CITY AND COUNTY OF SAN FRANCISCO

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

FROM: Severin Campbell, Board of Supervisors Budget & Legislative Analyst
Kelly Kirkpatrick, Mayor's Budget Director
Ben Rosenfield, Controller

DATE: March 31, 2020

SUBJECT: **Budget Outlook Update (March Joint Report)**

Executive Summary

San Francisco Administrative Code Section 3.6(b) requires the Mayor, Board of Supervisors Budget Analyst, and Controller to submit regular updates to the City's Five-Year Financial Plan (sometimes referred to as the Joint Report). The most recent such update was published by our offices on January 3, 2020. This report updates those projections with new information since January, notably the impacts on local tax revenues resulting from the COVID-19 public health emergency ("the emergency").

- **Current Fiscal Year.** Economic and tax revenue losses associated with the emergency have been stark and immediate. These projected General Fund tax revenue losses are partially offset by strength from earlier in the fiscal year reported in the Controller's Office Six Month Budget Status Report, resulting in an estimated **$167 million to $287 million** loss versus the adopted Fiscal Year (FY) 2019-20 budget. This range represents our estimate of likely losses in a limited versus extended emergency and recovery period.

- **Upcoming Fiscal Years.** We project tax revenue losses for FY 2020-21 of between $324 million and $575 million and $225 million and $417 million for FY 2021-22 in these two recovery scenarios. Using these updated revenue projections and given all other projections assumed in our January forecast, this results in shortfall projects of between **$528 million and $779 million** for FY 2020-21 and **$444 million and $612 million** for FY 2021-22.

- **Projection Uncertainty.** Notably these projections do not assume additional expenditures associated with the City's response to the emergency, which will be significant but are still unknown, nor do they assume additional State or Federal revenues to offset these or other costs. Our offices will provide a full update to these projections in April, given historic levels of uncertainty regarding the impacts on both city revenues and expenditures from the emergency, as well as updated information regarding overall budget trends.

Our Projection and Assumptions

San Francisco Administrative Code Section 3.6(b) requires the Mayor, Board of Supervisors Budget Analyst, and Controller to submit regular updates to the City's Five-Year Financial Plan (sometimes referred to as the Joint Report). The most recent such update was published by our offices on January 3, 2020. This report updates those projections with new information since January, notably the impacts on local tax revenues resulting from the COVID-19 public health emergency.

Ultimately, the duration and depth of the downturn will correlate with both the measures required to contain the spread of the virus and the economic dislocation that occurs during this period, both of which are unknown at this time. Given this uncertainty, we have projected General Fund tax revenues under two scenarios:

- **More Limited Impact.** A severe but more limited scenario resulting from a better-case, limited duration recession in which the economy experiences a short, six-month shock and then rapidly recovers by the end of calendar year 2020.

- **More Extended Impact.** A more severe and extended scenario where the economy experiences a more severe six-month shock, followed by a slower period of recovery that extends through the end of calendar year 2020 and through 2021. For FY 2019-20, extended impact scenario projections represent a deeper shock than limited impact projections.

Updating our January outlook with these revised tax revenue projections associated with the emergency and current year updates reported in February results in significantly higher shortfalls over the remainder of this fiscal year and the coming fiscal years, as summarized in Table 1 and described below.

Table 1. General Fund Shortfall Projections through FY 2021-22

	FY19-20		FY20-21		FY21-22	
	Limited	Extended	Limited	Extended	Limited	Extended
Previous Projection (January 2020)			(195)	(195)	(224)	(224)
Updates						
1 Additional Fund Balance from 6-Month Repor	98	98				
2 COVID Revenue Losses	(311)	(452)	(396)	(688)	(249)	(440)
3 COVID Baseline Offsets	46	67	63	104	30	53
Change from Prior Projection (March 20	(167)	(287)	(333)	(584)	(220)	(388)
New Projection (March 2020)			(528)	(779)	(444)	(612)

January Projection

Our offices published a projection of the upcoming four fiscal years through FY 2023-24 on January 3, 2020. This updated March projection adopts the assumptions detailed in this report, which is attached, with updates for three significant changes since that time: (1) Improvement in current fund balance, as reported in the Controller's Six Month Budget Status Report, (2) General Fund tax revenue losses associated with the emergency, and (3) voter-adopted baseline offsets given those revised revenue projections. We will update these and all assumptions in our April forecast update.

Update 1: Additional FY 2019-20 Fund Balance from 6-Month Report

The Controller's Six-Month Report projected net current year revenue surpluses and expenditure savings of $98 million, due largely to anticipated strength in real property transfer taxes and Public Health revenues.

Update 2: COVID Emergency Revenue Losses

We project significant losses of General Fund tax revenue in the current and upcoming fiscal years, ranging given the two forecast scenarios summarized above. These updated projections are detailed in tables 2-4 below. Our key assumptions for each major revenue source are detailed in the sections that follow.

Table 2. Projected General Fund Revenue, FY 2019-20

	FY 2019-20								
			Limited COVID-19 Impact			Extended COVID-19 Impact			
General Fund Revenue	Original Budget	6-Month Projection	Updated Projection	Variance vs Budget	Variance vs 6-Month Projection	Updated Projection	Variance vs Budget	Variance vs 6-Month Projection	Note
Citywide Revenue									
Property Taxes	1,771.0	1,804.0	1,804.0	33.0	-	1,767.0	(4.0)	(37.0)	*1*
Excess ERAF	185.0	198.0	196.1	11.1	(1.9)	184.8	(0.2)	(13.2)	
Business Taxes	1,050.6	1,005.8	1,023.9	(26.7)	18.1	1,023.9	(26.7)	18.1	*2*
Hotel Room Tax	389.1	377.7	265.9	(123.2)	(111.8)	253.5	(135.6)	(124.2)	*3*
Sales Tax-Based Revenue									*4*
Sales Tax - Local 1%	204.1	212.5	187.4	(16.7)	(25.1)	171.4	(32.7)	(41.0)	
Public Safety Realignment	42.1	41.6	36.7	(5.4)	(4.9)	33.5	(8.5)	(8.0)	
Health and Welfare Realignment (Sales)	175.5	181.3	155.6	(19.9)	(25.7)	142.4	(33.2)	(39.0)	
Public Safety Sales Tax	104.6	107.3	94.7	(10.0)	(12.7)	86.6	(18.0)	(20.7)	
Sales Tax Subtotal	526.3	542.7	474.3	(52.0)	(68.4)	433.9	(92.4)	(108.7)	
Parking Tax	83.0	83.1	71.7	(11.3)	(11.4)	66.5	(16.5)	(16.6)	*5*
Real Property Transfer Tax	296.1	422.7	335.0	38.9	(87.7)	305.0	8.9	(117.7)	*6*
Stadium Admissions Tax	5.5	1.2	0.9	(4.6)	(0.3)	0.9	(4.6)	(0.3)	
Interest Income	76.6	67.5	50.6	(26.0)	(16.9)	49.4	(27.2)	(18.1)	*7*
Airport Transfer In	51.5	48.9	36.0	(15.5)	(12.9)	34.2	(17.3)	(14.7)	*8*
Departmental Revenue	*100.5*	*75.9*	*60.8*	*(39.7)*	*(15.1)*	*60.8*	*(39.7)*	*(15.1)*	*9*
General Fund Support (Non-GF)									
Convention Facilities Fund					(0.9)			(0.9)	
Hospital Health and Welfare Realignment	22.7	19.2	17.0	(5.7)	(2.3)	15.5	(7.2)	(3.7)	
Total	4,557.9	4,646.7	4,336.1	(221.7)	(311.5)	4,195.4	(362.5)	(452.1)	

Table 3. Projected General Fund Revenue, FY 2020-21

	FY 2020-21								
			Limited COVID-19 Impact			Extended COVID-19 Impact			
General Fund Revenue	Original Budget	January Forecast	Updated Projection	Variance vs Budget	Variance vs January Forecast	Updated Projection	Variance vs Budget	Variance vs January Forecast	Note
Citywide Revenue									
Property Taxes	1,852.0	1,881.0	1,816.0	(36.0)	(65.0)	1,804.0	(48.0)	(77.0)	*1*
Excess ERAF	-	236.4	204.9	204.9	(31.5)	203.5	203.5	(32.9)	
Business Taxes	1,095.9	1,070.8	1,034.5	(61.4)	(36.2)	955.3	(140.6)	(115.4)	*2*
Hotel Room Tax	397.0	399.2	266.9	(130.1)	(132.3)	210.5	(186.5)	(188.7)	*3*
Sales Tax-Based Revenue									*4*
Sales Tax - Local 1%	206.0	213.9	190.3	(15.8)	(23.6)	177.5	(28.5)	(36.4)	
Public Safety Realignment	42.78	41.9	37.4	(5.4)	(4.5)	31.4	(11.4)	(10.5)	
Health and Welfare Realignment (Sales)	178.9	179.9	150.3	(28.6)	(29.7)	125.5	(53.4)	(54.5)	
Public Safety Sales Tax	106.9	109.0	96.6	(10.2)	(12.4)	90.1	(16.7)	(18.8)	
Sales Tax Subtotal	534.6	544.7	474.5	(60.0)	(70.2)	424.5	(110.0)	(120.2)	
Parking Tax	83.0	85.2	84.1	1.1	(1.1)	79.4	(3.6)	(5.9)	*5*
Real Property Transfer Tax	253.4	278.4	278.4	25.0	-	216.0	(37.4)	(62.4)	*6*
Stadium Admissions Tax	5.5	5.5	0.9	(4.6)	(4.6)	0.9	(4.6)	(4.6)	
Interest Income	86.6	61.0	30.7	(55.8)	(30.2)	26.6	(60.0)	(34.3)	*7*
Airport Transfer In	54.7	54.7	39.4	(15.3)	(15.3)	36.9	(17.8)	(17.8)	*8*
Departmental Revenue	*73.9*	*73.9*	*73.9*	-	-	*58.8*	*(15.1)*	*(15.1)*	*9*
General Fund Support (Non-GF)									
Convention Facilities Fund					(2.3)			(3.6)	
Hospital Health and Welfare Realignment	22.7	23.3	16.3	(6.4)	(7.0)	13.6	(9.1)	(9.7)	
Total	4,459.2	4,714.0	4,320.7	(138.6)	(395.7)	4,030.0	(429.2)	(687.6)	

Table 4. Projected General Fund Revenue, FY 2021-22

	FY 2021-22					
		Limited COVID-19 Impact		Extended COVID-19 Impact		
General Fund Revenue	January Forecast	Updated Projection	Variance vs January Forecast	Updated Projection	Variance vs January Forecast	Note
Citywide Revenue						
Property Taxes	1,964.0	1,922.0	(42.0)	1,893.0	(71.0)	*1*
Excess ERAF	-	-	-	-	-	
Business Taxes	1,072.4	1,032.5	(39.9)	976.7	(95.7)	*2*
Hotel Room Tax	408.0	350.6	(57.5)	300.7	(107.4)	*3*
Sales Tax-Based Revenue						*4*
Sales Tax - Local 1%	216.0	195.0	(21.0)	195.0	(21.0)	
Public Safety Realignment	42.7	38.1	(4.6)	31.9	(10.7)	
Health and Welfare Realignment (Sales)	183.6	153.4	(30.2)	128.1	(55.5)	
Public Safety Sales Tax	111.2	100.0	(11.2)	100.0	(11.2)	
Sales Tax Subtotal	553.5	486.5	(67.0)	455.1	(98.4)	
Parking Tax	85.2	84.6	(0.6)	84.6	(0.6)	*5*
Real Property Transfer Tax	253.4	253.4	-	253.4	-	*6*
Stadium Admissions Tax	5.5	1.2	(4.3)	1.2	(4.3)	
Interest Income	57.8	34.6	(23.2)	23.1	(34.7)	*7*
Airport Transfer In	57.0	49.2	(7.7)	38.5	(18.5)	*8*
Departmental Revenue	*73.9*	*73.9*	-	*73.9*	-	*9*
General Fund Support (Non-GF)						
Convention Facilities Fund			-		-	
Hospital Health and Welfare Realignment	23.5	16.3	(7.2)	13.6	(9.9)	
Total	4,554.3	4,304.8	(249.4)	4,113.7	(440.5)	

1 Property Tax

Changes in property tax revenue will lag other revenue losses largely because of the timelines by which taxable value is determined under Prop 13. Property tax revenues for FY 2019-20 are based on property values as of the January 1, 2019 lien date, and revenues for FY 2020-21 are based on property values as of January 1, 2020. There are no changes assumed for the FY 2019-20 annual secured or annual unsecured tax rolls.

Over two-thirds of the FY 2019-20 taxable value of San Francisco real estate is comprised of either single or multi-unit residential properties. Due to Prop 13 limitations on reassessments, the median taxable value of single family dwellings of $600,000 is below recent median sales prices, which exceed $1.3 million. The potential revenue risk from reduced residential values would stem largely from new construction and properties recently transacted. Given restrictions in travel and in-person shopping, we view hotel and commercial retail properties' values as a larger risk, and the key question is what conditions are on the January 1, 2021 lien date.

In the limited duration scenario, there is no change to FY 2019-20 General Fund property tax revenue projections. In the extended duration scenario, we assume supplemental property tax revenues decrease by 40%, or $24.9 million in the General Fund, as transactions pause due to market volatility, financing issues, and other barriers. We also project penalty revenues decrease by $12.0 million, assuming an increase in penalty waivers granted for late payments.

For FY 2020-21 the limited duration scenario assumes reduced sales volume results in a 61% decline in supplemental revenue from prior projection, or $38.8 million; escape property tax revenues decrease by 100%, or $4.7 million; and hotel and commercial retail property valuations decline by 20% ($2.3 billion and $2.9 billion, respectively). The extended duration scenario for FY 2020-21 uses the same assumptions and assumes a $12 million decrease in penalty revenues.

Both projection scenarios for FY 2021-22 assume automatic inflationary increases to taxable values, usually at the 2% Prop 13 limit, drop to 1%, and we also remove secured roll growth previously anticipated from large new construction developments. In the limited duration scenario, we assume supplemental property tax revenues decrease by 41%, or $26.4 million in the General Fund, compared to the prior projection. In the extended duration scenario, we assume supplemental property tax revenues decrease by 61% from prior projection, or $38.8 million; escape property tax revenues will decrease by 100%, or $4.7 million; and penalty revenues decrease by $12 million.

There is currently a discussion among state and local officials about whether to extend the deadline for property tax payments due on April 10, 2020. Delaying the payment of nearly $870 million would have significant cash flow effects on the City and other taxing entities. The revenue impact of each month of payment delay is an estimated loss of $1 million of interest earnings.

2 Business Tax

Business tax revenue in FY 2019-20 is not expected to be widely affected by COVID-19, as these revenues are largely determined by business activity in 2019, as reflected in tax year 2019 filings at the end of February. The impact of layoffs, business closures, and other changes in tax year 2020 will appear in FY 2020-21 and beyond. In both the limited and extended duration scenarios, we project current year business tax revenues of $1,023.9 million, which is $26.7 million above original budget and

$18.1 million above our 6-month projection, reflecting stronger than expected growth in tax year 2019 payroll and gross receipts. The projection assumes the deferral of prepayments for business with less than $10 million of gross receipts for the first quarter of tax year 2020, which we estimate would shift $33 million of business tax from FY 2019-20 to FY 2020-21.

The first and second quarter payments for tax year 2020 that businesses typically remit in April and July 2020 for revenue in FY 2019-20 are billed based on 25% of the 2019 total tax liability. However, businesses have the option of paying 25% of their current year liability, if it is lower. To the extent businesses choose this second method of calculating quarterly payments because they have significantly reduced payroll and gross receipts, business tax revenue in the current fiscal year will be lower than projected.

COVID-19 will have a significant impact on business tax revenue in FY 2020-21 and FY 2021-22. Business taxes are paid on a calendar year basis therefore we project economic growth rates for 2020 and 2021 and convert resulting estimated quarterly payments into fiscal year revenues. The January Joint Report assumed business tax growth of 5% in 2020 and 3% in 2021. Our current projections for tax year 2020 assume no growth in business tax revenues in the limited duration scenario and a 6% decline in revenues in the extended duration scenario. For tax year 2021, we assume in both scenarios that revenues increase by 3% from these 2020 levels. By comparison, business tax revenue fell 10.6% between fiscal years 2007-08 and 2009-10, in the aftermath of the global financial crisis.

Given these calendar year growth rates, and the shift of $33 million of revenue shifted from the current year to FY 2020-21 through prepayment deferrals, we project FY 2020-21 business tax revenue of $1,034.5 million in the limited duration scenario (or $61.4 million below budget and $36.2 million below the Joint Report projection) and $955.3 million in the extended duration scenario (or $140.6 million below budget and $115.4 million below the Joint Report projection). We also project that FY 2021-22 business tax revenue will be $1,032.5 million in the limited duration scenario (or $39.9 million below the Joint Report projection) and $976.7 million in the extended duration scenario (or $95.7 million below the Joint Report projection).

3 Hotel Tax

The hospitality sector has sustained significant damage from the pandemic, beginning in late January with travel restrictions and flight cancellations, quickly followed by convention and meeting cancellations and expansive travel restrictions. Hoteliers are currently reporting occupancy rates at or below 10% and have responded to the severe drop in revenue with hotel closures and layoffs. The effect on hotel revenue, and hotel taxes, has been faster and more extreme than experienced in the aftermath of 9/11, the SARS epidemic, or the global financial crisis.

Hotel tax revenue is directly correlated with the combined effect of average daily room and occupancy rate, represented by the metric of revenue per available room (RevPAR). In the limited duration scenario, due to the ban on travel to and from China which began in February 2020, RevPAR is projected to decline by 25% in the first quarter (January – March) of 2020 and 90% in the second quarter (April – June). The impact continues into the third quarter (July – September) with a 50% decline in RevPAR, 20% through June 2021, and 8% for FY 2021-22, resulting in General Fund hotel tax reductions from prior projections of $111.8 million FY 2019-20, $132.2 million in FY 2020-21, and $57.5 million in FY 2021-22. The extended duration scenario includes a 100% reduction for the second quarter (April – June), given the shelter-in-place order effective March 16, hotel closures, and assumption that any purchase of hotel rooms by government entities or non-profit health institutions for emergency housing will be tax exempt. The impact will last into the third quarter (July – September) with a 75% reduction in RevPAR and a 50% reduction in the fourth quarter (October – December). An ongoing 20% decline is projected through FY 2021-20. In this scenario, a decrease of $124.2 million in hotel tax revenue is projected compared to the prior projection, and $188.7 million and $107.4 million decreases in FY 2020-21, and FY 2021-22, respectively.

Prop E (November 2018) caps decreases and increases of hotel tax allocations to arts programs at 10%, significantly below the FY 2019-20 projected decreases of 28.5% in the limited duration scenario and 31.5% in the extended duration scenario. Losses exceeding 10% will accrue to the General Fund. Allocations to the Hotel Tax for the Arts fund are projected to be $28.8 million, a decline of $4.6 million from budget and $3.0 from 6-Month Report projections.

Also note that projected declines in Moscone Expansion District special assessment revenue, which is a charge paid by hotels and usually passed on to customers on hotel bills, will decline, resulting in additional General Fund contributions of $2.3 million to $3.6 million in FY 2020-21 only to support City debt service costs for the expansion project. Finally, the General Fund subsidy for Moscone Center operations is expected to increase by $0.9 million in the current year.

4 Local Sales Tax and State Sales Tax Subventions

Tax on the sale of goods impacts several General Fund revenues, including the local 1% sales tax and three subventions of state sales tax: public safety realignment, health and welfare realignment, and public safety sales tax. The local 1% sales tax reflects local spending – what is sold or delivered to San Francisco. State subventions to San Francisco reflect the sale of taxable goods at the State level, mediated by statutory formulas for various categories of health, social service, and public safety spending. Current projections assume COVID-19 impacts San Francisco and California sales tax in the same proportions.

Like the hotel industry, the retail industry has experienced immediate and significant losses, first from the drop in visitors, and then from the emergency order requiring closure of nonessential businesses. In San Francisco, we anticipate restaurants and bars to be disproportionately affected, so we assume different rates of decline for them relative to all other industries. Sales tax collected from restaurants, bars, and food service in hotels comprises just under 35% of total revenue.

In both the limited and extended duration scenarios, first quarter 2020 (January – March) sales are projected to fall by 10% for restaurants and bars and 5% for all other categories, compared to pre-COVID projections. In the limited duration scenario, second quarter (April – June) sales are projected to fall by 60% for restaurants and bars and 30% for all other sectors, moderating in the third quarter (July – September) to a 25% reduction for restaurants and bars and 10% for all other sectors, and an ongoing 10% reduction through FY 2021-22. In the extended duration scenario, April to June 2020 sales are projected to fall 90% for restaurants and bars and 60% for all other sectors, the recovery is delayed one quarter with a 50% reduction for restaurants and bars and 25% for all other sectors in the third quarter (July – September). This results in an estimated loss of sales tax revenue of $68.4 million to $108.7 million in the current year, $70.2 million to $120.2 million in FY 2020-21, and $67.0 million to $98.4 million in FY 2021-22.

A portion of 1991 Health and Realignment Revenue accrues to the Zuckerberg San Francisco General Hospital Fund. Projected declines in sales tax subventions will require increased subsidies from General Fund ranging from $2.3 million to $3.7 million in the current year, $7.0 million to $9.7 million in FY 2020-21, and $7.2 million to $9.9 million in FY 2021-22.

5 Parking Tax

Vehicle traffic declined sharply due to the emergency orders, resulting in lower estimated parking tax revenues. In both scenarios, revenues in the first quarter of 2020 are assumed to fall by 5% compared to prior projections. For the second quarter, the limited duration scenario assumes a 50% drop and the extended duration assumes a 75% drop, leading to current year losses ranging from $11.4 million to $16.6 million versus the 6-Month Report projection.

In the limited duration scenario, parking tax is assumed to be 5% below prior projections in the third quarter of 2020, and three percent lower for all remaining quarters. In the extended duration scenario, parking tax is assumed to be 25% below prior projections in the third quarter of 2020, 5% below in the fourth quarter, and three percent lower for all remaining quarters. This results in projected revenue losses of $1.1 million to $5.9 million in FY 2020-21 and $0.6 million in both scenarios in FY 2021-22.

An amount equivalent to 80% of parking tax revenue is transferred to the MTA for public transit under Charter Section 16.1110.

6 Transfer Tax

Transfer tax revenue is largely driven by transfers of commercial real estate and is highly dependent on credit availability, interest rates, and the relative value of San Francisco real estate compared to other investment options. As of March 24, 2020, the City has recorded $291.8 million of transfer tax in FY 2019-20, of which $242.2 (or 83%) was recorded between July and December 2019.

In the limited duration scenario, we assume revenues of $15 million per month in March through June, consistent with receipts in the first three months of 2020. In the extended duration scenario, we assume revenues of $15 million per month in March and April and $0 in May and June, reflecting a two-month lag where deals made before COVID-19 are finalized and two months where transactions halt, consistent with the City's experience during the 2001 and 2008 recessions, resulting in current year revenue reductions of $87.7 million to $117.7 million from the 6-Month Report projection.

In FY 2020-21, the limited duration scenario assumes that transfer tax will return to prior projections, whereas the extended duration scenario assumes dampened commercial real estate activity through the first half of the fiscal year, with monthly receipts of $15 million, rising to $21 million per month in the second half of the year, resulting in a decrease of $62.4 million from prior projection. Transfer tax is assumed to return its long-term historical average of $253.4 million by FY 2021-22 in both scenarios.

7 Interest & Investment Income

In March 2020, the Federal Reserve made two emergency interest rate cuts, totaling 1.5%, within two weeks, in an attempt to bolster financial markets. The cuts are projected to decrease the Treasury Investment Pool's annual average earned income yield (EIY) by 0.4% in FY 2019-20 in both the limited and extended duration scenarios. To account for reduced cash flow caused by delayed and reduced tax payments, potential use of reserves, and other factors, we also adjust our cash balance assumptions. In the limited duration scenario, we assume a 25% decrease in average daily cash balances in the second quarter (April – June) and in FY 2020-21, and in the extended duration scenario, we assume a 35% decrease starting from the second quarter (April – June) and through FY 2021-22. This results in projected decreases in interest earnings of $16.9 million to $18.1 million in the current year, $30.2 million to $34.3 million in FY 2020-21, and $23.2 million to $34.7 million in FY 2021-22, compared to prior projections.

8 Airport Transfer In

Due to steep declines in passenger traffic at the San Francisco International Airport, the Airport's payment to the General Fund (based on concessions activity) is expected to decline by between $12.9 million and $14.7 million from the 6-Month Report projection. The limited duration scenario assumes a 75% passenger decline and the extended duration scenario assumes a 90% passenger decline through the end of the fiscal year. In FY 2020-21, the Airport expects lowered passenger traffic in both scenarios; however, by FY 2021-22, the limited duration scenario assumes a near recovery while the extended duration scenario assumes continued dampened passenger traffic. General Fund revenue losses range from $15.3 million to $17.8 million in FY 2020-21 and $7.7 million to $18.5 million in FY 2021-22.

9 Departmental Revenue

The shelter-in-place order and deferral of license fees will also result in losses of departmental revenue from licenses, permits, fines, rents and concessions. In both our limited and extended duration scenarios, we assume a reduction of $15.1 million in revenue versus the 6-Month Report. In FY 2020-21, the limited duration scenario assumes departmental revenues recover to prior projection, whereas the extended duration scenario assumes another quarter of losses of $15.1 million. By FY 2021-22, revenues recover to their prior projected levels. These estimates are likely too low, as they do not include declines in charges for services or other departmental revenues.

Update 3: COVID Emergency Baseline Offsets

The voters have adopted a number of measures that require baseline contributions to various purposes, the majority of which are indexed to the City's discretionary revenues. Required contributions to these purposes will decline given our projection of discretionary revenue losses described above. Tables 5-7 summarize formula-based impact of revenue changes to property tax set-asides and baselines. Provisions suspending increases in contributions to the Dignity Fund and Recreation and Parks baselines are assumed triggered in FY 2020-21 and FY 2021-22. Our projection assumes that spending for each purpose will be reduced commensurate to the reduction in the baseline requirement; to the extent that this does not occur, projected General Fund shortfalls will increase by a like amount.

Table 5. Projected Baselines, FY 2019-20

	FY 2019-20								
			Limited COVID-19 Impact			Extended COVID-19 Impact			
	Original Budget	6-Month Projection	Updated Projection	Variance vs Budget	Variance vs 6-Month Projection	Updated Projection	Variance vs Budget	Variance vs 6-Month Projection	
General Fund Aggregate Discretionary Revenue (ADR)	4,205.3	4,272.0	4,015.3	(190.0)	(256.7)	3,904.7	(300.7)	(367.4)	
Municipal Transportation Agency (MTA)									
MTA - Municipal Railway Baseline: 6.686% ADR	284.6	285.6	268.5	(16.2)	(17.2)	261.1	(23.6)	(24.6)	*
MTA - Parking & Traffic Baseline: 2.507% ADR	105.4	107.1	100.7	(4.8)	(6.4)	97.9	(7.5)	(9.2)	*
MTA - Population Adjustment	56.3	49.7	49.7	(6.5)	-	49.7	(6.5)	-	*
MTA - 80% Parking Tax In-Lieu	66.4	66.5	57.4	(9.0)	(9.1)	53.2	(13.2)	(13.3)	*
Subtotal Municipal Transportation Agency	512.7	509.0	476.2	(36.5)	(32.7)	461.9	(50.8)	(47.1)	
Library Preservation Fund									
Library - Baseline: 2.286% ADR	96.1	96.6	91.8	(4.3)	(4.8)	89.3	(6.9)	(7.4)	*
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	65.3	66.7	66.7	1.4	-	65.7	0.4	(1.0)	
Subtotal Library	161.4	163.3	158.5	(2.9)	(4.8)	155.0	(6.4)	(8.4)	
Children's Services									
Children's Services Baseline - Requirement: 4.830% ADR	203.1	206.3	193.9	(9.2)	(12.4)	188.6	(14.5)	(17.7)	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	24.4	24.8	23.3	(1.1)	(1.5)	22.7	(1.7)	(2.1)	
Public Education Services Baseline: 0.290% ADR	12.2	12.4	11.6	(0.5)	(0.7)	11.3	(0.9)	(1.1)	*
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	104.5	106.8	106.8	2.3	-	105.2	0.7	(1.6)	
Public Education Enrichment Fund: 3.057% ADR									
1/3 Annual Contribution to Preschool for All	42.9	43.5	40.9	(1.9)	(2.6)	39.8	(3.1)	(3.7)	*
2/3 Annual Contribution to SF Unified School District	85.7	87.1	81.8	(3.9)	(5.2)	79.6	(6.1)	(7.5)	*
Subtotal Childrens Services	472.7	480.9	458.4	(14.3)	(22.5)	447.1	(25.6)	(33.8)	
Recreation and Parks									
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	65.3	66.7	66.7	1.4	-	65.7	0.4	(1.0)	
Recreation & Parks Baseline - Requirement	76.2	76.2	76.2	-	-	76.2	-	-	
Subtotal Recreation and Parks									
Other Financial Baselines									
Housing Trust Fund Requirement	36.8	36.8	36.8	-	-	36.8	-	-	
Dignity Fund	50.1	50.1	50.1	-	-	50.1	-	-	
Street Tree Maintenance Fund	21.7	22.0	20.7	(1.0)	(1.3)	20.1	(1.5)	(1.9)	
Baseline Transfers that Vary by ADR *	749.6	748.5	702.4	(47.2)	(46.1)	681.8	(67.8)	(66.7)	

Table 6. Projected Baselines, FY 2020-21

	FY 2020-21								
			Limited COVID-19 Impact			Extended COVID-19 Impact			
	Original Budget	January Forecast	Updated Projection	Variance vs Budget	Variance vs January Forecast	Updated Projection	Variance vs Budget	Variance vs January Forecast	
General Fund Aggregate Discretionary Revenue (ADR)	4,135.3	4,447.7	4,026.8	(108.5)	(420.8)	3,779.2	(356.1)	(668.5)	
Municipal Transportation Agency (MTA)									
MTA - Municipal Railway Baseline: 6.686% ADR	286.9	297.4	269.2	(17.6)	(28.1)	252.7	(34.2)	(44.7)	*
MTA - Parking & Traffic Baseline: 2.507% ADR	103.7	111.5	101.0	(2.7)	(10.6)	94.7	(8.9)	(16.8)	*
MTA - Population Adjustment - Not Updated	60.6	54.1	54.1	(6.5)	-	54.1	(6.5)	-	*
MTA - 80% Parking Tax In-Lieu	66.4	68.2	67.3	0.9	(0.8)	63.5	(2.9)	(4.7)	*
Subtotal Municipal Transportation Agency	517.5	531.1	491.5	(26.0)	(39.5)	464.9	(52.6)	(66.1)	
Library Preservation Fund									
Library - Baseline: 2.286% ADR	94.5	101.7	92.1	(2.5)	(9.6)	86.4	(8.1)	(15.3)	*
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	68.3	69.5	66.6	(1.7)	(2.9)	66.6	(1.7)	(2.9)	
Subtotal Library	162.9	171.2	158.7	(4.2)	(12.5)	153.0	(9.8)	(18.2)	
Children's Services									
Children's Services Baseline - Requirement: 4.830% ADR	199.7	214.8	194.5	(5.2)	(20.3)	182.5	(17.2)	(32.3)	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	24.0	25.8	23.4	(0.6)	(2.4)	21.9	(2.1)	(3.9)	
Public Education Services Baseline: 0.290% ADR	12.0	12.9	11.7	(0.3)	(1.2)	11.0	(1.0)	(1.9)	*
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	109.3	111.2	106.6	(2.7)	(4.6)	106.6	(2.7)	(4.6)	
Public Education Enrichment Fund: 3.057% ADR									
1/3 Annual Contribution to Preschool for All	42.1	45.3	41.0	(1.1)	(4.3)	38.5	(3.6)	(6.8)	*
2/3 Annual Contribution to SF Unified School District	84.3	90.6	82.1	(2.2)	(8.6)	77.0	(7.3)	(13.6)	*
Subtotal Childrens Services	471.4	500.7	459.2	(12.2)	(41.4)	437.5	(33.9)	(63.1)	
Recreation and Parks									
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	68.3	69.5	66.6	(1.7)	(2.9)	66.6	(1.7)	(2.9)	
Recreation & Parks Baseline - Requirement	79.2	79.2	76.2	(3.0)	(3.0)	76.2	(3.0)	(3.0)	
Subtotal Recreation and Parks									
Other Financial Baselines									
Housing Trust Fund Requirement	39.6	39.6	39.6	-	-	39.6	-	-	
Dignity Fund	53.1	53.1	50.1	(3.0)	(3.0)	50.1	(3.0)	(3.0)	
Street Tree Maintenance Fund	21.3	22.9	20.8	(0.6)	(2.2)	19.5	(1.8)	(3.4)	
Baseline Transfers that Vary by ADR *	750.4	781.6	718.4	(32.1)	(63.2)	677.8	(72.6)	(103.8)	

Table 7. Projected Baselines, FY 2021-22

	FY 2021-22					
		Limited COVID-19 Impact		Extended COVID-19 Impact		
	January Forecast	Updated Projection	Variance vs January Forecast	Updated Projection	Variance vs January Forecast	
General Fund Aggregate Discretionary Revenue (ADR)	4,204.5	4,008.1	(196.3)	3,851.2	(353.3)	
Municipal Transportation Agency (MTA)						
MTA - Municipal Railway Baseline: 6.686% ADR	281.1	268.0	(13.1)	257.5	(23.6)	*
MTA - Parking & Traffic Baseline: 2.507% ADR	105.4	100.5	(4.9)	96.6	(8.9)	*
MTA - Population Adjustment - Not Updated	58.4	58.4	-	58.4	-	*
MTA - 80% Parking Tax In-Lieu	68.2	67.7	(0.5)	67.7	(0.5)	*
Subtotal Municipal Transportation Agency	513.0	494.5	(18.6)	480.0	(33.0)	
Library Preservation Fund						
Library - Baseline: 2.286% ADR	96.1	91.6	(4.5)	88.0	(8.1)	*
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	72.6	70.9	(1.7)	70.2	(2.4)	
Subtotal Library	168.7	162.5	(6.2)	158.2	(10.5)	
Children's Services						
Children's Services Baseline - Requirement: 4.830% ADR	203.1	193.6	(9.5)	186.0	(17.1)	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	24.4	23.3	(1.1)	22.3	(2.1)	
Public Education Services Baseline: 0.290% ADR	12.2	11.6	(0.6)	11.2	(1.0)	*
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	116.2	113.5	(2.7)	112.3	(3.8)	
Public Education Enrichment Fund: 3.057% ADR						
1/3 Annual Contribution to Preschool for All	42.8	40.8	(2.0)	39.2	(3.6)	*
2/3 Annual Contribution to SF Unified School District	85.7	81.7	(4.0)	78.5	(7.2)	*
Subtotal Childrens Services	484.3	464.5	(19.9)	449.6	(34.8)	
Recreation and Parks						
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	72.6	70.9	(1.7)	70.2	(2.4)	
Recreation & Parks Baseline - Requirement	82.2	76.2	(6.0)	76.2	(6.0)	
Subtotal Recreation and Parks						
Other Financial Baselines						
Housing Trust Fund Requirement	42.4	42.4	-	42.4	-	
Dignity Fund	56.1	50.1	(6.0)	50.1	(6.0)	
Street Tree Maintenance Fund	21.7	20.7	(1.0)	19.8	(1.8)	
Baseline Transfers that Vary by ADR *	749.8	720.2	(29.6)	697.0	(52.9)	

Not Included in this Projection

A number of significant expenditure, revenue, and other financial impacts are not included in this March projection. Our offices will provide an updated April projection that incorporates new information on these and other factors as they become known and estimable. These factors include:

- **Costs Associated with the City's COVID emergency response.** These projections do not include estimates of City costs associated with response to the emergency. These costs are likely to be significant, and include staffing costs associated with a likely surge in use of the City's health system, temporary housing for those exposed to the virus or in certain at-risk populations, increased childcare, food, and other social services, and acquisition of needed medical and other supplies. Our offices are working on estimates of these costs, which will be variable given the unknown impact on City operations related to the progression of the emergency in San Francisco.

- **Federal and State emergency relief.** Federal and State revenues are likely to result in increased revenue available to offset a portion of the cost of the City's emergency response or for other purposes. Notably, given the declaration of a national and state emergency, the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (CalOES) revenues are likely to be claimed for a portion of certain response costs. Additionally, the recently adopted Federal stimulus bill includes funds for various programs delivered by local governments, including emergency expenditures incurred by public health hospitals. Eligible uses and allocations of these funds to the City are not yet known.

- **Retirement contribution rate increases.** Contributions to the City's pension system (the San Francisco Employee Retirement System, or SFERS) are based upon an assumption of 7.4% investment returns each fiscal year. To the extent that returns fall below this level in the current and upcoming fiscal years, it will increase required City and employee contributions. SFERS reports year-to-date returns of 3% through February 2020, prior to significant financial market dislocations related to the emergency.

- **Other department revenue and expenditure trends.** This projection builds upon the assumptions our offices included within our January projection, except as noted above. We will provide a full update on all trends, including more recent department revenues and expenditures, in our April projection update.

- **Expenditure controls and actions related to the worsening budget outlook.** This projection is a status quo projection, assuming no changes to current adopted policies or services. To the extent the Mayor and Board of Supervisors adopt changes to control spending, draw reserves, or reduce service levels, these actions will reduce projected shortfalls in the current and upcoming fiscal years accordingly. One-time solutions will reduce shortfalls in the year they are adopted. Ongoing changes will reduce shortfalls in the year in which they are enacted and future ones.

Financial losses associated with the emergency have been stark and immediate, and the level of uncertainty of both City revenues and expenditures is historically high. Our offices provide this March outlook as a planning tool for the Mayor and Board of Supervisors to begin navigating these challenges. We will provide a projection in April with updated estimates of both revenue and expenditure trends as the emergency evolves.