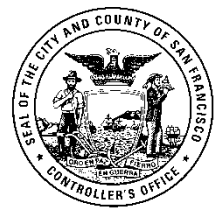


City and County of San Francisco

Office of the Controller

FY 2011-12 Nine-Month Budget Status Report



May 11, 2012



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Summary

The Controller's Office provides periodic budget status updates to the City's policy makers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides the most recent expenditure and revenue information and projections for the Fiscal Year End. This report updates the projections provided in the Controller's FY 2011-12 Six-Month Budget Status Report (Six-Month Report) published February 13, 2012.

As shown in Table 1, this report projects an ending available General Fund balance of \$172.4 million, representing a \$43.3 million increase from the Six-Month Report projection.

Table 1. FY 2011-12 Projected General Fund Variances to Budget, \$M

	Six- Month	Nine- Month	Change
A. Starting Available Fund Balance			
Better than anticipated starting balance	\$ 9.1	\$ 9.1	\$ -
Supplemental Appropriation Use of Fund Balance	(1.0)	(2.0)	(1.0)
Pending Supplemental Use of Fund Balance	(1.0)	-	1.0
Subtotal Starting Available Fund Balance	7.1	7.1	-
B. Citywide Revenues and Baselines			
Citywide Revenue Surplus	122.3	143.0	20.7
General Fund Impact of Baseline Revenue Transfers	(15.8)	(15.6)	0.2
Subtotal Citywide Revenues and Baselines	106.5	127.4	20.9
C. Departmental Operations			
Departmental Surpluses (Shortfalls)	20.3	42.4	22.1
Release of State Revenue Loss Allowance	-	5.1	5.1
Deposit to Budget Savings Incentive Reserve	(4.8)	(9.6)	(4.8)
Subtotal Departmental Operations	15.5	37.9	22.4
D. Projected Available Fund Balance	\$ 129.1	\$ 172.4	\$ 43.3

A. General Fund Available Starting Balance

The General Fund available fund balance at the end of FY 2010-11 was \$168.5 million. The FY 2011-12 budget assumed and appropriated \$159.4 million of this balance, leaving a surplus of \$9.1 million available for use in the current fiscal year. Of that amount, \$1 million had been appropriated prior to publication of the Six Month Report for a spending plan related to closure of the Potrero Power Plant. Since the Six Month Report, a further \$1 million was appropriated to replenish a Small Business Revolving Loan Fund, leaving \$7.1 million remaining.

B. Citywide Revenues and Baseline Transfers

As shown in Table 2, citywide revenues before baseline transfers have improved by \$20.7 million since the Six-Month Report, primarily due to updated projections of property transfer taxes, payroll and sales taxes, and other revenues. More information on these revenue trends are provided in Appendix 1.

Table 2. General Fund Citywide Revenues Variances to Budget (\$ Millions)

	Six-Month Surplus (Shortfall)	Nine-Month Surplus (Shortfall)	Change
Property Tax	31.3	9.3	(22.0)
Payroll & Business Registration Tax	19.8	38.4	18.5
Sales Tax - Local 1% and Public Safety	12.3	13.3	1.0
Hotel Room Tax	11.6	15.3	3.7
Transfers In from Other Funds	1.4	2.8	1.4
1991 Realignment Sales Tax/VLF	3.7	2.9	(0.8)
Utility User & Access Line Taxes	(5.7)	(5.8)	(0.0)
Property Transfer Tax	43.7	66.1	22.5
Parking Tax	3.4	2.3	(1.1)
Interest Income	1.8	1.8	-
Motor Vehicle In-Lieu/Other	(0.9)	(3.5)	(2.5)
Total Major Citywide Revenues	122.3	143.0	20.7

Baseline Funding Transfers

Table 3 shows that projections for baseline and parking tax in-lieu transfers to the Municipal Transportation Agency (MTA), Public Library and Public Education Enrichment Fund are decreased by a net \$0.2 million compared to the Six-Month Report. As described in Appendix 4, this takes into account the return of \$1.9 million in Library baseline transfer to the General Fund (per Charter Section 16.109), due to the projected operating surplus from improved Property Tax allocations.

Table 3. General Fund Baseline Transfers (\$ Millions)

	Six-Month Projection	Nine-Month Projection	Variance
Aggregate Discretionary Revenues (ADR)	2,185.1	2,207.0	21.9
MTA Baseline 9.2% ADR	200.9	202.9	2.0
Library Baseline 2.3% ADR	49.9	50.5	0.5
Library Return of Baseline share of Savings	-	(1.9)	(1.9)
Public Education Fund Baseline 0.3% ADR	6.3	6.4	0.1
Total Baseline Transfers	257.2	257.9	0.7
80% Parking Tax in Lieu Transfer to MTA	60.3	59.4	(0.9)
Total Baselines and In-Lieu Transfers	317.5	317.3	0.2

C. Departmental Operations

We project a net departmental operations surplus of \$42.4 million compared to revised budgets, and the release to fund balance of an additional \$5.1 million of unused State revenue loss allowance. Of these savings, \$9.6 million would be deposited to the Budget Savings Incentive Reserve, resulting in a net surplus of \$37.9 million. This represents a \$22.4 million improvement since the Six-Month report, primarily due to \$17.4 million of increased net savings in Human Services Agency assistance programs that exceeded prior projections. Departmental surpluses and shortfalls are detailed and discussed in Appendix 2.

The Mayor's Office and the Controller's office will work with departments anticipating potential shortfalls to develop plans to bring expenditures in line with revenues by year-end without requiring additional supplemental appropriations.

D. Ending Available General Fund Balance \$172.4 Million

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2011-12 of \$172.4 million.

Status of Reserves

A discussion of the status of reserves is provided in Appendix 3.

Other Funds

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds received General Fund baseline transfers and other subsidies.

Enterprise funds are used primarily for self-supporting agencies, including the Airport, Public Utilities Commission and the Port. The Municipal Transportation Agency receives a significant General Fund subsidy.

Projected General Fund Support requirements for these funds are included in the department budget projections in Appendix 2. Appendix 4 provides a table of selected special revenue and enterprise fund balance projections and a discussion of their operations.

Projection Uncertainty Remains

Projection uncertainties include the potential for continued fluctuations in tax revenues in the final months of the fiscal year as well as property tax appeal decisions that may require us to revise our assumptions regarding set-asides for future refunds.

Scheduled Year-end General Fund Balance Update: Revenue Letter

The Controller's Office will update the year-end General Fund balance projection in the Discussion of the Mayor's Fiscal Years 2012-13 and 2013-14 Proposed Budget (also known as the "Revenue Letter"), scheduled to be published in mid-June 2012. Final results for Fiscal Year 2011-12 will be reported in the City's Comprehensive Annual Financial Report, due to be published in December 2012.

Appendices

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections
3. Status of Reserves
4. Salaries and Benefits Reserve Update
5. Other Funds Highlights

Appendix 1. General Fund Revenues and Transfers In

As shown in Table A1-1, total General Fund citywide and departmental revenues are projected to be \$130.5 million above budget. This total represents a loss \$13.6 million in departmental revenues as discussed in Appendix 2 and a net increase \$1.1 million due to the reflection of the unallocated state budget shortfall in departments and changes to General Fund Transfers out form budget. All other changes are discussed in this Appendix.

The FY 2011-12 budget assumed a continuing moderate recovery in tax revenues throughout the fiscal year. Tax revenues projected to recover beyond budgeted levels include property, payroll, sales, hotel and property transfer taxes. These gains are partially offset by shortfalls in key sources including state health and social service subventions, utility users tax, and charges for services. Selected revenue streams are discussed below.

Table A1-1: Detail of General Fund Revenue and Transfers In

GENERAL FUND (\$ Millions)	FY 2010-11	FY 2011-12		Nine-Month Projection	Surplus/ (Shortfall)
	Year End Actual	Original Budget	Revised Budget		
PROPERTY TAXES	\$ 1,061.9	\$ 1,028.7	\$ 1,028.7	\$ 1,038.0	\$ 9.3
BUSINESS TAXES					
Business Registration Tax	8.1	8.4	8.4	8.5	\$ 0.1
Payroll Tax	383.0	381.5	381.5	419.7	\$ 38.2
Total Business Taxes	391.1	389.9	389.9	428.2	38.4
OTHER LOCAL TAXES					
Sales Tax	106.3	106.6	106.8	114.3	7.5
Hotel Room Tax	158.9	165.9	165.9	181.2	15.3
Utility Users Tax	91.7	95.6	95.6	89.2	(6.4)
Parking Tax	72.7	72.0	72.0	74.3	2.3
Real Property Transfer Tax	135.2	118.8	118.8	185.0	66.1
Stadium Admission Tax	2.4	2.3	2.3	2.7	0.3
Access Line Tax	40.9	41.1	41.1	41.7	0.6
Total Other Local Taxes	608.2	602.3	602.5	688.4	85.9
LICENSES, PERMITS & FRANCHISES					
Licenses & Permits	9.4	8.6	8.6	8.6	-
Franchise Tax	15.8	15.7	15.7	13.2	(2.5)
Total Licenses, Permits & Franchises	25.3	24.3	24.3	21.8	(2.5)
FINES, FORFEITURES & PENALTIES	6.9	7.7	7.7	7.7	-
INTEREST & INVESTMENT INCOME	8.2	6.1	6.1	7.8	1.8
RENTS & CONCESSIONS					
Garages - Rec/Park	12.4	10.1	10.1	9.3	(0.8)
Rents and Concessions - Rec/Park	8.8	10.7	10.7	11.4	0.8
Other Rents and Concessions	2.2	2.1	2.1	2.1	-
Total Rents and Concessions	23.4	22.9	22.9	22.9	-
INTERGOVERNMENTAL REVENUES					
Federal Government					
Social Service Subventions	184.5	205.8	198.4	199.2	0.8
Other Grants & Subventions	26.7	3.0	8.4	8.5	0.1
Total Federal Subventions	211.3	208.8	206.8	207.7	0.9
State Government					
Social Service Subventions	143.6	142.5	130.2	116.9	(13.4)
Health & Welfare Realignment - Sales Tax	100.3	101.4	101.4	107.9	6.6
Health & Welfare Realignment - VLF	42.9	42.3	42.3	38.6	(3.7)
Health & Welfare Realignment - CalWORKs MOE			25.5	26.2	0.7
Health/Mental Health Subventions	69.7	114.4	90.6	85.7	(4.8)
Public Safety Sales Tax	68.4	69.1	69.1	74.9	5.8
Motor Vehicle In-Lieu	5.3	1.7	1.7	0.8	(0.9)
Other Grants & Subventions	26.2	13.1	19.0	21.1	2.2
State Budget Reduction Placeholder	-	(15.0)	(5.1)	-	5.1
Total State Grants and Subventions	456.5	469.6	474.7	472.1	(2.5)
CHARGES FOR SERVICES:					
General Government Service Charges	35.1	36.3	36.2	36.9	0.7
Public Safety Service Charges	22.4	22.2	22.3	21.4	(0.9)
Recreation Charges - Rec/Park	12.6	12.1	12.1	12.1	-
MediCal, MediCare & Health Service Charges	52.2	58.0	58.1	54.1	(4.0)
Other Service Charges	11.5	14.7	14.6	14.6	-
Total Charges for Services	133.8	143.3	143.2	139.1	(4.1)
RECOVERY OF GEN. GOV'T. COSTS	10.3	10.4	10.4	10.4	-
OTHER REVENUES					
Other Revenues	8.5	18.8	18.2	18.8	0.6
Total Other Revenues	8.5	18.8	18.2	18.8	0.6
TOTAL REVENUES	2,945.1	2,932.7	2,935.3	3,062.9	127.7
TRANSFERS INTO GENERAL FUND:					
Airport	30.2	30.3	30.3	33.1	2.8
Other Transfers	76.9	126.9	128.2	128.2	-
Total Transfers-In	107.1	157.2	158.5	161.3	2.8
TOTAL GENERAL FUND RESOURCES	\$ 3,052.2	\$ 3,089.9	\$ 3,093.72	\$ 3,224.20	\$ 130.5

Property Tax revenue in the General Fund is projected to be \$1,038 million, or \$9.3 million above budget. This represents a \$22 million decrease from the surplus projected in the Six-Month Report. Approximately \$14 million of the projected decrease since the Six-Month Report is due to a trend of reductions in assessed values resulting from appeals awards. The remaining \$8 million is due to updated calculations regarding the impact of the February 1, 2012 dissolution of the San Francisco Redevelopment Agency (SFRA).

Table A1-2 shows the impact of updated property tax projections on the special funds that receive Charter-mandated property-tax set-asides.

Table A1-2. Property Tax Set-Asides, \$ Millions

	Original Budget	Six-Month Projection	Nine- Month Projection	Change from Six-Month
Children's Fund	42.7	44.3	43.1	(1.2)
Open Space Fund	35.6	36.9	35.9	(1.0)
Library Preservation Fund	35.6	36.9	35.9	(1.0)
Total	113.8	118.1	115.0	(3.1)

Business Tax revenues are projected to be \$38.4 million or 9.8% over budget, a \$18.5 million increase from the Six-Month Report projection. Bureau of Labor Statistics data indicate higher than expected growth in private employment and average weekly wages in the first three quarters of tax year 2011, indicating total wages increased by 11.8%, 10.6%, and 10.6% over the same quarters in tax year 2010. Tax year 2011 data indicate 9.7% growth. The FY 2011-12 projection assumes 6.9% growth in tax year 2012 prepayments during the final quarter that will be partially offset by a growth in refunds from FY 2010-11, resulting in net annual revenue growth of 12.1%.

San Francisco is currently involved in litigation related to Proposition Q, a 2008 voter-approved ordinance which requires that the payroll expense tax be paid on all business partner compensation, excluding returns on investment. Final year-end revenue may be either greater or less than our projection depending on developments with these lawsuits.

Local Sales Tax revenues are projected to be \$7.5 million over budget, or 7.5% over prior year actual revenues, marking no change from the Six-Month Report projection. Cash collections for the first and second quarters of FY 2011-12 improved 12.8% and 7.7% from the same quarters in the prior year, respectively. In the second quarter, all of the major retail categories showed growth, with construction, general retail, and restaurant sectors exhibiting the greatest increases. The current projection assumes growth of 5.0% and 4.5% in the third and fourth quarters of FY 2011-12 over the same quarters in the prior year, resulting in annual revenues exceeding the FY 2007-08 prior peak by \$2.9 million.

Hotel Room Tax revenues allocated to the General Fund are projected to be \$15.3 million (9.2%) over budget and \$3.7 million over the Six-Month Report projection. Revenues increased due to continuing strong demand for hotel rooms increasing both the Average Daily Rate (ADR) and

occupancy rates above the prior peak in late 2008. Between July 2011 and February 2012 revenue per available room (RevPAR), or the combined effect of occupancy, Average Daily Room rates, and room supply, increased 16.3% over the same period in the prior year. Our projections assume slowing growth in the final two quarters of 7.2% and 7.0% respectively bringing the total projected increase from FY 2010-11 to 12.4%. Hotel taxes are allocated to special funds as stipulated in the FY 2011-12 Annual Appropriation Ordinance, with any surplus or shortfall in total hotel tax revenue entirely absorbed by the General Fund.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. Final year-end revenue may be either greater or less than our projection depending on developments with these lawsuits.

Real Property Transfer Tax revenues are projected to be \$66.1 million over budget, or 36.8% above prior year actual revenues and a \$22.5 million improvement from the Six-Month Report projection. Total taxes paid through April were approximately 42% above prior year levels, largely driven by an increase in high-value commercial transactions (which are taxed at the top 2.5% rate). Through April, transactions involving properties valued at \$10 million or greater account for 59% of all transfer tax revenue received. Much of the sales activity has been in the office sector, a result of increased tenant demand, particularly from technology-related firms, improving market fundamentals and leading to an infusion of capital from institutional investors. Sales for the final two months are projected to increase 9% over prior year, consistent with the value of commercial properties known to be on the market and anticipated to close by fiscal year end.

Utility Users Tax revenues are projected to be \$6.4 million under budget, or 2.7% below prior year actual revenues and \$0.6 million reduced from the Six-Month Report projection. Changes are driven by a 6.1% decrease in telephone user taxes from prior year actual revenues, slightly offset by a 14.3% increase in water user tax revenues and a 0.3% increase in natural gas and electric user tax revenues. The decrease in telephone user taxes is likely attributable to unbundling of data plans from cell phone bills.

Access Line Tax revenues are projected to be \$0.6 million over budget and the Six-Month Report projection. Year to date revenues through March were approximately 2.46% above prior year actual revenues, and this trend is expected to continue through year-end.

Parking Tax revenues are projected to be \$2.3 million over budget, or 2.2% above prior year actuals and \$2.6 million more than the Six-Month Report projection. The recovery in business activity and employment as reflected in increases to payroll and sales tax projections is driving increases in parking tax revenues. Additionally, beginning in December 2010, the City increased enforcement efforts towards parking lot operators who do not hold Certificates of Authority to collect parking tax, increasing both compliance and revenues. The change since January 2011 is -0.8% reflecting the annualization of these enforcement efforts.

Interest & Investment Income is projected to be \$1.8 million over budget, 4.1% below prior year actual revenues and no change from the Six-Month Report projection. The average monthly Treasurer's pooled interest rate in the current year is projected to be 1.2%, or 11% below prior year.

State Grants and Subventions are projected to be \$2.5 million under revised budget, representing a \$35.0 million improvement from the Six-Month Report projection. \$24 million of the improvement

is due to a Department of Public Health Supplemental appropriation, which revised the Department's state revenue budget downward to reflect reduced mental health funding. The lost mental health funds were replaced with \$6.5 million in State revenue loss allowance funds and additional general fund support freed up through increased San Francisco General Hospital and Laguna Honda Hospital revenues. Other significant components of the State grants and Subventions forecast are:

Public Safety Sales Tax revenues are projected to be \$5.8 million over budget, or 9.5% over prior year actuals, and approximately \$1.0 million over the Six-Month Report projection. Revenues through April 2012 are up 11% over the same time prior year due to an improvement in the statewide sales tax base for this subvention. Current projections assume a 7.6% increase in statewide sales tax, as well as a 1.7% increase in San Francisco's pro rata share of these revenues.

Health & Welfare Realignment – Sales Tax revenues are projected to be \$7.6 million over budget, or 7.6% over prior year actual, and approximately \$1.3 million over the Six-Month Report projection. The increase is due to the improving statewide sales tax base, projected to increase 7.6% in FY 2011-12 over FY 2010-11 actuals.

Health & Welfare Realignment – Vehicle License Fee revenues are projected to be \$3.7 million under budget and 10.0% below prior year actual revenues. New vehicle sales continue to show increases from prior years with sales of new cars in the first two quarters of FY 2011-12 increasing by 16.1% from the same period in FY 2010-11. However, this is not enough to overcome the erosion in the amortized values of existing vehicles, which declined dramatically during the recession and generate over 80% of VLF revenue.

Health & Welfare Realignment – CalWORKs Maintenance Of Effort revenues are projected to be \$2.0 million over budget, or about \$150,000 over the Six-Month Report projection, based on year-to-date receipts and projected growth in state sales tax. The State's FY 2011-12 budget reallocated a portion of state sales tax and state and local VLF revenues to the Local Revenue Fund for a number of realigned programs. Counties receive Local Revenue Fund revenue for mental health programs and can then use existing county medical health funding to pay for a higher share of CalWORKs grant costs. San Francisco's CalWORKs MOE allocations are recalculated every year and are directly tied to what the county would have received under the 1991 realignment formula for distribution of funding for mental health services.

Appendix 2. General Fund Department Budget Projections

Table A2-1. General Fund Supported Operations (\$ Millions)

GENERAL FUND (\$ millions)	Uses Revised Budget	Uses Projected Year-End	Revenue Surplus/ (Shortfall)	Uses Savings/ (Deficit)	Net Surplus/ (Deficit)	Notes
PUBLIC PROTECTION						
Adult Probation	18.6	17.6	-	1.0	1.0	1
Superior Court	33.2	33.2	-	-	-	
District Attorney	35.5	35.4	(0.2)	0.2	-	
Emergency Management	42.6	42.9	-	(0.3)	(0.3)	2
Fire Department	283.0	282.1	(0.5)	0.9	0.4	3
Juvenile Probation	31.7	31.7	2.2	-	2.2	4
Public Defender	26.0	26.1	-	(0.2)	(0.2)	
Police	402.6	402.2	(0.3)	0.4	0.1	5
Sheriff	140.5	139.9	(0.6)	0.6	-	6
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Public Works	64.7	64.6	0.2	0.1	0.3	
Economic & Workforce Development	22.4	22.4	-	-	-	
Board of Appeals	0.9	0.7	(0.1)	0.2	0.1	
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT						
Children, Youth & Their Families	31.7	31.7	-	-	-	
Human Services	671.5	624.7	(12.6)	46.8	34.2	7
Environment	1.4	1.4	-	-	-	
Human Rights Commission	0.7	1.1	-	(0.4)	(0.4)	8
County Education Office	0.1	0.1	-	-	-	
Status of Women	3.3	3.3	-	-	-	
COMMUNITY HEALTH						
Public Health General Fund	617.1	614.3	(2.8)	2.8	-	9
SF General Hospital Realignment	50.1	50.1	-	-	-	
Subsidy Transfer to SF General Hospital Fund	120.8	120.8	-	-	-	
Subsidy Transfer to Laguna Honda Hospital Fund	42.6	42.6	-	-	-	
CULTURE & RECREATION						
Asian Art Museum	7.2	7.2	-	-	-	
Arts Commission	9.0	9.0	-	-	-	
Fine Arts Museum	11.7	11.7	-	-	-	
Law Library	0.8	0.7	-	0.1	0.1	
Recreation and Park	73.7	73.7	-	-	-	
Academy of Sciences	4.0	3.9	-	0.1	0.1	
GENERAL ADMINISTRATION & FINANCE						
City Administrator	62.5	62.5	-	-	-	
Assessor / Recorder	21.8	19.9	0.7	1.9	2.6	10
Board of Supervisors	11.7	11.7	0.1	-	0.1	
City Attorney	8.7	8.7	-	-	-	11
Controller	15.6	14.4	0.6	1.2	1.7	12
City Planning	24.2	24.3	-	(0.1)	(0.1)	
Civil Service Commission	0.5	0.5	-	-	-	
Ethics Commission	12.0	12.0	-	-	-	
Human Resources	13.5	13.5	-	-	-	
Health Service System	0.6	0.4	-	0.1	0.1	
Mayor	10.3	10.3	-	-	-	
Elections	14.9	14.8	0.1	0.1	0.2	
Retirement System	1.9	1.9	-	-	-	
Technology	3.3	3.3	-	-	-	
Treasurer/Tax Collector	24.3	23.7	(0.3)	0.6	0.2	13
GENERAL CITY RESPONSIBILITIES						
	198.0	198.0	-	-	-	
TOTAL GENERAL FUND	3,171.4	3,115.4	(13.6)	56.0	42.4	

Notes to General Fund Department Budget Projection

The following notes provide explanations for the projected variances for select department's projected actual revenues and expenditures compared to the revised budget.

1. Adult Probation

The Adult Probation Department projects that it will end the fiscal year with expenditure saving of \$1.0 million from salary and fringe benefits due to delayed hiring for the Public Safety Realignment implementation plan.

2. Emergency Management

The Department of Emergency Management projects that it will end the fiscal year with a \$0.3 million deficit. Revenues are expected to be on budget, but higher than budgeted expenditures are projected, primarily within salaries and benefits. The Controller's Office and the Mayor's Office are working with the Department to address this deficit.

3. Fire Department

The Fire Department projects to end the fiscal year with a net surplus of \$0.4 million. A decreased revenue projection of \$0.5 million in reduced ambulance billing is offset by \$0.9 million in expenditure savings. A supplemental appropriation request to shift funding from savings in regular salary and fringe benefits to cover over-expenditures in overtime has passed the first reading and is currently pending for final approval.

4. Juvenile Probation

The Juvenile Probation Department projects to end the fiscal year with a net surplus of \$2.2 million, driven by a \$0.7 million projected surplus in federal Title IV-E revenues due to more reimbursable expenses than anticipated, and a \$1.4 million projected surplus in State Juvenile Probation and Camps Funding (JPCF) revenue, due to a change in the funding structure.

5. Police Department

The Police Department projects to end the fiscal year with a net surplus of \$0.1 million. The Department projects a net decrease of \$0.3 million in revenue, primarily due to the lower than projected Car Park revenues, although these were partially offset by higher than budgeted Alarm Permit and other public safety revenues. The revenue shortfall is offset by salary and benefit expenditure savings.

6. Sheriff

The Sheriff's Department projects to end the fiscal year within budget. The Department projects a \$0.6 million revenue shortfall due to decreased State funding for the boarding of prisoners as a result of Public Safety Realignment. In their FY 2011-12 budget, the Sheriff's Department received \$0.8 million on Mayor's reserve to increase their electronic monitoring capacity in the event that the jail population increased at a rapid rate. Although the daily jail population has increased since the start of this fiscal year, as of the writing of this report it has not increased to a level that warrants the full release of this reserve. Of the reserved amount, \$0.2 million is expected to be used for additional City Attorney costs, resulting in net expenditure saving of \$0.6 million.

7. Human Services Agency

As shown in Table A2-2, the Human Services Agency projects to end the fiscal year with a \$34.2 million net surplus. This is \$17.4 million higher than projected at the time of the Six-Month

report. The Agency is projecting an \$11.5 million net General Fund surplus in Aid programs, primarily due to lower than expected caseloads in the County Adult Assistance Program (CAAP) and CalWORKs program, lower than expected expenditures in Foster Care due to the delay in implementing mandated changes in client payments and services, lower than anticipated cost per case in Adoptions, and lower than expected hours in In-Home Supportive Services. Operational savings include \$5.1 million in salary and fringe savings due to slower than expected hiring and \$1.8 million from Adult Day Health Center funding that is no longer needed due to restoration of State funding. The Department also received \$1.2 million in increased revenue for the County Adult Assistance Program's Supplemental Security Income Advocacy Program, \$1.7 million in new funds for CalFRESH (Food Stamps), \$1.9 million for Child Care, and unexpected mid-year increases for CalWORKs and Medi-Cal revenue reallocations from other counties.

Table A2.2. Human Services Agency Summary, General Fund Support (\$ Millions)

Aid Programs	Budget	Six- Month	Nine- Month	GF Savings (Shortfall) from Budget	Change in GF Savings (Shortfall) from Six- Month
County Adult Assistance Programs Aid	\$ 28	\$ 27	\$ 27	\$ 1	\$ 0
Foster Care/Adoptions Aid	30.9	24.8	21.6	9.3	3.2
In-Home Support Services Aid	58.3	57.5	57.0	1.3	0.5
CalWorks Aid	0.5	0.8	0.8	(0.3)	0.0
Subtotal Aid	117.9	110.6	106.5	11.5	4.1
Other Services and Operations					
Aging and Adult Services Programs	41.1	40.1	38.6	2.6	1.5
CalWorks Services	11.6	8.1	2.1	9.4	5.9
County Adult Assistance and Workforce Development	23.0	20.0	20.9	2.0	(0.9)
Child Welfare and Childcare	48.3	47.7	42.9	5.4	4.7
Food Stamps/Medi-Cal Program Operations	18.5	18.3	14.7	3.9	3.7
Homeless Programs	61.3	60.5	62.1	(0.8)	(1.6)
Other Human Services Programs	1.1	0.8	0.8	0.3	0.0
State Realignment Sales Tax/Vehicle License Fees and Other Reimbursements	(58.0)	(57.9)	(57.9)	(0.1)	0.0
Total General Fund Support	\$ 264.8	\$ 248.1	\$ 230.7	\$ 34.2	\$ 17.4

8. Human Rights Commission

The Human Rights Commission is projected to end the year with a net deficit of \$0.4 million due to under-recoveries from work orders with other City departments. The Controller's Office and Mayor's Office are working with departments to resolve these discrepancies.

9. Public Health

The Department of Public Health projects that it will end the fiscal year within budget. The adoption of a Department-wide supplemental ordinance and an anticipated supplemental ordinance for nurses' salaries provided funds needed to meet the decreased revenue and increased expenditures projected at the time of the Six-Month report. The adopted supplemental ordinance appropriated funds for salaries and benefits, and materials and supplies including pharmaceuticals. Additionally, the ordinance appropriated \$27.1 million for debt service payments.

Table A2.3. Department of Public Health by Fund (\$ Millions)

	Sources		
	Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Surplus / (Deficit)
Public Health General Fund	\$ (2.8)	\$ 2.8	\$ -
Laguna Honda Hospital	0.3	(0.3)	-
San Francisco General Hospital	-	-	-
SF General Realignment Revenue	-	-	-
Laguna Honda Debt Service Reimbursement (SB 1128)	-	-	-
Total All Funds	\$ (2.5)	\$ 2.5	\$ -

Non-Hospital Operations in the General Fund

The Primary Care, Health at Home, Jail Health, Mental Health and Substance Abuse Divisions are expected to be within budget by the end of the year. The adopted supplemental ordinance appropriated funds for salaries and benefits.

Laguna Honda Hospital

At the time of the Six-Month report, the Department projected an \$18.0 million deficit for Laguna Honda Hospital. This was primarily caused by the State reduction of Medi-Cal per diem rates for skilled nursing facilities. The adoption of a supplemental ordinance and a net increase in patient revenues, offset by increased materials and supplies expenditures, has resulted in the department's projection that it will be within budget at the end of the fiscal year.

San Francisco General Hospital

Prior to the adoption of the Department of Public Health hospitals shortfall supplemental ordinance, the Department projected a \$1.1 million deficit due to higher than budgeted personnel costs. Since the adoption of the ordinance, the Department projects that it will be within budget by the end of the fiscal year.

10. Assessor Recorder

The Assessor Recorder projects to end the fiscal year with a net surplus of \$2.6 million. The Department projects a revenue surplus of \$0.7 million primarily driven by an increase in recording fees as a result of State Senate Bill 676 (2009), which increased the maximum allowable base recording fees. The Department projects \$1.9 million in expenditure savings, mainly comprised of salary and fringe benefits savings as a result of delayed hiring.

11. City Attorney

At the time of the Six-Month report, a \$3.2 million shortfall was projected at year-end. The City Attorney currently projects that it will end the year within budget.

12. Controller

The Controller projects to end the year with a net surplus of \$1.7 million due to \$0.6 million in expired check revenue and \$1.1 million in personnel and City Services Auditor project savings.

13. Treasurer/Tax Collector

The Treasurer/Tax Collector Department projects that it will end the fiscal year with a net surplus of a \$0.2 million. The Department projects \$0.5 million in expenditure savings primarily due to salary savings. A revenue shortfall of \$0.3 million is projected, due to a decrease in commission fees for delinquent traffic fines and a decrease in passport fees.

Appendix 3. Status of Reserves

General Reserve: The General Reserve starting balance was \$25 million, of which \$2.7 million was appropriated to the Department of Public Health to support a wage increase for nurses, resulting in a balance of \$22.3 million, which represents a \$7 million improvement compared to the Six Month Report status. No other appropriations from this reserve are anticipated before the end of the fiscal year. Other draws from the General Reserve that were anticipated at the time of the Six-Month report are now anticipated to be accommodated by other means.

Pursuant to a financial policy approved by the Board of Supervisors in 2011 and codified in Administrative Code Section 10.60(b), year-end balances in the General Reserve are carried forward into subsequent years and thereby reduce the amount of future appropriations required to support minimum reserve requirements established by the policy. Thus, the \$6 million reduction in the use of General Reserve compared to the Six-Month Report projections does not have an impact on the FY 2011-12 available ending balance, but instead reduces demands on the FY 2012-13 general fund budget by an equivalent amount.

Budget Savings Incentive Reserve: The Citywide Budget Savings Incentive Reserve (authorized by Administrative Code Section 10.20) receives 25% of year-end departmental expenditure savings to be available for one-time expenditures, unless the Controller determines that the City's financial condition cannot support deposits into the fund. At FY 2010-11 year-end, the Reserve received \$8.7 million from expenditure savings. To date, none of those funds have been withdrawn. This report assumes that the reserve will receive a further \$9.6 million in deposits due to departmental expenditure savings projected for FY 2011-12, bringing the total available in the reserve to \$18.3 million.

Recreation and Parks Savings Incentive Reserve: The Recreation and Parks Saving Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings by the Recreation and Park Department. This Reserve ended FY 2010-11 with \$6.2 million, of which \$4.4 million was appropriated in the FY 2011-12 Annual Appropriation Ordinance, leaving \$1.8 million remaining. No further deposits to the Reserve from FY 2011-12 net expenditure savings are projected by the Recreation & Park Department at this time, unchanged from the Six-Month Report projection.

Rainy Day Reserve: Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve (Rainy Day Reserve) funded by excess revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline. The Rainy Day Reserve began the year with \$33.4 million. As prescribed in the FY 2011-12 budget, \$8.4 million was withdrawn for the benefit of the San Francisco Unified School District to offset the impact of declining State aid. As a result, the projected year-end balance is \$25 million, which is unchanged from the Six-Month Report projection. No deposit into the Reserve is anticipated this fiscal year.

Budget Stabilization Reserve: Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The Budget Stabilization Reserve is funded by the deposit each year of 75% of Real Property Transfer Taxes above the prior five-year average (adjusted for rate changes) and ending unassigned fund balance above that appropriated as a source in the subsequent year's budget. The first deposit into the

Reserve of \$27.2 million was made from FY 2010-11 surplus unassigned fund balance. No deposit into the Reserve is anticipated this fiscal year.

Allowance for Other State Revenue Losses: Of the \$15 million budgeted allowance for State revenue losses, \$3.4 million has been appropriated to the Human Services Agency to offset planned cuts in the State's Adult Day Health Care program, of which \$1.6 million was subsequently redirected to the Department of Public Health to offset reductions in federal Ryan White HIV/AIDS program funding. A Department of Public Health Supplemental ordinance approved by the Board of Supervisors in April 2012 appropriated a further \$6.55 million from the allowance for State revenue losses to offset other Departmental shortfalls, leaving a balance of \$5.1 million. This report assumes no further appropriations will be required in Fiscal Year 2011-12.

Salary and Benefits Reserve: Administrative Provisions Section 10.4 of the FY 2011-12 Annual Appropriation Ordinance (AAO) authorizes the Controller to transfer funds from the Salary and Benefits Reserve, or any legally available funds, to adjust appropriations for employee salaries and related benefits for collective bargaining agreements adopted by the Board of Supervisors. As shown in Table A3-1, the Salary and Benefits Reserve had a fiscal year starting balance of \$20.7 million (\$7.2 million was carried forward from FY 2010-11 and \$13.5 million was appropriated in the FY 2011-12 Annual Appropriation Ordinance). As of May 9, 2012, the Controller's Office has transferred \$11.4 million to individual City departments and anticipates transferring the remaining amount by year-end.

Table A3-1. Salary and Benefits Reserve (\$ millions)

SOURCES

Adopted AAO Salary and Benefits Reserve	\$ 13.5
Remaining FY 2010-11 Salary and Benefits Reserve Balance	7.2
Total Sources	<u>\$ 20.7</u>

USES

Transfers to Departments

SEIU as needed temporary employees healthcare	0.5
Police Wellness, Premium, and Compensatory Time Payouts	5.8
Fire Wellness, Premium, and Compensatory Time Payouts	4.7
Various Training, Tuition & Other Reimbursements	0.3
Visual Display Terminal Insurance	0.1
Total Transfers to Departments	<u>\$ 11.4</u>

Anticipated Allocations

Police Wellness, Premium, and Compensatory Time Payouts	2.4
Citywide retirement/severance payouts	2.0
Other Premium and One-Time Payouts	2.9
SEIU as needed temporary employees healthcare	0.5
Various Depts - Local 21 Life Insurance	0.5
Various, Training, Tuition & Other Reimbursements	0.4
Police Recruitment Committee	0.3
Police Home Owner & Rental Assistance Programs	0.1
Total Remaining Allocations	<u>9.1</u>

Total Uses	<u>\$ 20.5</u>
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Net Surplus / (Shortfall)	<u>\$ 0.2</u>
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Appendix 4. Other Funds Highlights

Table 4-1. Other Fund Highlights, \$ Millions

SELECT SPECIAL REVENUE AND INTERNAL SERVICES FUNDS	Starting Available Fund Balance	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Operating Surplus / (Deficit)	Estimated Year-end Fund Balance	Note
Building Inspection Operating Fund	\$16.5	\$3.6	\$1.6	\$5.3	\$21.7	1
Children's Fund	2.8	0.5	1.3	1.7	4.5	2
Convention Facilities Fund	10.9	-	9.1	9.1	20.0	3
Golf Fund	0.2	(1.0)	1.0	-	0.2	4
Library Preservation Fund	17.3	1.1	0.2	1.4	18.7	5
Local Courthouse Construction Fund	(2.1)	(0.5)	-	(0.5)	(2.6)	6
Open Space Fund	2.8	0.4	-	0.4	3.2	7
Telecomm. & Information Systems Fund	1.9	-	3.0	3.0	4.9	8
SELECT ENTERPRISE FUNDS						
Airport Operating Fund	\$62.8	\$8.3	\$24.2	\$32.5	\$95.3	9
MTA – Operating Funds	25.2	14.0	-	14.0	39.2	10
Port Operating Fund	27.8	6.9	6.1	13.1	40.9	11
PUC – Hetch Hetchy Operating Fund	67.2	(16.0)	15.2	(0.8)	66.4	12
PUC – Wastewater Operating Fund	41.0	-	11.9	11.9	52.9	13
PUC – Water Operating Fund	22.4	1.3	9.9	11.2	33.6	14

NOTES TO SPECIAL REVENUE, INTERNAL SERVICES AND ENTERPRISE FUNDS

Select Special Revenue Funds

1. Building Inspection Fund

The Building Inspection Department operating fund began the year with \$16.5 million in available fund balance. The Department projects operating revenues net of refunds to be \$3.6 million over budget and an expenditure savings of \$1.6 million. This results in a projected fiscal year-end available fund balance of \$21.7 million.

2. Children's Fund

The Children's Fund began the fiscal year with a fund balance of \$2.8 million. Current year revenues are projected to be \$0.5 million better than budget due to the projected increases in Property Tax revenue. The fund is also projecting \$1.3 million in expenditure savings resulting in a projected fiscal year-end available fund balance of \$4.5 million.

3. Convention Facilities Fund

The Convention Facilities Fund began the fiscal year with \$10.9 million in available fund balance. The Department projects \$9.1 million in Moscone Center debt service savings. The net result is an operating surplus of \$9.1 million and a projected fiscal year-end available fund balance of \$20.0 million.

4. Golf Fund

The Golf Fund began the fiscal year with \$0.2 million in available fund balance. The Recreation and Park Department projects revenue shortfalls at \$1.0 million due to decreased usage of municipal golf courses and environmental issues at Sharp Park. The projected revenue shortfall will be offset by operating expenditure, resulting in a fiscal year-end available fund balance of \$0.2 million.

5. Library Preservation Fund

The Library Preservation Fund began the fiscal year with \$17.3 million in available fund balance. The Department projects a revenue surplus of \$1.1 million due to increases in the Property Tax allocation and the General Fund baseline contribution. The \$1.1 million is net of a \$1.9 million reduction to the required General Fund baseline contribution pursuant to San Francisco Charter Section 16.109. The Department projects expenditure savings of \$0.2 million primarily due to savings in materials and supplies. The net result is an operating surplus of \$1.4 million and a projected fiscal year-end available fund balance of \$18.7 million.

6. Local Courthouse Construction Fund

The Local Courthouse Construction Fund began the year with an available fund balance shortfall of \$2.1 million after taking into account the \$1 million assumed in the FY 2011-12 budget. Current year revenues are expected to be about \$0.5 million under budget due to a decline in the number of parking tickets issued and an associated loss of parking ticket surcharge revenues dedicated for this fund. This results in an anticipated year-end fund balance shortfall of \$2.6 million.

The fund supports debt service on the Certificates of Participation sold to support construction of the 400 McAllister Street Courthouse Certificates of Participation and lease costs for the Community Justice Center at 575 Polk Street. The fund is expected to begin running an

operating surplus in FY 2016-17, when debt service requirements are scheduled to drop by over \$2 million per year.

7. Open Space Fund

The Open Space Fund began the fiscal year with \$2.8 million in available fund balance. The Recreation and Park Department projects revenues to be \$0.4 million over budget. Expenditures are projected to be on budget, with a net operating surplus of \$0.4 million and a projected fiscal year-end available fund balance of \$3.2 million.

8. Telecommunication & Information Services Fund

The Telecommunication & Information Services Fund began the fiscal year with an available fund balance of \$1.9 million. The Department of Technology projects revenues to be on budget and increased expenditure savings from those projected at the time of the Six-Month report, from \$2.7 million to \$3.0 million, resulting in a projected net surplus of \$3.0 million and a fiscal year-end available fund balance of \$4.9 million.

Select Enterprise Funds

9. Airport Operating Fund

The Airport Operating Fund began the fiscal year with \$62.8 million in available fund balance. The Department is projecting a net revenue surplus of \$8.3 million, a \$15.1 million increase since the Six-Month Report, primarily attributable to higher landing fee, parking and concessions revenue. The Department projects expenditure savings of \$24.2 million, which is \$0.8 million higher than from the Six-Month Report. This change results in a projected net surplus of \$32.5 million and a fiscal-year end available fund balance of \$95.3 million

10. Municipal Transportation Agency (MTA) – Operating Funds

MTA began the fiscal year with \$25.2 million in available operating fund balance (excluding restricted Transit Impact funds). The Agency is projected to end the year with a net operating surplus of \$14.0 million from higher revenues. The surplus is primarily made up of a \$12.2 million surplus in transit fares, \$14.0 million from increased baseline transfers from aggregate discretionary general fund revenue, and \$3.6 million in increased parking meter revenues and parking fees, offset by a \$12.1 million shortfall in traffic fines.

The Agency projects to end the year within its overall expenditure budget. However, salaries and benefits are expected to exceed budget by \$50.8 million, of which \$22 million is due to overtime use. The \$50.8 million overspending in salaries and benefits will be offset by reduced spending in non-personnel items, including \$16.2 million in contracts and other services, \$11.2 million in materials and supplies, \$10.1 million in payments to other agencies, \$2.5 million in rent, and \$10.8 million in reduced spending for equipment and maintenance. By reducing spending in these non-labor categories, the Agency anticipates that there will be an impact on service, including deferred maintenance of the transit fleet and transit facilities.

11. Port Operating Fund

The Port Operating Fund began the fiscal year with \$27.8 million in available fund balance. The Department projects a \$6.9 million revenue surplus primarily driven by a \$5.2 million increase in real estate revenues from rents and parking, a \$1.3 million increase in maritime revenues as a

result of higher cruise and ship repair volume, and \$0.4 million in other operating revenue improvements. The Department projects \$6.1 million in expenditure savings consisting of \$1.9 million in non-personnel services, \$0.9 million in annual projects, \$1.6 million in salaries and fringe benefits, \$0.6 million in services of other departments, and \$0.5 million in debt service savings as a result of delays in issuing new debt for capital projects. The expenditure savings is partially offset by a \$0.3 million shortfall in expenditure recoveries. This results in a projected net operating surplus of \$13.1 million and a fiscal-year end available fund balance of \$40.9 million.

12. Public Utilities Commission – Hetch Hetchy Operating Fund

The Hetch Hetchy Operating Fund began the fiscal year with \$67.2 million available fund balance. Revenues are projected to be \$16.0 million lower than budget, due to lower power sales to City departments, Western System Power Pool, and Irrigation Districts due to dry year conditions and the elimination of the Clean Renewable Energy Bonds. This shortfall is partially offset by \$15.2 million in expenditure savings. This will result in a projected net revenue deficit of \$0.8 million, and an available fund balance of \$66.4 million.

13. Public Utilities Commission – Wastewater Operations Fund

The Wastewater Operations Fund began the fiscal year with \$41.0 million in available fund balance. Revenues are projected to be the same as budgeted. Expenditure savings of \$11.9 million are projected due to lower than anticipated pumping and lower chemical usage due to dry weather. This results in a projected net savings of \$11.9 million, resulting in a projected year-end fund balance of \$52.9 million.

14. Public Utilities Commission – Water Operating Fund

The Water Operating Fund began the fiscal year with an available fund balance of \$22.4 million. Revenues are projected to be \$1.3 million higher than budget, primarily due to property sales. \$9.9 million in expenditures savings are projected, including salary savings from vacant positions. This results in a projected net surplus of \$11.2 million and a projected fiscal year-end available fund balance of \$33.6 million.

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