



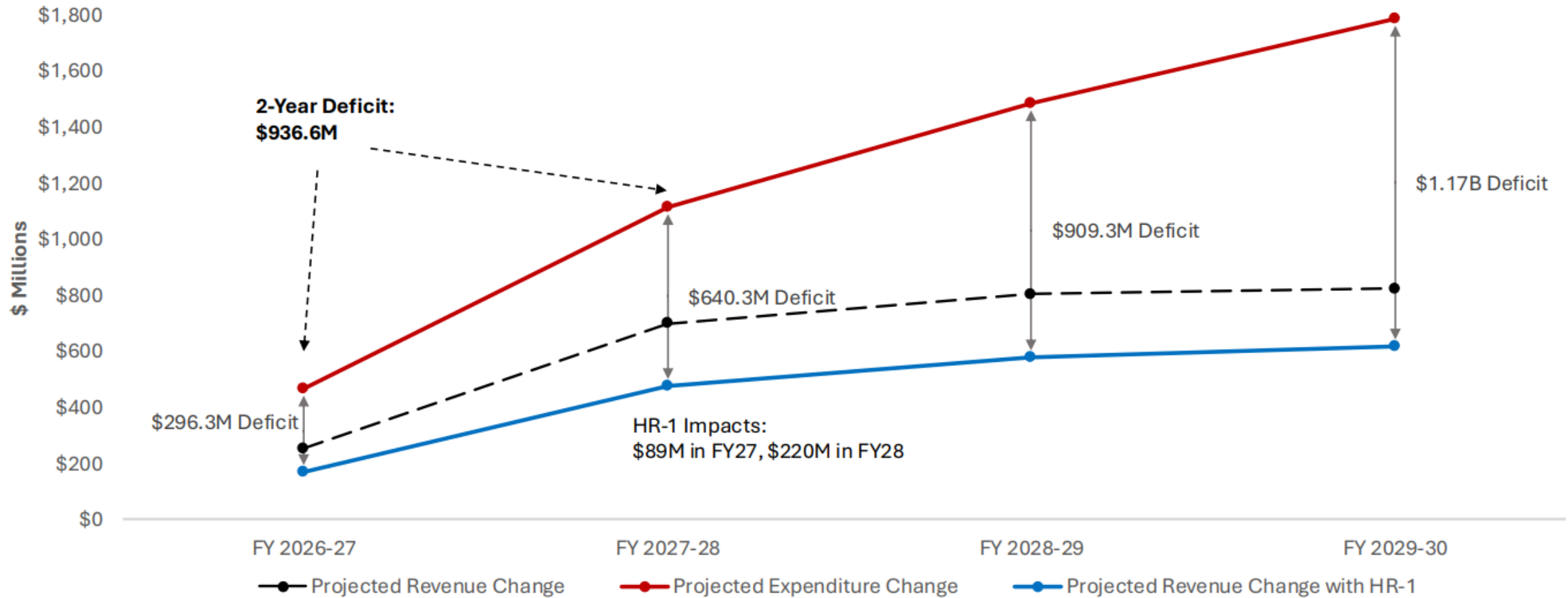
# Budget Briefing December 2025 Update



Office of the Controller

February 3, 2026

# Fiscal Outlook: Spending Outpaces Revenue



# Fiscal Outlook: HR1 Offsets Local Progress

	Change from AAO Budget 2026-27	Projection 2026-27	Projection 2027-28	Projection 2028-29	Projection 2029-30
<b>SOURCES Increase / (Decrease)</b>	<b>(125.6)</b>	<b>252.4</b>	<b>697.7</b>	<b>803.0</b>	<b>822.0</b>
<b>Uses</b>					
Baselines & Reserves	(17.2)	(118.8)	(220.2)	(259.0)	(274.3)
Salaries & Benefits	(47.0)	(216.5)	(551.5)	(705.9)	(828.9)
Citywide Operating Budget Costs	(11.0)	(50.4)	(179.5)	(232.4)	(302.2)
Departmental Costs	(11.0)	(78.5)	(165.1)	(289.0)	(380.3)
<b>USES Decrease / (Increase)</b>	<b>(86.2)</b>	<b>(464.2)</b>	<b>(1,116.2)</b>	<b>(1,486.3)</b>	<b>(1,785.6)</b>
<b>Cumulative Projected Surplus / (Shortfall)</b>	<b>(211.8)</b>	<b>(211.8)</b>	<b>(418.5)</b>	<b>(683.3)</b>	<b>(963.7)</b>
<b>State &amp; Federal Policy Impacts</b>	<b>(84.5)</b>	<b>(84.5)</b>	<b>(221.8)</b>	<b>(226.0)</b>	<b>(204.8)</b>
<b>Projected Cumulative Projected Surplus / (Shortfall)</b>	<b>(296.3)</b>	<b>(296.3)</b>	<b>(640.3)</b>	<b>(909.3)</b>	<b>(1,168.5)</b>
<b>Two-Year Deficit</b>		<b>(936.6)</b>			

# Fiscal Outlook: Major Assumptions

- Revenue
  - Strong business tax growth is due to growth in worldwide (not local) receipts.
  - Large increase in real property transfer tax revenue due to commercial real estate price reset → long term weakness in property tax base.
  - Continued weak growth in revenues generated by local economic activity (sales, hotel, parking).
  - HR1 federal cuts to Medicaid and food assistance: \$300 million over two years.
  - No recession
- Expenditures
  - CPI growth on all open contracts: FY27 3.30%; FY28 3.04%, FY29 2.34%
  - 9% annual growth in health benefit costs
  - Pension investment earnings of 7.2%
  - All baseline growth is funded in each year of the forecast.

# Key Revenues That Drive Baselines (\$millions)

Key Sources	FY2024-25	FY2025-26			FY2026-27			FY2027-28			FY2028-29			FY2029-30		
	Actual	Adopted Budget	Dec 2025	Change	Adopted Budget	Dec 2025	Change	March 2025	Dec 2025	Change	March 2025	Dec 2025	Change	March 2025	Dec 2025	Change
Property Tax	2,485	2,437	2,486	49	2,422	2,407	(15)	2,470	2,449	(21)	2,540	2,518	(22)	2,601	2,589	(12)
Business Taxes	1,120	1,140	1,269	129	1,372	1,457	86	1,321	1,502	182	1,426	1,635	210	1,473	1,676	204
Sales Tax	188	190	192	2	195	196	1	201	202	1	208	209	1	214	216	1
Hotel Room Tax	255	265	272	7	277	278	0	282	277	(5)	291	284	(7)	308	294	(14)
Real Property Transfer Tax	294	268	291	23	316	314	(2)	365	339	(26)	385	364	(21)	385	391	6
<b>Total Key Sources</b>	<b>4,344</b>	<b>4,299</b>	<b>4,510</b>	<b>211</b>	<b>4,583</b>	<b>4,652</b>	<b>70</b>	<b>4,639</b>	<b>4,770</b>	<b>131</b>	<b>4,849</b>	<b>5,010</b>	<b>161</b>	<b>4,980</b>	<b>5,165</b>	<b>185</b>

- Represent ~60% of General Fund Revenue and ~95% of GF taxes → Aggregate discretionary revenue used for baseline calculations
- By far the largest are property and business taxes.

# Property Tax

- FY2025-26 budget assumed local secured roll growth of 3% and unsecured roll growth of 0%. Actuals were 2.1% and -4.6%. Affects all years of the forecast. December 2025 forecast assumes secured roll growth of 2% and unsecured roll growth of 0% in each year.
- Refunds payable due to reductions in assessed values are assumed in the forecast:
  - Assessment Appeals Board (AAB) Reserve balance as of 6/30/25 was \$326 million. Projection assumes a deposit of \$117 million in FY2025-26.
  - Additional reductions to revenue are assumed in subsequent years, ranging from \$137 million to \$200 million to reflect the value at risk in commercial real estate and multi-family housing, based on forecasting by CoStar.
- The City maintains a reserve to cover potential refunds associated with reductions in appealed assessments.
- Excess ERAF is part of Property Tax and is affected by revenue trends and state legislation.

# Business Tax

FY 2024-25 General Fund revenue:

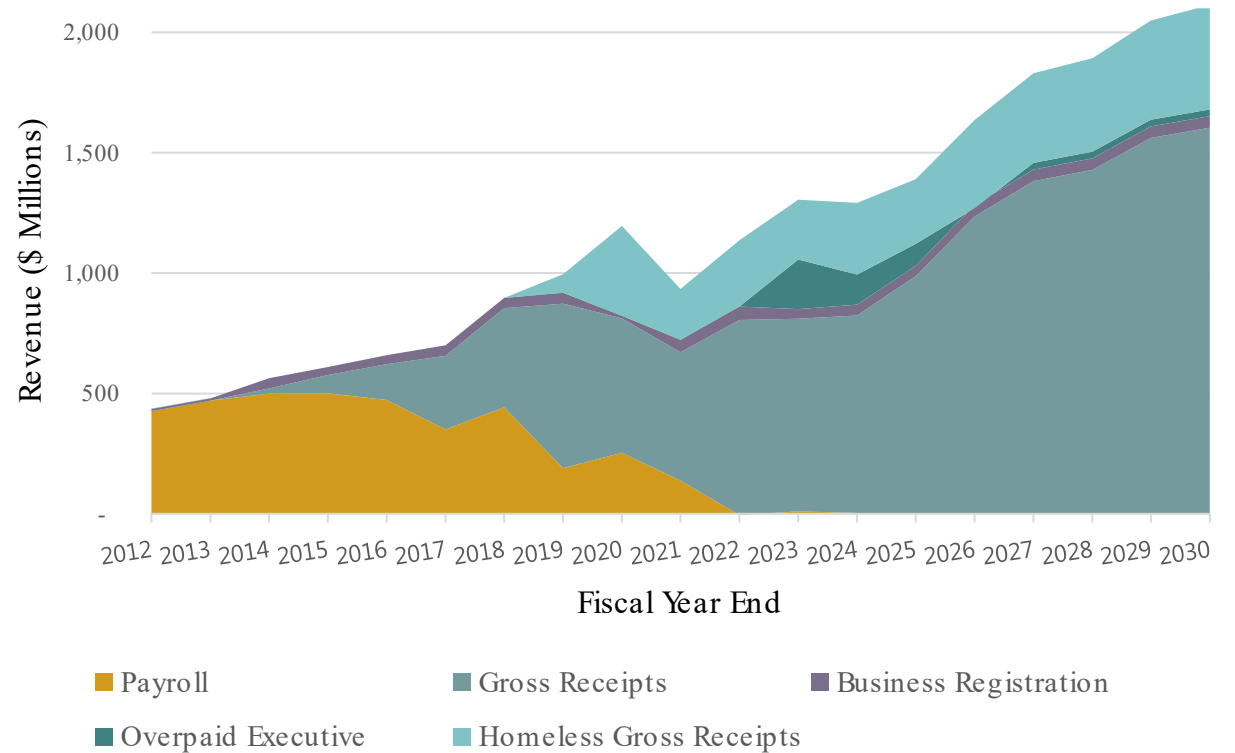
- \$51M/4.8% above projections

Projection assumed flat gross receipts, but:

- Actual increase in gross receipts: 6.7 %
- Worldwide sales growth: 10.3 %
- San Francisco sales growth: 3.0 %

Forecast is up:

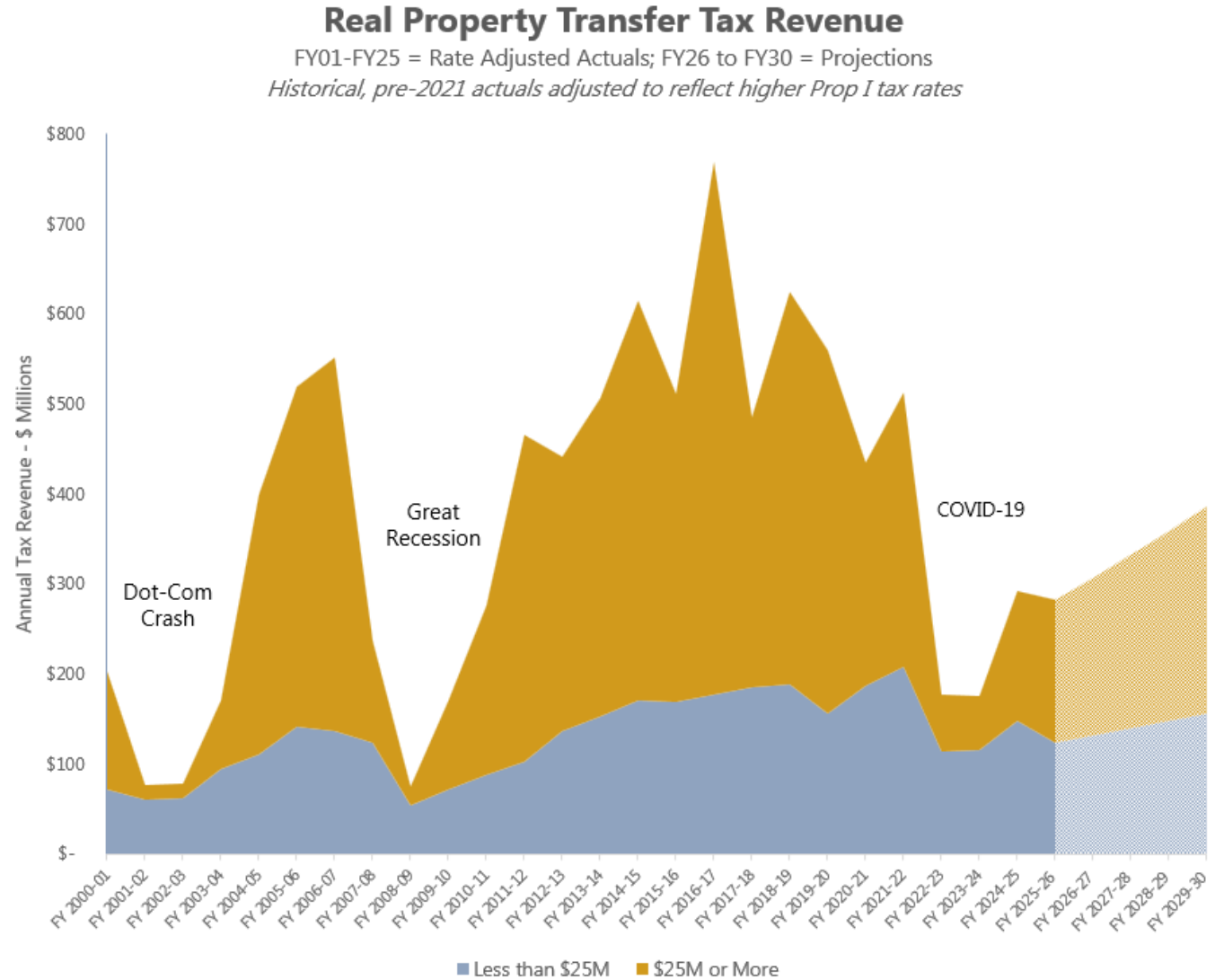
- Built off FY 2024-25 results
- Refined analysis of companies that previously did not report SF sales
- Growth rates targeted to specific businesses and categories



Prop M (2024) was a significant change to our business tax structure, leading to high uncertainty in the forecast.

# Real Property Transfer Tax

- Lower commercial prices for office, retail, hotel, and multifamily properties =
  - More sales, increasing transfer tax today
  - Downward reset in assessed values, reducing property tax mid to long term
- Projection assumes FY2024-25 sales momentum continues into the budget years and then slows.



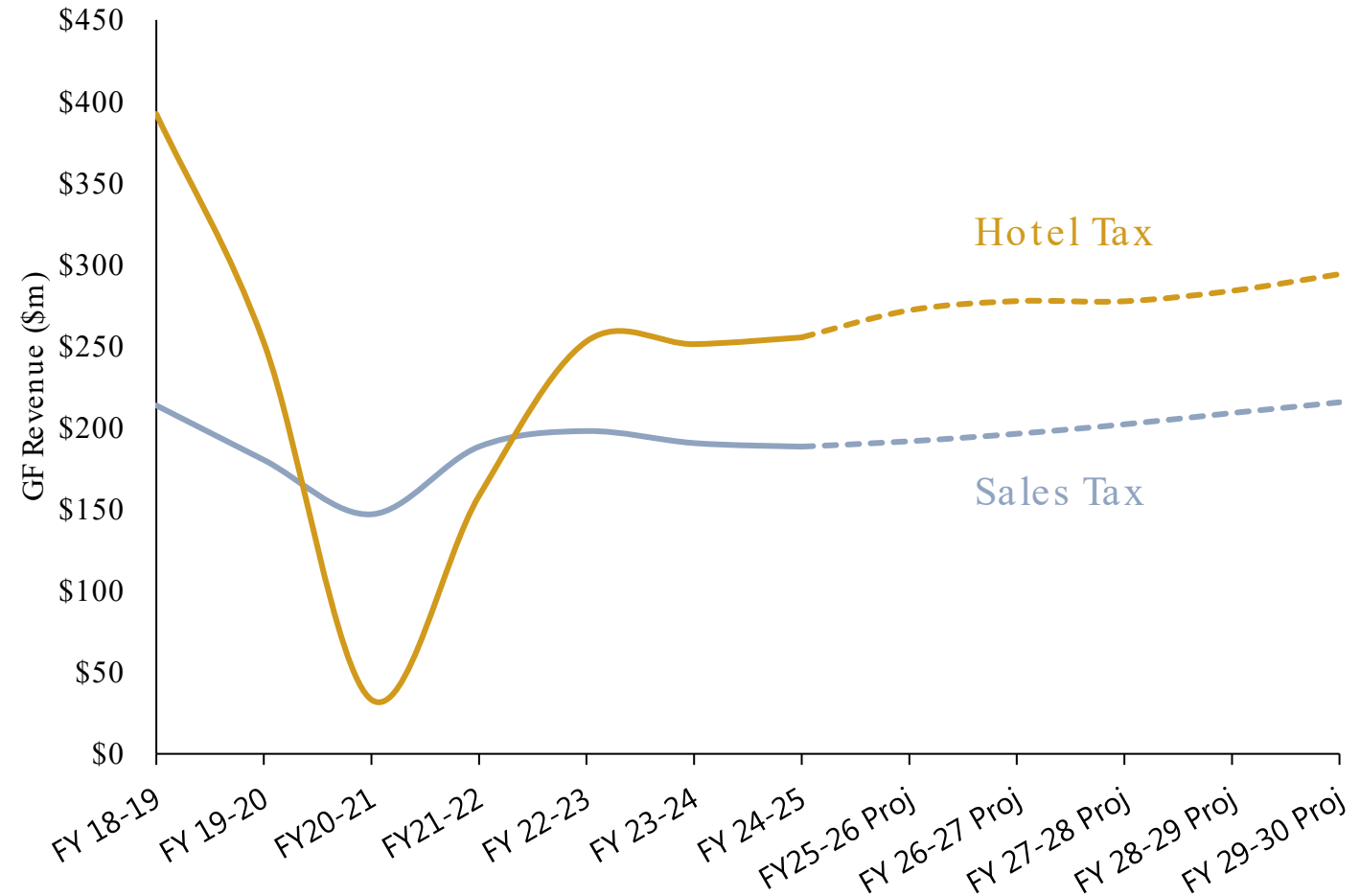


# Hotel and Sales Tax

- Significantly impacted by COVID: hotel tax declined >90%; sales tax >30%.
- Post pandemic bounce back followed by stagnant growth.
- Forecasting growth below CPI

## Hotel and Sales Tax Actuals and Projections

FY2018-19 through FY2029-30



# MTA Baselines

Actual and Projected Transfers to MTA (\$ millions)

	FY 2024-25 Actuals	FY 2025-26 Budget	FY 2026-27 Projection	FY 2027-28 Projection	FY 2028-29 Projection	FY 2029-30 Projection
<b>General Fund Aggregate Discretionary Revenue (ADR)</b>	<b>4,726.8</b>	<b>4,660.0</b>	<b>5,131.6</b>	<b>5,242.6</b>	<b>5,476.6</b>	<b>5,625.4</b>
<b>1 MUNICIPAL TRANSPORTATION AGENCY</b>						
Municipal Railway Baseline - 7.0675% ADR - GF Transfer	334.1	329.4	362.7	370.5	387.1	397.6
Parking & Traffic Baseline - 2.5070% ADR - GF Transfer	118.5	116.8	128.7	131.4	137.3	141.0
Population Adjustment - GF Transfer	89.4	90.5	89.4	89.6	89.8	90.6
Parking Tax In-Lieu - 80% Parking Tax - GF Transfer	65.0	71.0	66.8	66.8	66.8	66.8
Traffic Congestion Mitigation Fund - Special Tax (50%)	9.5	10.0	10.0	10.0	10.0	10.0
<b>Subtotal Municipal Transportation Agency</b>	<b>616.5</b>	<b>617.7</b>	<b>657.5</b>	<b>668.4</b>	<b>691.0</b>	<b>706.0</b>

# HR1 and FY 2025-26 State Budget Impact

## Department of Public Health

- Estimated direct funding losses at the Department of Public Health of \$65 million in FY 2026-27, \$138 million in FY 2027-28, and roughly \$100 million in each subsequent year. These cuts are due to reductions in Medi-Cal payment rates, uncompensated care, community support, and emergency health care. Direct losses are assumed in the Five-Year Financial Plan.
- An increase in the uninsured population will result in the loss of reimbursements for care. The level of disenrollments in Medi-Cal is not yet known but is estimated to result in annual revenue losses of \$90 million to \$180 million. These impacts are not assumed in deficit.

## Human Services Agency

- To maintain eligibility for Medi-Cal and CalFresh benefits, clients will need to demonstrate compliance with new or expanded work requirements, greatly increasing HSA eligibility workload and costs to the City should it increase staffing levels to meet it. These impacts are not assumed in deficit.

# Risks to the Forecast

- State budget: HR1 will increase the state's Medicaid and food program costs. AI-fueled personal income tax revenue gains vulnerable to potential stock market correction.
- Business tax litigation: at FY 2024-25 close risk of \$570 million in General Fund revenue and \$365 million non-General Fund revenue.
- Ballot measures could materially affect the outlook. Competing June 2026 measures to both increase and decrease business tax revenue.
- Federal actions: additional revenue losses from HR1
- Recession

# San Francisco Economic Update

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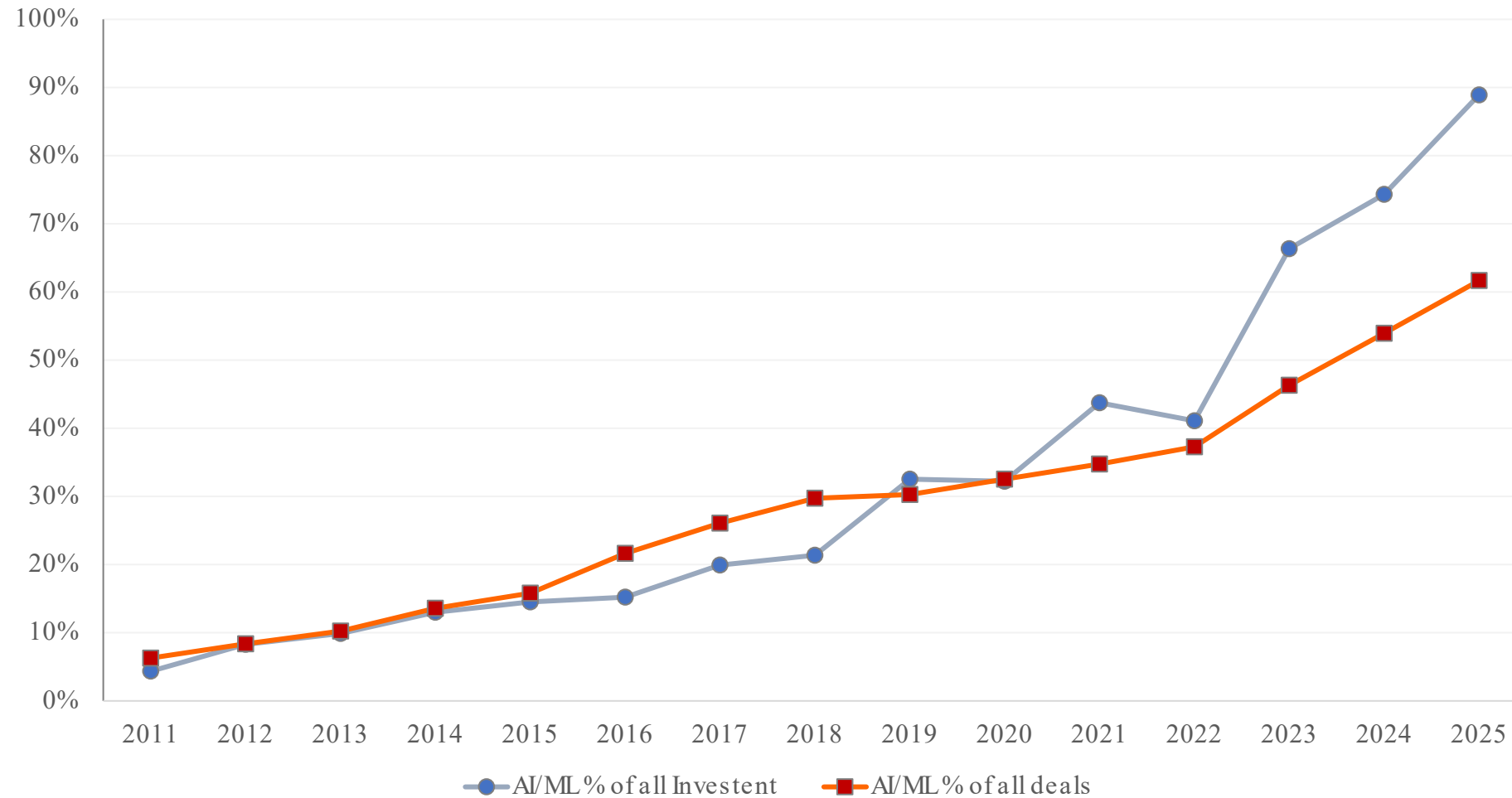
Ted Egan, Ph.D.

Chief Economist, Controller's Office

February 3, 2025

# AI Now Accounts for 80% of Bay Area VC Investment

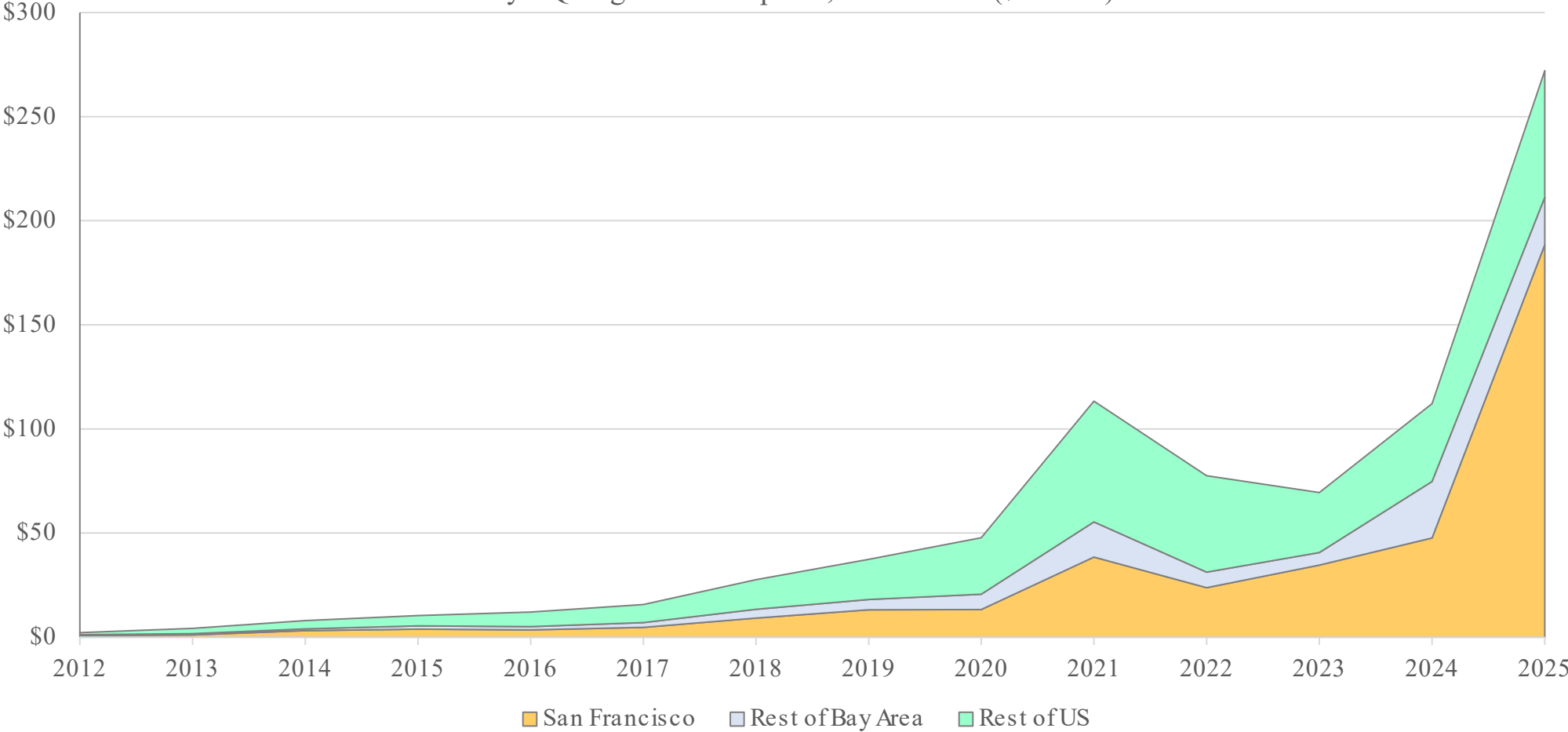
Bay AI/ Machine Learning VC as a % of Total Bay Area VC, 2011-25



Source: Pitchbook

# 60% of U.S. AI Venture Capital Went to SF, 2023-25

U.S. Venture Capital Investment in Artificial Intelligence / Machine Learning, by HQ Region of Recipient, 2012-2025 (\$ Billion)



Source: Pitchbook

# Local Impacts: Contrasting Tech Booms

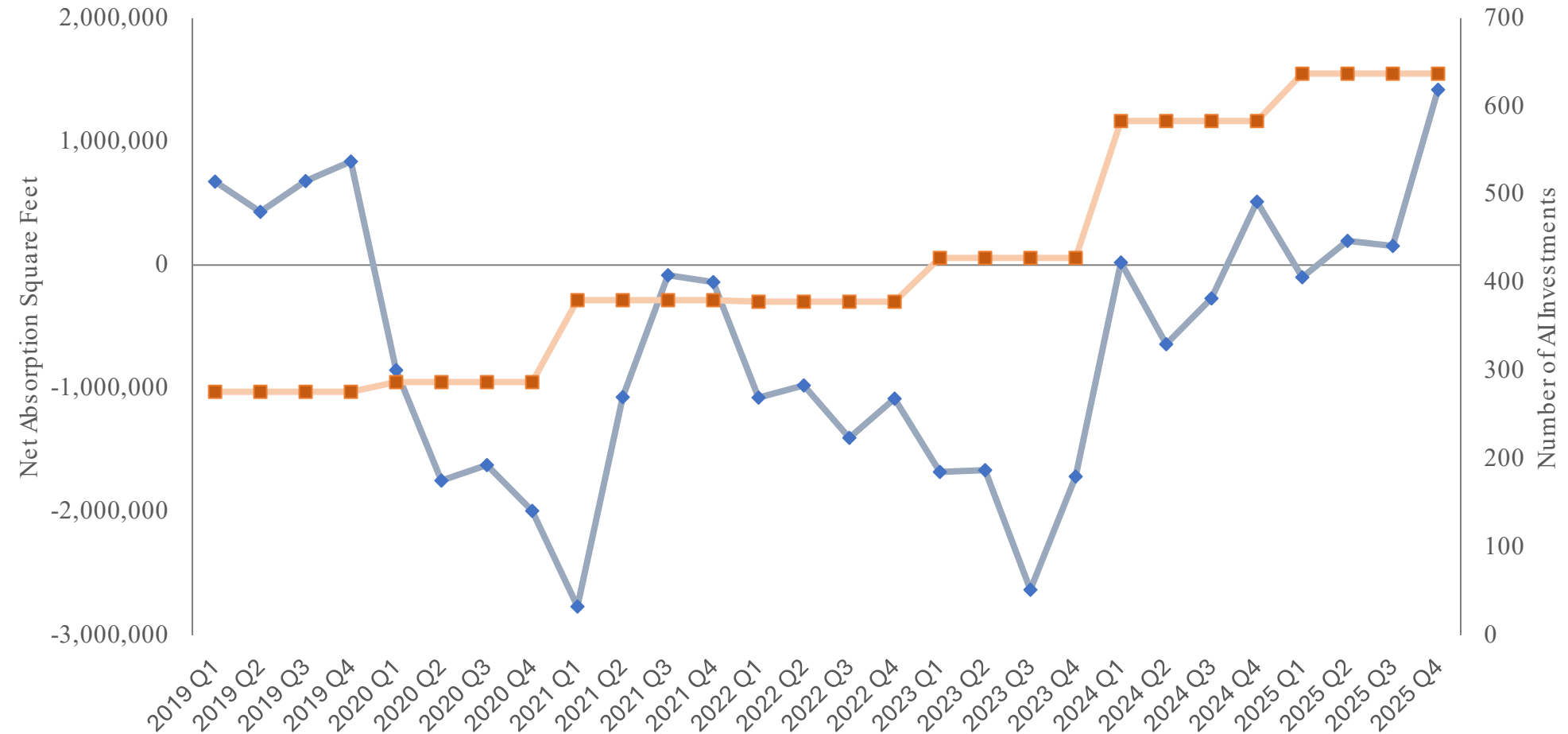
	2011-13	2023-25
Bay Area venture capital (\$ 2025 B)	\$66.1	\$405.5
SF Office Net Absorption (Million square feet)	5.3	-7.5
Change in SF Tech Employment	33,576	-31,080
Change in SF Total Employment	89,978	-33,374

Source: Pitchbook



# But Office Leasing is Turning With AI Demand

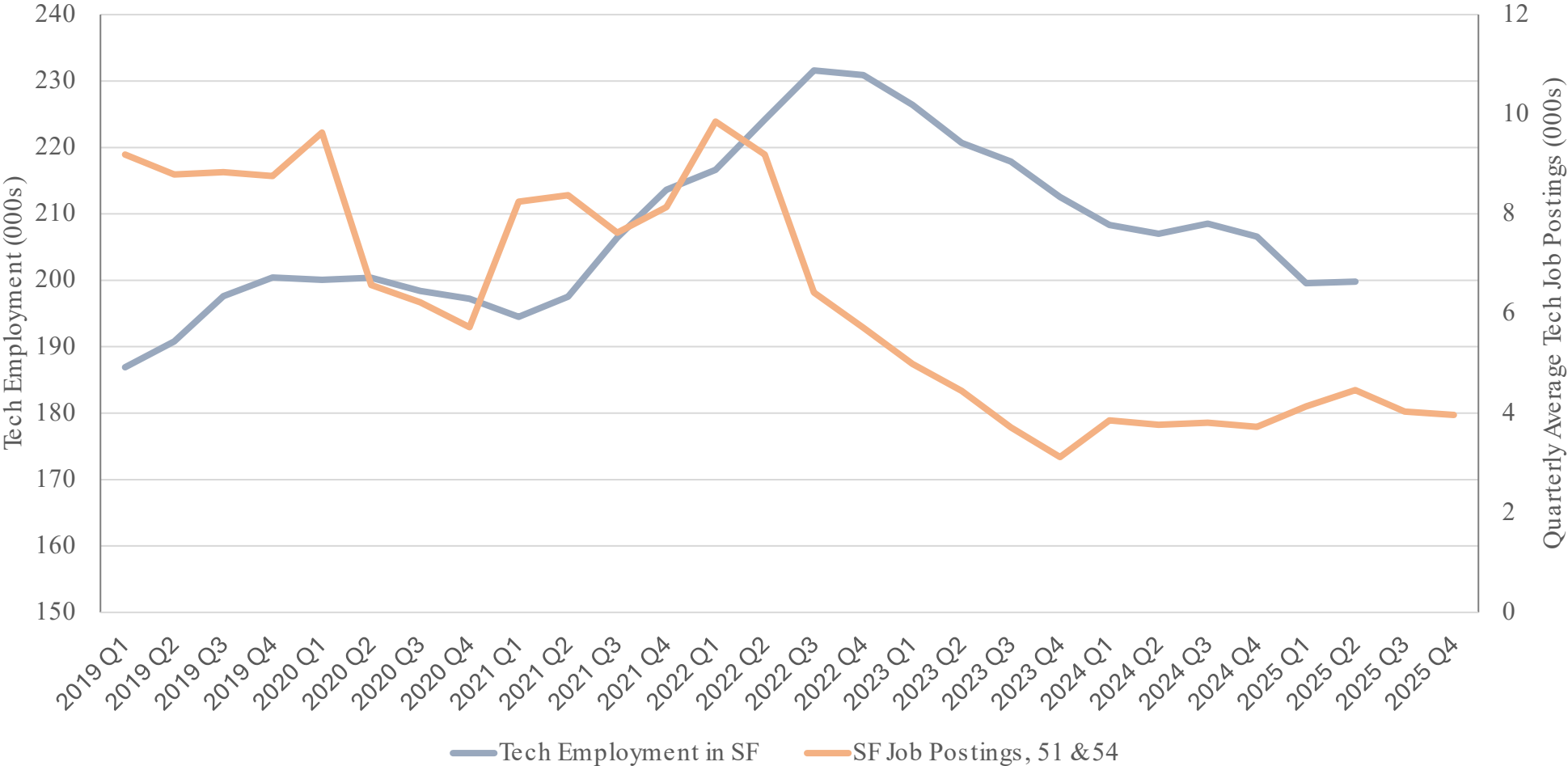
SF Office Net Absorption, Number of AI VC investments, 2019-2025



Source: CoStar; Pitchbook

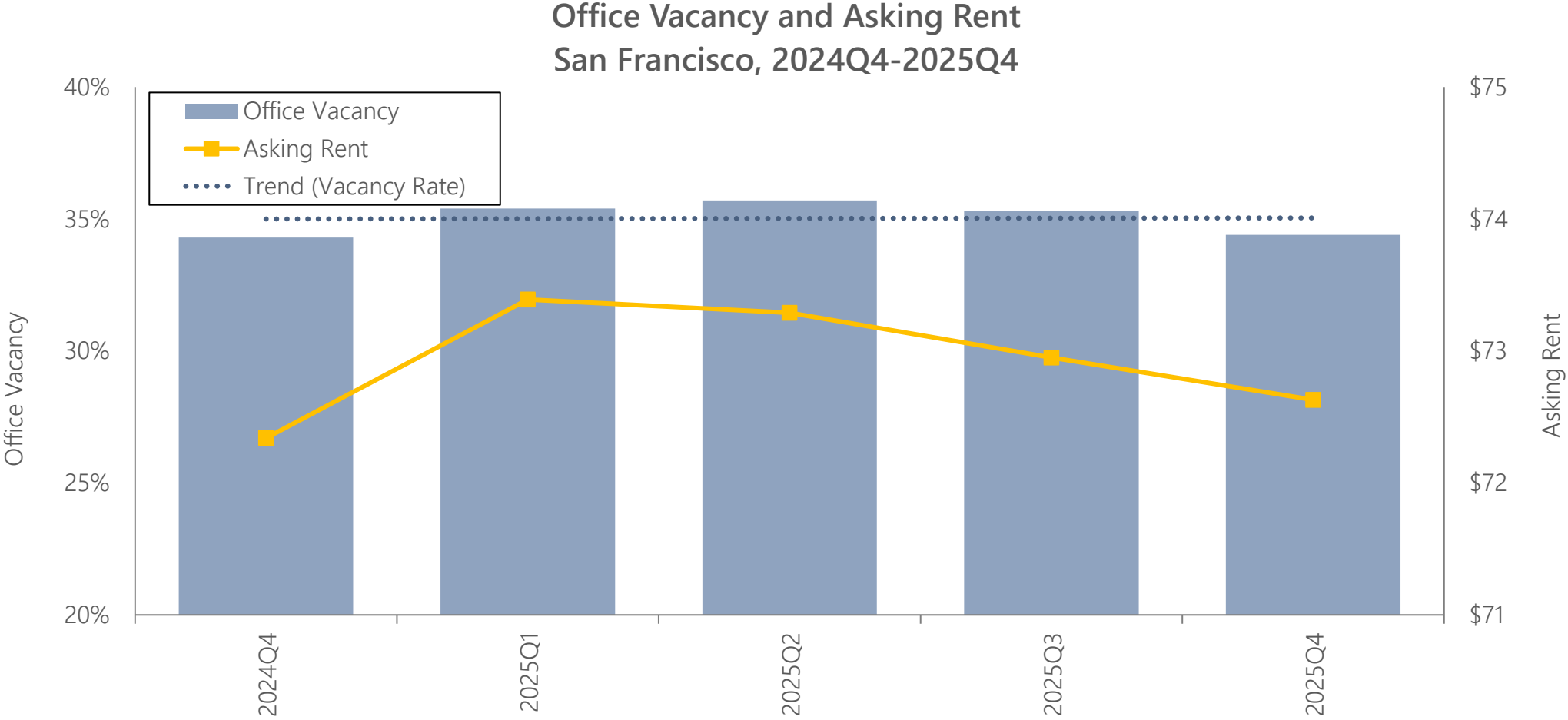
# And Tech Employment May Have Bottomed Out

SF Tech Employment and Job Postings, 2019Q1 - 2025Q4



Source: BLS LED, Lightcast.io. "Tech" is defined as NAICS 51 & 54.

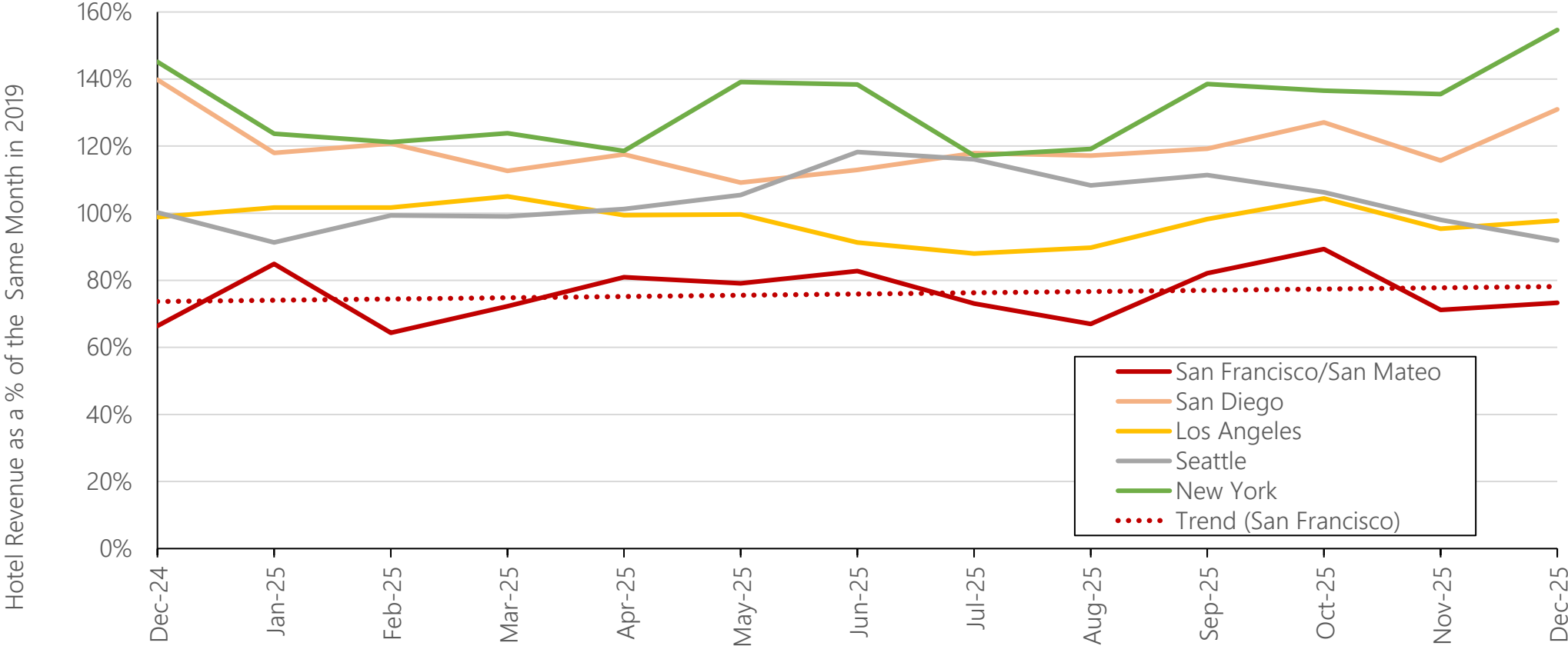
# Office Vacancy Likely Peaked in Mid-2025



Source: Jones Lang LaSalle (JLL)

# SF Hotel Revenue Recovery Remains Flat

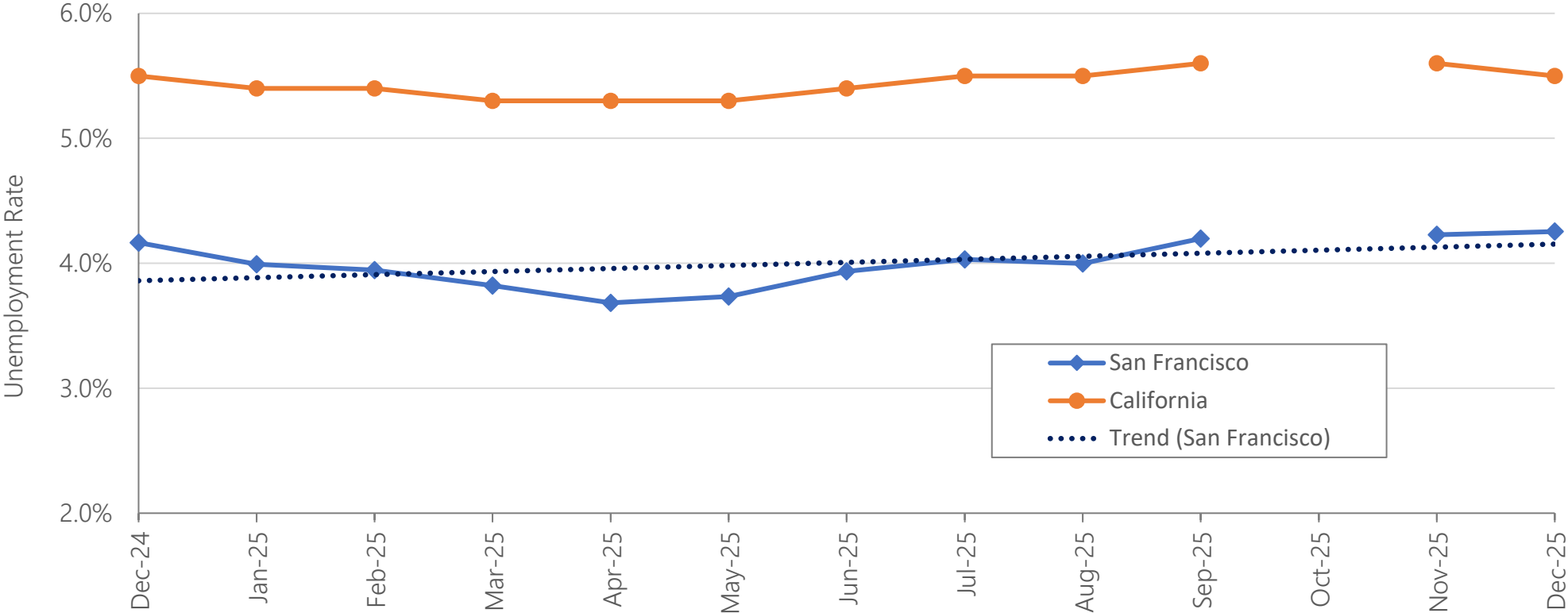
Monthly Hotel Revenue per Available Room Night, Selected Cities, December 2024-December 2025



Source: STR

# City's Unemployment Rates Edging Up As Economy Cools

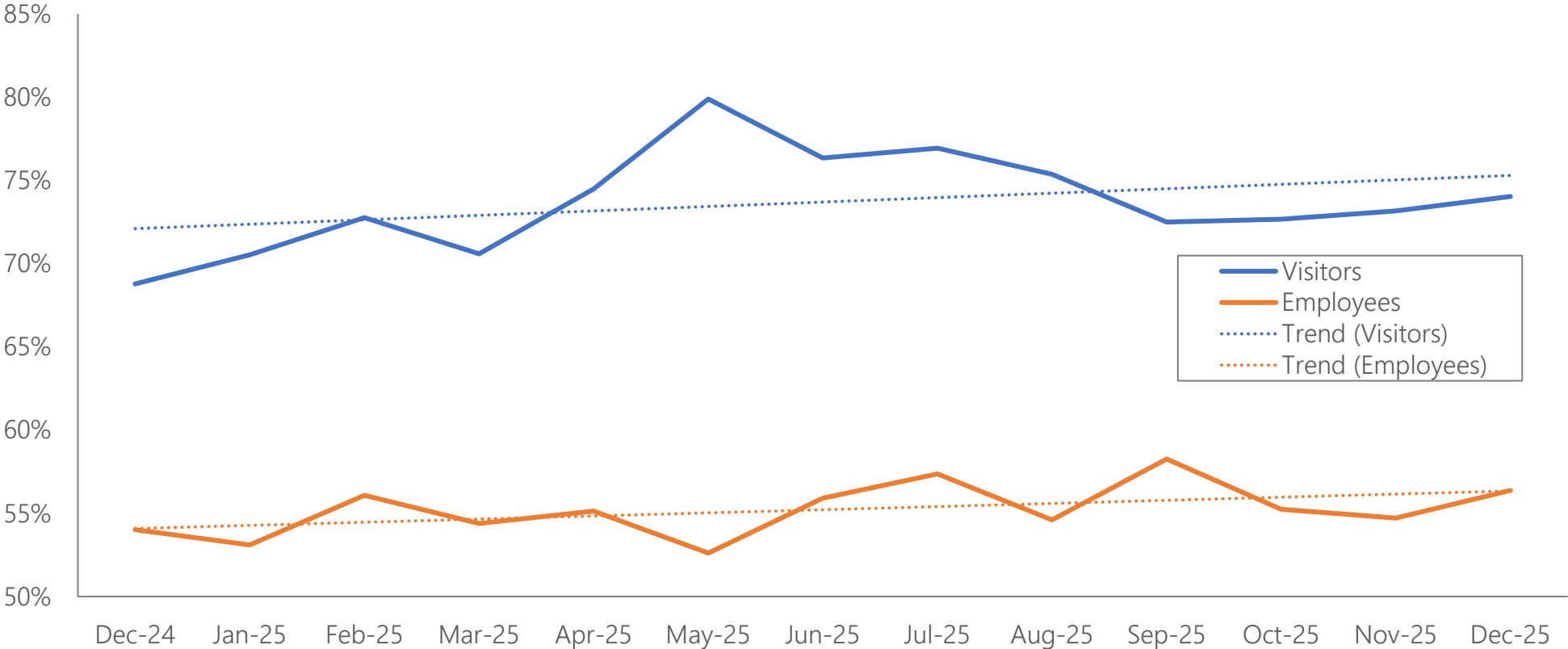
Monthly Unemployment Rate, Seasonally Adjusted  
San Francisco and State of California, December 2024-December 2025



Source: EDD. Seasonal adjustment for San Francisco by the Office of Economic Analysis.

# Downtown Visitor Foot Traffic Trending Up in 2025

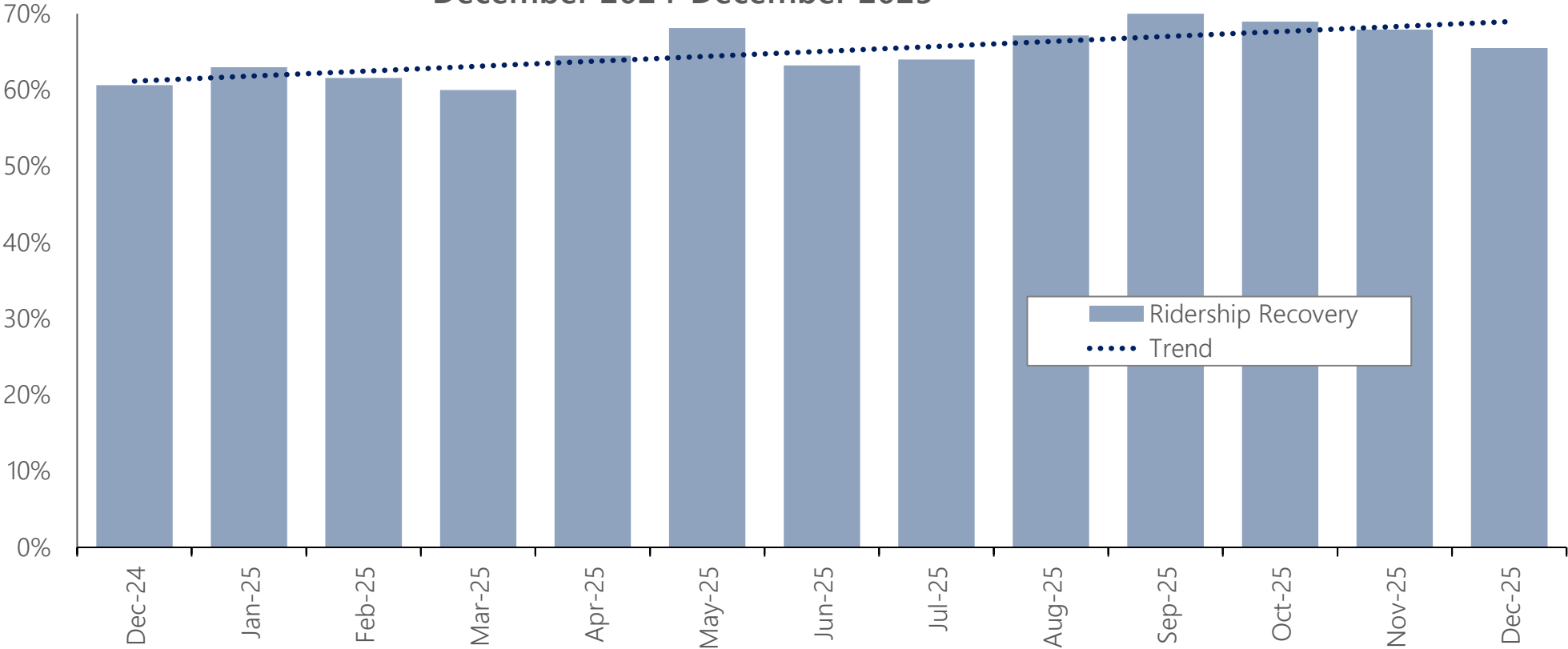
Monthly Employee and Visitor Foot Traffic to Downtown San Francisco,  
As a % of Same Month in 2019, December 2024- December 2025



Source: Placer.ai, courtesy of the San Francisco Recreation and Parks Department.

# MUNI Metro Ridership Continuing to Recover in 2025

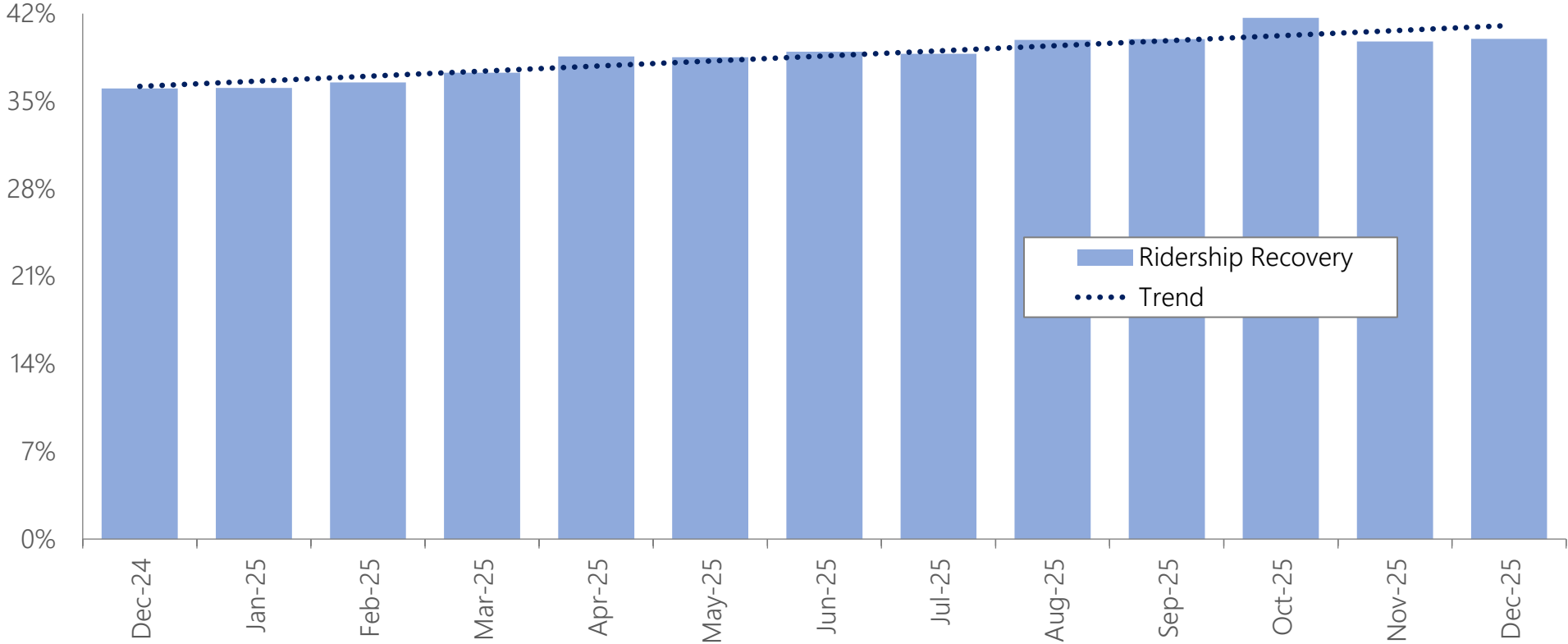
Average Weekday Boardings, Muni Metro (Subway),  
as a Percentage of the Same Month in 2019,  
December 2024-December 2025



Source: SFMTA

# BART's Downtown Recovery Continuing As Well

BART Exits At Downtown San Francisco Stations,  
as a Percentage of the Same Month in 2019,  
December 2024-December 2025

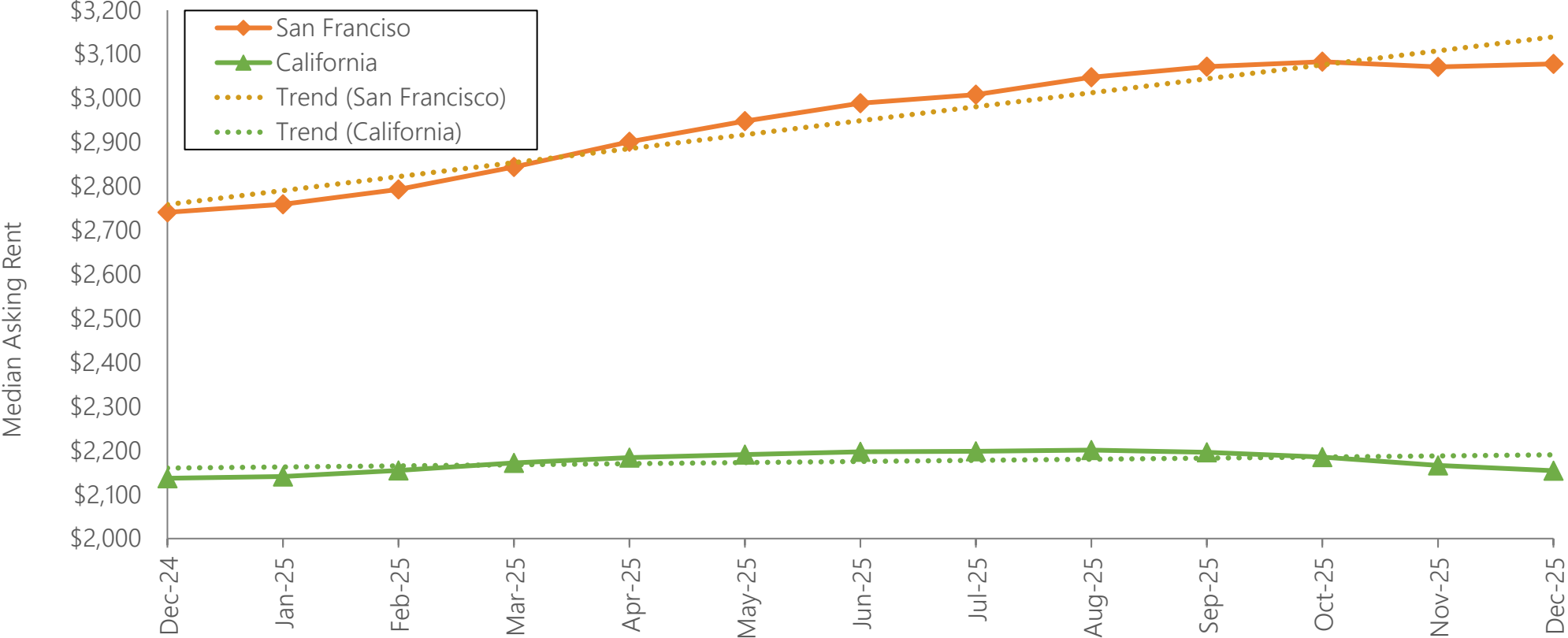


Source: BART



# SF Apartment Rents Among the Fastest-Growing in the US

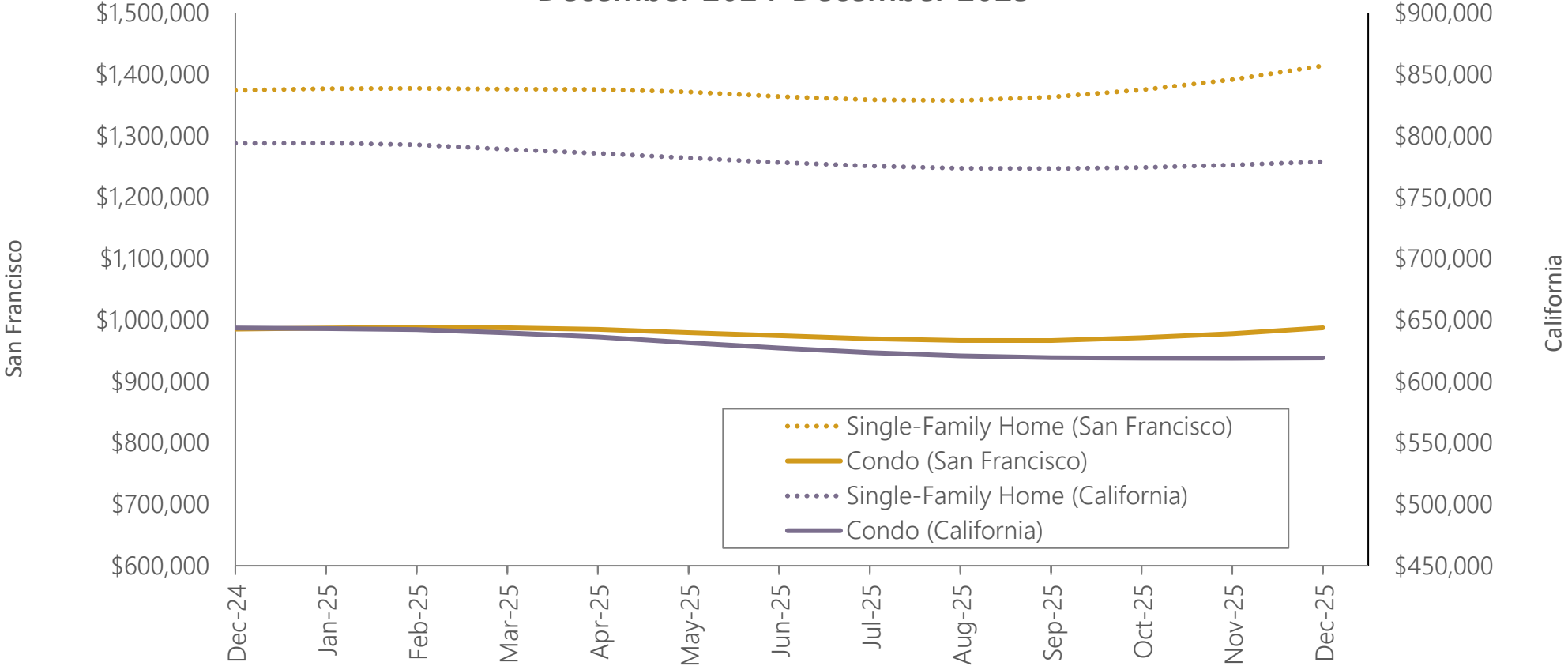
Apartment Median Asking Rent,  
San Francisco and California, December 2024-December 2025



Source: Apartment List

# SF Housing Prices Have Also Turned a Corner

Condo and Single-Family Home Prices in San Francisco and California, December 2024-December 2025



Source: Zillow