7 million in FY 2021-22 and \$531.7 million in FY 2022-23.

2. Library Baseline

Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Based on revenue in the Mayor's proposed budget, the Library Baseline requirements of \$87.9 million in FY 2021-22 and \$99.6 million in FY 2022-23 are met.

3. Property Tax-Related Set-Asides

Charter Sections 16.108, 16.109, and 16.107 mandate property tax-related set-asides for the Children and Youth Fund, the Library Preservation Fund, and the Open Space Fund, respectively. The Children and Youth Fund receives an allocation of \$0.0400 on each \$100 valuation of taxable property. The Library Preservation Fund and the Open Space Fund receive allocations of \$0.025 for each \$100 valuation of taxable property. The Mayor's proposed budget includes required funding of \$110.3 million in FY 2021-22 and \$115.1 million in FY 2022-23 for the Children and Youth Fund, and \$68.9 million and \$71.9 million in FY 2021-22 and FY 2022-23, respectively, for both the Library Preservation Fund and Open Space Fund.

4. Children's Baseline

Charter Section 16.108 established a Children and Youth Services baseline. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Proposition C, approved by voters in November 2014, amended the Charter to exclude medical health services as an eligible service. As a result, and as part of establishing the Disconnected Transitional-Aged Youth Baseline, the Controller reviewed City appropriations included in the fund and excluded medical health services and other expenditures now mandated by state law. The Controller then recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate. The required Children's baselines for FY 2021-22 and FY 2022-23 are \$185.8 million and \$210.3 million, respectively. The Mayor's proposed budget includes Children's Baseline

appropriations of \$223.1 million and \$210.4 million, which exceed the minimum requirement by \$37.3 million in FY 2021-22 and \$0.1 million in FY 2022-23.

5. Disconnected Transitional-Aged Youth Baseline

Proposition C, approved by voters in November 2014, amended Charter Section 16.108 to increase the Children's Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. The Charter requires that the TAY Baseline be added to the Children's Baseline, however, it is tracked separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 and like the Children's Baseline is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2021-22 and FY 2022-23 are \$22.3 million and \$25.3 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of \$36.2 million in each year, which exceed the minimum requirement by \$13.9 million in FY 2021-22 and \$11.0 million in FY 2022-23.

6. Public Education Services Baseline

Charter Section 16.123-2 established a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required \$10.4 million in FY 2021-22 and \$11.2 million in FY 2022-23 for this baseline.

7. Public Education Enrichment Fund Annual Contribution

In addition to the Public Education Services Baseline, Charter Section 16.123-2 requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes \$117.6 million and \$133.1 million for the Public Education Enrichment Fund Annual Contribution in FY 2021-22 and FY 2022-23, respectively. One third of the contribution supports the Preschool for All program at the Office of Early Childhood Education and two thirds of the contribution supports programming at the San Francisco Unified School District.

8. Recreation & Parks Baseline

In June 2016, voters approved Proposition B, a Charter amendment which requires an annual contribution from the General Fund to the Recreation and Parks Department that will increase by \$3.0 million per year for the next ten fiscal years, and then be adjusted at the same rate as the percentage increase or decrease in ADR. The City may suspend growth in baseline funding in years when the City forecasts a budget deficit of \$200 million or greater. Growth in the required spending level in FY 2020-21 was suspended because of the forecasted budget deficit; however, the requirement continues to grow for FY 2021-22 and FY 2022-23 by \$3.0 million in each year, to \$79.2 million and \$82.2 million, respectively. The Mayor's proposed budget includes General Fund appropriations of \$84.2 million and \$85.9 million, which exceed the minimum requirement by \$5.0 million in FY 2021-22 and \$3.8 million in FY 2022-23.

9. Housing Trust Fund

In 2012, voters established the Housing Trust Fund (Charter section 16.110), which requires an annual contribution from the General Fund to the Housing Trust Fund of \$20.0 million beginning in FY 2013-14 and increasing annually by \$2.8 million. The Mayor's proposed budget includes funding of \$60.0 million and \$45.4 million in FY 2021-22 and FY 2022-23, respectively. This is \$17.6 million more than the required amount in FY 2021-22 and the exact required amount in FY 2022-23. Administrative provision Section 11.25 of the Annual Appropriations Ordinance directs the Controller to credit the \$17.6 million as

an advance against required appropriations of the Housing Trust Fund, with a required annual repayment to the General Fund of \$3.52 million beginning in FY 2023-24 for five years.

10. Dignity Fund

In November 2016, voters approved Proposition I, establishing the Dignity Fund to support programming for seniors and adults with disabilities. Charter section 16.128-3 establishes a baseline contribution from the General Fund to the Dignity Fund of \$38.1 million beginning in FY 2016-17, increasing by \$6.0 million in FY 2017-18 and by \$3.0 million per year from FY 2018-19 through FY 2026-27. From FY 2027-28 and beyond, the baseline is adjusted by the percentage increase or decrease in ADR. The Charter allows the City to suspend growth in this baseline in years when the City forecasts a budget deficit of \$200 million or greater. Growth in FY 2020-21 was therefore suspended for one year, at a level of \$50.1 million. The Mayor's proposed budget includes the required General Fund appropriations of \$53.1 million and \$56.1 million in FY 2021-22 and FY 2022-23, respectively.

11. Street Tree Maintenance Fund

In November 2016, voters approved Proposition E, establishing the Street Tree Maintenance Fund to maintain the City's street trees. Charter section 16.129 establishes a baseline contribution from the General Fund to the Street Tree Maintenance Fund of \$19.0 million in FY 2017-18 and adjusted by the percentage increase or decrease in ADR every year thereafter. The Mayor's proposed budget includes the required funding of \$19.8 million and \$22.4 million in FY 2021-22 and FY 2022-23, respectively.

12. Municipal Symphony Baseline

Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline is \$3.7 million in FY 2021-22 and \$3.9 million in FY 2022-23.

13. City Services Auditor Baseline

Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget to fund audits of City services. The Mayor's proposed budget includes \$23.4 million in FY 2021-22 and \$22.3 million in FY 2022-23 for the City Services Auditor baseline.

14. Mission Bay Transportation Improvement Fund

The Mission Bay Transportation Fund was authorized in 2015, prior to the construction of the Chase Center arena. The fund was established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena. The increase in all tax revenues, both on-site and off-site, attributable to the operation of the arena are dedicated to this fund. When the arena is fully operational, it is expected to receive more than \$12 million annually. The Mayor's proposed budget includes the required minimum deposit to the fund of \$7.6 million in FY 2021-22 and \$8.8 million in FY 2022-23. These funds are allocated to the Municipal Transportation Agency, Department of Public Works, and the Police Department.

15. Our City, Our Home Baseline

The Homeless Gross Receipts Tax authorized by Proposition C in November 2018 created a requirement to maintain homeless spending at FY 2017-18 budgeted levels. The base amount of funding was subsequently calculated to be \$215.0 million. The proposed budget exceeds this requirement, appropriating \$324.0 million in FY 2021-22 and \$337.2 million in FY 2022-23.

This requirement is calculated by totaling all Proposition C-eligible spending, excluding the Our City, Our Home special revenue fund. The calculation includes spending in the General Fund, various special revenue funds, and other funds.

16. Early Care and Education Baseline

The Commercial Rent Tax for Early Care and Education authorized by Proposition C in June 2018 established a requirement to fund early childhood care and education. A base amount of funding was established for FY 2017-18, which is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2021-22 and FY 2022-23 are \$85.1 million and \$96.3 million, respectively. The proposed budget exceeds minimum funding levels by appropriating \$91.3 million in FY 2021-22 and \$96.5 million in FY 2022-23.

17. Police Minimum Staffing Baseline (Repealed)

In November 2020, voters adopted Proposition E, a Charter amendment to remove the City's mandatory police staffing level of 1,971 sworn full-duty officers. The staffing level of 1,971 was previously adopted by voters through Proposition D (1994). The Chief of Police is required to submit a report to the Police Commission by November 1 each odd-numbered year, a report describing the number of sworn full-duty officers and recommended staffing levels.