



CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

Edward Harrington
Controller

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Deputy Controller

May 6, 2004

The Honorable Gavin Newsom
Mayor, City and County of San Francisco
Room 200, City Hall

The Honorable Board of Supervisors
Room 244, City Hall

Re: **FY 2003-04 Nine-Month Budget Status Report**

Dear Mayor Newsom, Ladies and Gentlemen:

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. This report is the Nine-Month Budget Status Report based on sources of funds received and uses of funds from July 1, 2003 expended through March 31, 2004. The purpose of the report is to apprise the City's policy makers of the current and projected budgetary status of the General Fund.

I. OVERVIEW

We project a balance of \$5.86 million for the General Fund by the end of the fiscal year 2003-2004 (FY 2003-04), which is an improvement from the (\$1.26) million shortfall projected in the Six-Month Report due mainly to additional departmental expenditure savings. This low balance is primarily caused by a \$40 million reduction in Motor Vehicle License Fees (the "car tax") over what had been assumed in the City's budget, which offset most of projected departmental savings and remaining General Reserve balance funded each year in the annual budget. For comparison purposes, the City ended fiscal year 2002-03 with a \$48 million surplus.

The projected year-end balance is based on current revenue and spending patterns. The actual year-end balance may differ due to changes in revenues, spending rates, the amount of supplemental appropriations and releases of reserves ultimately approved by the Mayor and/or the Board. While the narrative on the following pages provides a summary of key revenue changes and departmental operations, **uncertainty is still present with respect to the timing of our local economic recovery and the timing and amount of additional savings strategies being developed by the Mayor's Office and departments to bridge remaining departmental shortfalls.**

Our projections assume that a gradual economic recovery takes hold through the second half of FY 2003-04. If the lagging, jobless recovery in the Bay Area continues, additional revenue weakness of \$5 to \$10 million is estimated in the current fiscal year. However, we could also see good news by year-end as the Mayor's Office continues to work with departments with projected shortfalls to reduce spending. This could add another \$5 to \$7 million to the projected year-end fund balance.

Chart A: Nine-Month General Fund Budget Summary – FY 2003-04 (millions)

	AAO Original Budget	Revised Budget	Year-End Projection	Savings / (Shortfall)
SOURCES:				
General Fund Beginning Balance	\$ 47.06	\$ 47.06	\$ 47.85	\$ 0.79
Prior Year Reserves	\$ 11.42	\$ 11.42	\$ 15.25	\$ 3.82
Subtotal Sources - Prior Years	\$ 58.48	\$ 58.48	\$ 63.10	\$ 4.62
Current Revenues	\$ 2,053.55	\$ 2,059.27	\$ 2,023.23	\$ (36.04)
Transfer, net	\$ 132.71	\$ 135.53	\$ 136.88	\$ 1.35
Subtotal Sources - Current Year	\$ 2,186.26	\$ 2,194.80	\$ 2,160.11	\$ (34.69)
Carryforwards, net		\$ 76.40	\$ 76.40	\$ -
Total Sources	\$ 2,244.74	\$ 2,329.69	\$ 2,299.61	\$ (30.07)
USES:				
Operating Expenditures, net	\$ 1,844.97	\$ 1,895.93	\$ 1,883.41	\$ 12.52
General Fund Contribution Transfers	\$ 275.19	\$ 275.19	\$ 273.94	\$ 1.25
Projects, Capital, Facilities Maintenance	\$ 86.17	\$ 123.89	\$ 122.28	\$ 1.61
Reserves	\$ 13.41	\$ 13.41	\$ 13.41	\$ -
Subtotal	\$ 2,219.74	\$ 2,308.42	\$ 2,293.04	\$ 15.38
Required Set-Asides - Budget Savings			\$ 2.00	\$ (2.00)
Total Uses	\$ 2,219.74	\$ 2,308.42	\$ 2,295.04	\$ 13.38
GENERAL FUND ENDING BALANCE	\$ 25.00	\$ 21.27	\$ 4.57	\$ (16.70)
Non-General Fund Supplementals Pending Board (City Planning)			\$ 1.29	
GENERAL FUND ENDING BALANCE			\$ 5.86	

General Fund Beginning Balance & Prior Year Reserves

At the time the budget for FY 2003-04 was prepared, we anticipated starting the current fiscal year with a General Fund Beginning Balance of \$47.06 million and Prior Year Reserves of \$11.42 million. When the Comprehensive Annual Financial Report for the year ended June 30, 2003, was completed in February 2004, we confirmed that the ending balance from the previous fiscal year was \$47.85 million, along with Prior Year Reserve balances of \$15.25 million. As a result, there is an additional \$4.62 million of prior year sources available from FY 2002-03 that was not anticipated when the current budget was adopted. This surplus was primarily due to litigation-related reserve balances.

Current Revenues and Transfers In

We project revenues and transfers to be \$34.69 million lower than the revised FY 2003-04 budget. This is largely due to a projected \$70 million State funding shortfall of which an estimated \$59 million pertains to VLF reductions and a lagging recovery in the Bay Area. Our revenue projections are based on realized revenues through the first nine months of FY 2003-04, discussions with industry and department experts, and analysis of key economic indicators and forecasts. The current projection of general tax revenues is **predicated upon a gradual recovery**

during the second half of FY 2003-04. If this does not materialize, we project that a further revenue shortfall of \$5 to \$10 million would result.

The \$34.69 million shortfall is attributed mainly to the loss of more Vehicle License Fee backfill revenue than previously assumed in the budget, along with economic weakness in the following key tax revenues: Business Tax, Sales Tax, Hotel Room Tax, and Parking Tax. These tax revenues have been adversely affected by the lagging recovery in the Bay Area. Property Transfer Tax revenue is better than originally expected and nearly offsets the weakness exhibited in more cyclical or economically sensitive revenues. Section II (Chart C) provides the revenue and transfer details.

At this point in our fiscal year, *key projection uncertainty* is still present for Payroll Tax, Sales Tax and Hotel Room Tax revenues. Payroll Tax returns were delinquent if not filed by the end of February 2004; however, with limited wage increase data for 2003 and the difficult-to-assess impact of no New Jobs Tax Credits, a great deal of uncertainty still exists in projecting this revenue. As for Sales Tax and Hotel Room Tax, achieving our projected revenue is dependent upon an economic recovery during the second half of FY 2003-04. Furthermore, definitive evidence whether a mid-fiscal year recovery is taking hold will not be known for Sales Tax until another quarter's data is reported, since there is always a three-month lag in receiving calendar quarter actuals data from the State. This delay affects all California jurisdictions.

Current Operating Expenditures & Transfers Out

Based on current spending patterns, we project overall department expenditures and transfers to result in \$15.38 million in overall uses-side savings. Section III (Chart D) outlines projected year-end surpluses or deficits for each department, along with the impact net of departmental revenue performance.

Some General Fund Supported departments are projected to have expenditure savings, others shortfalls. Additionally, some departments have revenue surpluses, while others have projected revenue shortfalls. The tables on the following page summarize projected variances from budget for all departmental sources and uses for FY 2003-04. The first table includes departments that project a net shortfall after considering both revenue and expenditure projections. The second table summarizes departments with projected net savings, which contributes to the year-end projected General Fund balance. To a large degree, departmental savings reported in this report are a reflection of the Mayor's Office initiative to closely monitor and control spending during the fiscal year given the uncertainty tied to State revenue impacts.

Departments with a Net Shortfall, US\$ Millions

		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Sheriff	\$	(1.00)	(3.07)	(4.07)
City Planning		(1.20)	(0.06)	(1.26)
Public Works		(2.02)	1.10	(0.92)
Aging & Adult Services		(1.29)	0.39	(0.90)
District Attorney		0.55	(1.35)	(0.80)
Trial Courts		0.00	(0.50)	(0.50)
Recreation & Park		(1.20)	0.85	(0.35)
Elections		(0.35)	0.00	(0.35)
Police Department		(0.32)	0.00	(0.32)
Fine Arts Museum		(0.12)	0.00	(0.12)
Academy of Sciences		0.00	(0.04)	(0.04)
Juvenile Probation		(0.34)	0.32	(0.02)
Total Projected Shortfall	\$	(7.29)	(2.37)	(9.66)

Departments Contributing Net Savings, US\$ Millions

		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Human Services	\$	(6.29)	17.00	10.71
Public Health (DPH, SFGH, LHH)		2.15	6.26	8.41
Emergency Communications		1.50	0.87	2.37
Administrative Services		0.24	0.65	0.88
Assessor / Recorder		0.35	0.35	0.70
Fire Department		1.78	(1.27)	0.51
Treasurer / Tax Collector		(0.00)	0.30	0.30
Public Finance & Business Affairs		0.30	(0.03)	0.27
Controller		0.00	0.25	0.25
Public Defender		0.00	0.24	0.24
Asian Art Museum		(0.05)	0.20	0.15
Environment		0.00	0.14	0.14
Board of Supervisors		0.00	0.05	0.05
Telecomm. & Info. Services		0.00	0.03	0.03
Art Commission		(0.10)	0.10	0.00
Total Projected Savings	\$	(0.13)	25.13	25.01
Baseline Transfers		0.00	(4.79)	(4.79)
Projects & Facilities		0.00	1.61	1.61
General City		(27.28)	(4.19)	(31.47)
Net Savings / (Shortfall)	\$	(34.69)	15.38	(19.31)

Contribution Transfers Out, Reserves & Required Set-Asides

Contribution Transfers Out - San Francisco General & Laguna Honda Hospitals: Based on the current projected revenues and expenditures, San Francisco General and Laguna Honda Hospitals will result in a net surplus of \$5.40 million and \$0.64 million respectively.

Contribution Transfers Out - Baselines: The Charter specifies that the Children's Services, Library Preservation, and Municipal Transportation (i.e. the Municipal Railway (MUNI) and Parking & Traffic) shall receive a minimum appropriation amount (baseline) from the General Fund. The required baselines are adjusted as discretionary revenues change throughout the budget year. Chart B outlines the General Fund Appropriation, the Current Required Baseline, and the Projected Excess / (Deficit) Contribution needed given the projections outlined in this report.

Children's Services are projected to have \$8.80 million of excess contributions given projected discretionary revenues. **As was the case in the prior year, a reduction in the Children's Services baseline is not assumed in this report.** The Library, MUNI and Parking & Traffic baselines reflect the need for additional contributions of \$0.84 million, \$3.29 million and \$0.67 million, respectively. The projected shortfalls for three of the baselines are due to technical adjustment increases to revenues following the June 1 submission to the Board and final FY 2002-03 year-end carryforward balances. Additionally, \$3.00 million of the shortfall to MUNI is due to weakness in fine revenue collections – of which half of that shortfall (i.e. \$3.00 million of the total \$6.00 million projected shortfall) is reflected in the baseline pursuant to Charter Section 8A105.

For FY 2002-03 and FY 2003-04, Baselines were and are effectively held harmless for most of the State revenue shortfall because the State reduced principally subvention revenues like the Vehicle License Fee, and subvention revenues have historically fallen outside of the Baseline discretionary revenue calculation. However, for FY 2004-05 Governor Schwarzenegger's proposal includes a reduction to the City's General Fund Property Tax revenue (i.e. an increase in the ERAF shift). Since property taxes are discretionary, next year Baselines may be negatively impacted due to local government revenue cuts in the State's final budget. We will evaluate the Governor's proposed budget impact following the release of the May Revise in the middle of May.

Chart B: Baselines

Baseline	FY 2003-04		
	AAO General Fund Appropriation	Estimated Requirement as of the 9-Month Report	Estimated Excess/(Deficit) as of the 9-Month Report
Children's Services	\$80.24	\$71.44	\$8.80
Library Preservation	\$29.48	\$30.32	(\$0.84)
Municipal Railway	\$95.41	\$98.70	(\$3.29)
Parking & Traffic	\$33.61	\$34.28	(\$0.67)
Total	\$238.74	\$234.74	\$4.00

State Revenue Loss Reserves: The FY 2003-04 Adopted Budget included a \$30.00 million State Revenue Loss assumption, which was intended to bridge any shortfalls resulting from the State's FY 2003-04 Adopted Budget. The projected State Revenue Loss is currently \$71.06 million or \$41.06 million more than originally assumed in the budget. The breakdown is summarized below.¹

	Assumed in FY 2003-04 Budget	9-Month Report	Change from Budget
<u>VLF-Related Impact</u>			
MVL City & County - During FY 2003-04, July to September 2004	17.72	\$19.00	\$1.28
VLF base reduction to Backfill H&W Realignment, 24.33% to 28.07%		20.06	20.06
MVL City & County - Add. \$475M 'Loan' v. \$825M in State Budget		19.73	19.73
Subtotal - VLF-Related Impact	\$17.72	\$58.78	\$41.06
State Mandated Reimbursements (SB90)	3.79	3.79	0.00
Programmatic Cuts	8.49	8.48	(0.01)
Total Impact	\$30.00	\$71.06	\$41.06
State Revenue Loss Reserve	\$30.00	\$30.00	
Unreserved Incremental State Revenue Shortfall	\$0.00	\$41.06	

Required Set-Asides - Savings Incentive Account: In addition, Section 3.17 of the Administrative Code requires the greater of \$2.00 million or 10 percent of departments' year-end appropriation savings to be set aside in a **Savings Incentive Account**. Based on current projections, \$2.00 million will be needed to fund this account at year-end.

Required Set-Asides – Proposition C: Under Section 16.107 of the San Francisco Charter, no net expenditure savings is projected for the Recreation & Parks Department. So there will be no set-aside “retained by the Department to be dedicated to one-time expenditures.”

Supplemental Appropriations

General Fund supplemental appropriation requests approved by the Board used \$3.73 million of the General Reserve. For projection purposes, we have assumed that the \$2.02 million supplemental appropriation request pending approval by the Board for Elections will not move forward. All supplemental appropriations are outlined in **Appendix A**. To the degree any other supplemental appropriations are approved using the General Reserve, the projected year-end balance will be reduced.

¹ The State's FY 2003-04 adopted budget assumed that California local governments would forego receiving VLF backfill for the first 90 days of the fiscal year at a net cost to cities and counties of \$825 million. Governor Schwarzenegger subsequently announced that the new projected cost to local government would be \$1.30 billion, or \$475 million more than previously adopted by the Legislature.

Expenditure Reserves

Each year, the Board of Supervisors places certain budget items on reserve, requiring subsequent Board approval before these funds can be spent. *Appendix B* provides a status report on the Board reserves and their remaining balances as of May 6, 2004. For projection purposes, this report assumes that all of the Board's General Fund reserves are released and expended. To the degree these reserves are not released and not expended by year-end, the projected year-end balance would increase.

General Fund Ending Balance

Based on the current revenue and expenditure projections, the City's year-end General Fund balance would be \$5.86 million. This represents improvement from the (\$1.26) million shortfall included in the Six-Month Report. However, it is nevertheless a significant drop from our actual FY 2003-04 beginning fund balance of \$47.85 million, which was used as one-time funding in the development of the current year budget. Steps will need to be taken over the next two months to bring those departments with projected overspending back into balance by year-end.

II. Sources of Funds, Revenues & Transfers In, Chart C

GENERAL FUND (millions)	FY 2002-03	FISCAL YEAR 2003-04 (Current Year, CY)			
	Year-End Actuals	Original Budget	Revised Budget	9-Month Projection	Surplus / (Shortfall) from Revised
PROPERTY TAXES	518.69	\$ 527.74	527.77	527.77	0.00 (1)
BUSINESS TAXES:					
Business Registration Tax	10.55	\$ 6.53	6.53	6.93	0.40 (2)
Gross Receipts Tax		\$ -	0.00	-	0.00
Payroll Tax	265.58	\$ 282.09	282.09	279.75	(2.34) (3)
Total Business Taxes	276.13	\$ 288.62	288.62	286.68	(1.94)
OTHER LOCAL TAXES:					
Sales Tax	115.58	\$ 122.51	122.51	117.00	(5.51) (4)
Hotel Room Tax	74.73	\$ 90.05	90.05	87.85	(2.20) (5)
Utility Users Tax	71.38	\$ 68.36	68.36	67.50	(0.86) (6)
Parking Tax	29.72	\$ 32.66	32.66	31.50	(1.16) (7)
Real Property Transfer Tax	51.48	\$ 55.00	55.00	70.60	15.60 (8)
Admission Tax	2.86	\$ 2.67	2.67	2.67	0.00
Total Other Local Taxes	345.73	\$ 371.25	371.25	377.13	5.87
LICENSES, PERMITS & FRANCHISES					
Licenses & Permits	5.48	\$ 6.05	6.05	5.69	(0.36) (9)
Franchise Tax	10.73	\$ 11.02	11.02	11.80	0.78 (10)
Total Licenses, Permits & Franchises	16.22	\$ 17.07	17.074	17.49	0.42
FINES, FORFEITURES & PENALTIES	5.59	\$ 31.68	31.68	31.41	(0.27) (11)
INTEREST & INVESTMENT INCOME	15.91	\$ 12.51	12.51	7.41	(5.10) (12)
RENTS & CONCESSIONS					
Garages - Rec/Park	6.23	\$ 7.74	7.04	7.04	0.00
Rents and Concessions - Rec/Park	11.03	\$ 11.95	11.95	10.75	(1.20) (13)
Other Rents and Concessions	0.31	\$ 0.32	0.32	0.35	0.03 (14)
Total Rents and Concessions	17.58	\$ 20.02	19.32	18.14	(1.18)
INTERGOVERNMENTAL REVENUES					
Federal Government					
Social Service Subventions	142.94	\$ 154.04	155.83	155.83	0.00
Other Grants & Subventions	8.86	\$ 2.88	2.88	5.90	3.03 (15)
Total Federal Subventions	151.79	\$ 156.91	158.70	161.73	3.03
State Government					
Social Service Subventions	126.40	\$ 126.59	130.58	123.95	(6.63) (16)
Health & Welfare Realignment	129.60	\$ 132.56	132.56	133.86	1.31 (17)
Health/Mental Health Subventions	63.63	\$ 69.35	69.35	69.35	0.00
Public Safety Sales Tax	64.28	\$ 65.32	65.32	61.04	(4.28) (18)
Motor Vehicle In-Lieu	103.90	\$ 112.61	112.61	83.83	(28.78) (19)
Other Grants & Subventions	27.58	\$ (6.13)	(6.13)	(13.94)	(7.81) (20)
Total State Subventions	515.38	500.30	504.29	458.09	(46.20)
CHARGES FOR SERVICES:					
General Government Service Charges	21.97	\$ 25.74	25.74	23.78	(1.95) (21)
Public Safety Service Charges	10.83	\$ 15.93	15.93	14.95	(0.99) (22)
Recreation Charges - Rec/Park	4.19	\$ 5.37	5.37	5.37	0.00
MediCal, MediCare & Health Service Charges	37.82	\$ 43.03	43.61	44.57	0.97 (23)
Other Service Charges	7.09	\$ 7.14	7.14	7.39	0.25 (24)
Total Charges for Services	81.89	\$ 97.21	97.79	96.06	(1.73)
RECOVERY OF GEN. GOV'T. COSTS	11.95	\$ 9.36	9.36	19.36	10.00 (25)
OTHER REVENUES	9.01	\$ 20.88	20.92	21.96	1.04 (26)
TOTAL REVENUES	1,965.86	\$ 2,053.55	2,059.27	2,023.23	(36.04)
TRANSFERS INTO GENERAL FUND:					
Airport	21.15	\$ 25.27	25.27	25.12	(0.15) (27)
Other Transfers	88.11	\$ 117.45	120.27	121.77	1.50 (28)
Total Transfers-In	109.26	\$ 142.73	145.55	146.89	1.35
TOTAL GENERAL FUND RESOURCES	2,075.13	\$ 2,196.28	2,204.82	2,170.12	(34.69)

Notes to Sources of Funds Schedule:

- (1) **Property Tax** revenues are projected to be on budget. While San Francisco's assessed valuation grew 4.7 percent in FY 2003-04 from FY 2002-03, this growth is being offset primarily by the surge in appeals and weaker supplemental activity compared to prior years. This projection incorporates the surge of assessment appeals, where owners representing some 22.3 percent of total assessed valuation are currently appealing for lower assessed valuation – of which a portion of the requested reduction may be granted. These appeal levels have not been seen since the economic downturn in the early 1990s. Supplemental assessment revenue collections are also down from \$36.00 million in FY 2000-01, \$28 million in FY 2001-02 and \$19.61 million in FY 2002-03 to an estimated level of \$12 million for FY 2003-04. The projected impact to the three dedicated funds is illustrated below:

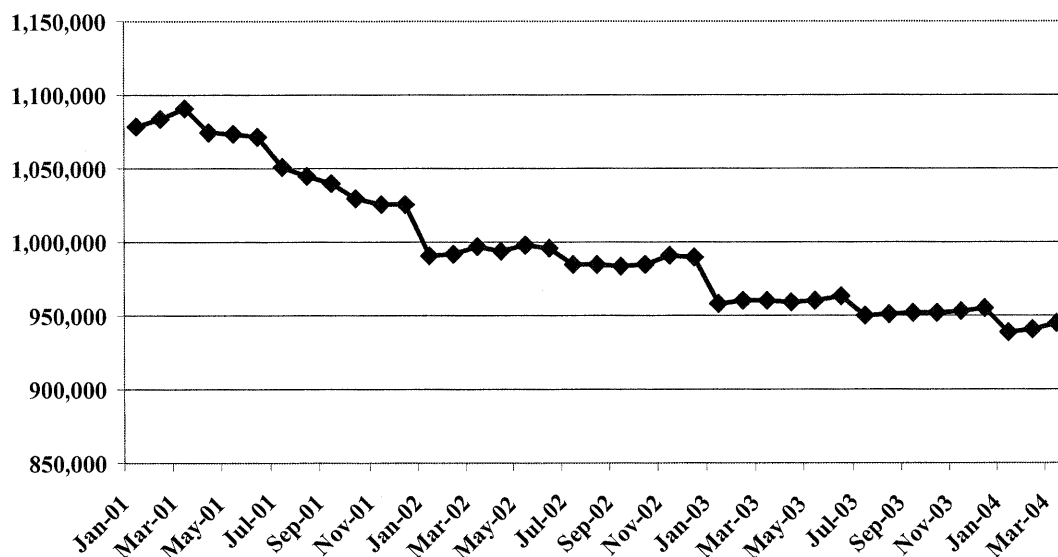
Children's Fund	On Budget
Library Preservation Fund	On Budget
Open Space Fund	On Budget

Assessment Backlog: Some additional opportunity for revenue enhancement exists by tackling the assessment backlog, in particular regarding the processing of the new construction backlog. The Assessor reports that the department currently has a processing backlog, mostly related to new construction. Backlogs have potential revenue implications as the 8,800 deeds in queue have been estimated by the Assessor to have up to \$0.7 billion in incremental roll value. Additionally, 9,000 construction permits may also yield up to \$2.8 billion in incremental roll value. The table below summarizes the backlog and estimated revenue impact based on a revenue yield assumption, as not all items in the backlog yield incremental assessment. The table shows that if the backlog were processed, including assessment, billing and collection in FY 2003-04, the value to various funds would be approximately \$9.5 million, of which \$8.3 million is an increase to the General Fund. The current backlog levels of 17,800 with the Assessor's Estimate of Incremental Roll Value of \$3.50 billion reflect improvement over FY 2002-03 when the Controller's 9-Month Report showed a backlog of 20,900 with the Estimated Value at \$4.00 billion. The Department reports that a backlog of approximately 7,000 deeds represents a typical 2-3 month processing time.

Backlog Type	Count	Assessor's Estimate of Incremental Roll Value (millions)	Assessor's Estimate of Revenue Yield	Adjusted Estimate of Incremental Roll Value (millions)
Deed Processing	8,800	\$ 700	50%	\$ 350
New Construction - Permit Activity	9,000	\$ 2,800	40%	\$ 1,120
Total	17,800	\$ 3,500		\$ 1,470
Potential Incremental Property Tax Revenue (in millions)				
General Fund				\$ 8.33
Children's Fund				\$ 0.44
Library Fund				\$ 0.37
Open Space Fund				\$ 0.37
Total - Above Funds				\$ 9.51

- (2) **Business Registration** revenues are projected to be better than budget by \$0.40 million based on actual collections through March 2004. The year-over-year change from FY 2002-03 reflects a decline because the FY 2002-03 revenue level represented a year and half worth of revenue due to the change in Business Registration moving from a calendar year basis to a fiscal year basis. This was a one-time revenue boost for FY 2002-03.
- (3) **Payroll Tax** revenues are projected to be \$2.34 million under budget based on collections to date. The budget assumed a modest increase in employment growth with limited wage inflation. The graph below shows the employment levels for the San Francisco Primary Metropolitan Statistical Area (i.e. the PMSA which includes San Francisco, Marin and San Mateo counties), the most focused geographical area for which current data is available. The labor growth that was assumed in the budget for the latter part of 2003 did not materialize. However, Business Tax Year 2003 tax receipts appear to be slightly stronger to date than would otherwise be expected due in part to the expiration of the New Jobs Tax Credit program in December 2002.

Total Employment for the San Francisco PMSA (Marin, San Francisco, San Mateo)



- (4) **Sales Tax** revenues are projected to be \$5.51 million under budget. A lagging recovery and continued weakness in the business-related components of sales activity are putting downward pressure on this revenue. National and statewide performance has been consistently better than San Francisco and the Bay Area. As illustrated in the table below, statewide sales activity has been positive since the middle of 2002, but only due to strength outside of the Bay Area. Sales activity over the last several quarters shows that San Francisco has been performing worse than the 9-County Bay Area region and the statewide average. The rate of decline has been slowing generally for San Francisco. Additionally, the Bay Area finally turned into positive territory in the most recent quarter. For San Francisco, the 4th Quarter 2003 continued to bring negative year-over-year growth, as sales tax activity was off another 0.84 percent for October through December (i.e. the 4th calendar quarter of 2003, which is the most recent actual data available).

Sales Tax Activity Still Negative in Bay Area, Positive in California

	San Francisco	9 County Bay Area	California
Calendar Quarter			
4 th Quarter 2003*	-0.84%	2.84%	4.23%
3 rd Quarter 2003	-1.55%	-1.40%	2.52%
2 nd Quarter 2003	-3.30%	-2.30%	5.00%
1 st Quarter 2003	-1.98%	-3.01%	4.61%
4 th Quarter 2002	-1.70%	-4.40%	0.80%
3 rd Quarter 2002	-5.00%	-3.10%	3.10%
2 nd Quarter 2002	-9.70%	-8.40%	-1.30%
1 st Quarter 2002	-17.80%	-12.70%	-3.70%
4 th Quarter 2001	-17.00%	-13.50%	-2.00%
3 rd Quarter 2001	-20.30%	-11.50%	-1.20%
2 nd Quarter 2001	-8.70%	-5.00%	0.00%

* SF growth reflects prior year adjustments.

The budget level of \$122.51 million is commensurate with sales tax revenue growth of 6.0 percent over FY 2002-03 actuals, which appears unlikely at this time given the July through December 2003 weakness. The current projection assumes 1.2 percent growth for the entire fiscal year. Our current sales tax revenue projection assumes that January through June will average between 3 to 4 percent positive growth. If this upturn does not materialize, a further revenue shortfall of approximately \$1.0 million would result.

San Francisco's sales tax revenue continues to be more dependent on tourism and business travel than most other cities in California. Any significant recovery in this revenue will only occur if tourism and travel recovers, along with growth in the business-related components of this revenue. The most recent quarter's positive growth in General Consumer Goods was offset largely by continued shrinkage in the Business & Industry category. The table below summarizes the major categories of sales activity and the relative contribution to the Sales Tax revenue for FY 2002-03.

Sales Tax Composition using FY 2002-03 Collections	
Major Categories	% of Total
General Consumer Good	30.1%
Restaurants & Hotels	19.1%
Business & Industry	14.9%
Autos & Transportation	6.1%
Food & Drugs	6.0%
Building & Construction	4.6%
Fuel & Service Station	3.5%
County & State Pool	15.7%
Total	100.0%

- (5) **Hotel Room Tax** revenues allocated to the General Fund are projected to be approximately \$2.20 million under budget. A portion of this projected shortfall pertains to dedicated funding for the Arts. To the degree departments, with dedicated hotel room tax revenues, reduce spending to cover their respective shortfalls, the impact of the projected \$2.20 million shortfall to the General Fund is mitigated. Projected departmental expenditure savings are shown in Section III. Overall, hotel room tax revenues are projected to be approximately 5 percent above prior year levels; however, we ended FY 2002-03 lower than the FY 2003-04 budget assumed. This yields a lower starting point and results in the revenue weakness reported here. Overall, the recovery in hotel room tax revenue has been constrained due to aggressive price discounting by hoteliers. While occupancy gains are present, average daily room rates continue to put downward pressure on total revenues. The tables below summarize Occupancy and Average Daily Room Rates by month based on survey.

Our projection is based on realized revenue collections to date and interviews with hotel industry professionals. We assume some occupancy gains and limited increases in average daily room rates by June 2004. Our current forecast assumes average annual occupancy rates of 68-69 percent and average annual daily room rates (ADRs) of \$138. If these rates are not realized, additional downward revision will be required for this revenue.

HOTEL OCCUPANCY RATES

MONTH	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
July	82.8%	88.0%	87.5%	75.4%	68.7%	76.9%
August	80.1%	81.3%	90.2%	80.8%	74.7%	83.1%
September	88.4%	86.9%	88.5%	58.3%	68.1%	74.6%
October	90.9%	82.7%	87.9%	61.1%	73.7%	75.0%
November	79.9%	74.1%	72.7%	53.9%	60.9%	68.2%
December	66.2%	62.1%	64.4%	50.0%	55.6%	55.9%
January	64.1%	67.0%	63.5%	50.3%	51.3%	54.3%
February	74.5%	79.7%	70.4%	56.9%	57.9%	63.6%
March	80.6%	88.6%	72.9%	60.7%	60.6%	63.0%
April	81.5%	84.7%	70.7%	67.8%	63.6%	65.0%
May	80.8%	84.4%	76.9%	65.7%	68.1%	70.0%
June	88.4%	91.7%	80.0%	74.5%	74.0%	76.5%
AVG. OCCUPANCY RATE	79.9%	80.9%	77.1%	63.0%	64.8%	68.8%
Occ. % Rate Chg from PY		1.1%	-3.8%	-14.2%	1.8%	4.1%
% Change from PY		1.4%	-4.7%	-18.4%	2.9%	6.3%

Fiscal Year Peak

NOTE: Actuals based on a PKF industry sample representing 70-80% of all rooms and revenue.

AVERAGE DAILY ROOM RATES (ADRs)

MONTH	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
July	\$ 141.56	\$ 154.98	\$ 175.56	\$ 156.14	\$ 140.65	\$ 136.13
August	\$ 142.14	\$ 150.06	\$ 165.89	\$ 159.01	\$ 134.34	\$ 130.41
September	\$ 152.57	\$ 158.09	\$ 180.33	\$ 157.35	\$ 140.18	\$ 137.24
October	\$ 158.92	\$ 153.22	\$ 191.46	\$ 166.56	\$ 156.21	\$ 152.82
November	\$ 146.31	\$ 148.02	\$ 169.40	\$ 151.08	\$ 140.01	\$ 135.47
December	\$ 132.16	\$ 146.22	\$ 162.24	\$ 136.65	\$ 129.56	\$ 123.62
January	\$ 144.06	\$ 153.17	\$ 174.24	\$ 146.41	\$ 140.60	\$ 134.37
February	\$ 147.10	\$ 156.25	\$ 181.78	\$ 146.09	\$ 143.65	\$ 135.45
March	\$ 146.99	\$ 164.96	\$ 179.18	\$ 143.95	\$ 135.90	\$ 137.00
April	\$ 155.57	\$ 164.39	\$ 168.79	\$ 156.06	\$ 138.47	\$ 140.00
May	\$ 148.68	\$ 168.41	\$ 191.63	\$ 152.38	\$ 147.53	\$ 148.00
June	\$ 154.27	\$ 175.50	\$ 173.72	\$ 160.85	\$ 135.23	\$ 148.00
AVERAGE ADR	\$ 147.53	\$ 157.77	\$ 176.19	\$ 152.71	\$ 140.19	\$ 138.21
ADR \$ Change from PY		\$ 10.25	\$ 18.41	\$ (23.47)	\$ (12.52)	\$ (1.99)
% Change from PY		6.9%	11.7%	-13.3%	-8.2%	-1.4%

Fiscal Year Peak

NOTE: Actuals based on a PKF industry sample representing 70-80% of all rooms and revenue.

- (6) **Utility Users Tax** revenues are projected to be under budget by \$0.86 million due to weakness in electricity-related tax revenue of \$1.36 million and strength in natural gas-related tax revenue due to higher commodity prices of \$0.50 million. The weakness in electricity-related revenues stems primarily from the rate reductions approved for commercial users pursuant to the bankruptcy court's adoption of PG&E's reorganization plan.
- (7) **Parking Tax** revenues are projected to be \$1.16 million under budget. The delay in jobs growth means that the growth assumed in parking services will also be weaker than originally assumed in the budget. The **Department of Aging & Adult Services** receives one-third of parking tax revenues accruing to the General Fund. This shortfall is also reflected in the departmental summary in Section III, Chart D below.
- (8) **Real Property Transfer Tax** revenues are projected to be \$15.60 million better than budget. This revenue is one of the more volatile and is highly impacted by economic cycles and interest rates. Low mortgage rates have helped this revenue. The likelihood of rising interest rates by mid-2004 may also be providing additional incentive for real estate transactions to occur sooner than later.
- (9) **License and Permit** revenues are projected to be \$0.36 million under budget due to revenue shortfalls in the Department of Public Works of \$0.54 million as a result of delays in fee increases that were assumed in the budget. This includes fee increases for Café Tables & Chairs, Sidewalk Displays, and Underground Utility Vaults, as well as some weakness in News Rack Fees revenues as a result of manufacturing delays. The County Clerk has projected license revenues of an additional \$0.18 million due primarily to some 4,000 same-sex marriages in the spring of 2004.
- (10) **Franchise Tax** revenues are projected to be \$0.78 million better than budget primarily due to higher cable franchise revenues. The higher natural gas commodity prices mentioned in Utility Users Tax and PG&E rate reductions on electricity rates (pursuant to their bankruptcy restructuring) are projected to impact this revenue in FY 2004-05 as these energy-related franchise tax revenues are based on calendar year consumption.
- (11) **Fines, Forfeitures and Penalties** are projected to be under budget by \$0.27 million due to the following:
 - - \$0.40 million in lower fine revenue collections of Environmental Control Officers (ECO) in Public Works (as of the end of April 2004 revenues received are at only 28 percent of budget or \$0.17 million),
 - - \$0.30 million in lower False Alarm Penalties in Police,
 - +\$0.05 million in higher Office of Labor Standards Enforcement Penalties in Administration Service's Office of Contract Administration,
 - +\$0.16 million in higher consumer protection penalties by the District Attorney's Office, and
 - +\$0.22 million in settlements.

- (12) **Interest Income** is projected to be on \$5.10 million under budget due to lower interest rates and cash positions than were originally assumed in the budget. The Federal Reserve continues to keep interest rates low which will provide limited opportunity before fiscal year-end to increase portfolio yields.
- (13) **Rents & Concessions - Recreation & Park** revenues are projected to be \$1.20 million less than budget due to weakness in concession revenue.
- (14) **Rents & Concessions – Other** revenue is projected to be \$0.03 million more than budget due to various property rentals by Administrative Services.
- (15) **Federal Grants & Subvention** revenues are projected to be \$3.03 million more than budget due to \$3.03 million in anti-war demonstration cost reimbursements for the prior year.
- (16) **Social Service Subvention** revenues are projected to be \$6.63 million less than budget due to a \$6.29 million shortfall primarily related to reduced caseloads at the **Department of Human Services** in Foster Care Aid, IHSS Contracts (hours of service provided), and CalWorks Childcare. This revenue shortfall is more than offset by expenditure savings reported below (see Note #14, Department of Human Services on page 18). Additionally, Juvenile Probation is projected to have a \$0.34 million shortfall in TANF revenues at Log Cabin Ranch (based on population) and Peace Office Training funding (which was cut in the State's final budget).
- (17) **Health & Welfare Realignment** revenue is projected to be \$1.31 million more than budgeted due to stronger prior-year revenue growth allocations to the City & County than previously assumed.
- (18) **Public Safety Sales Tax** revenue is projected to be \$4.28 million under budget. Like the Local Sales Tax (see Note #4 above), sales tax activity has been weak locally. This revenue is also tied to the proportion of local sales to that of the state as a whole. All things considered, statewide growth outside of the Bay Area and in Southern California, in particular, was simply not large enough to offset our jurisdiction's large proportionate decline. While FY 2001-02's revenue benefited under this complex allocation formula, our lagging recovery and weak sales tax performance resulted in FY 2002-03 and FY 2003-04 impact revenue adversely. This negative impact will also carry over into the first half of FY 2004-05 and on if our local sales taxes do not start to grow as fast or faster than the state as a whole.
- (19) **Motor Vehicle in Lieu (MVL-VLF)** revenues are projected to be \$58.78 million less than budget due to the State not backfilling local government for the reduction in the vehicle license fee (VLF). VLF also provides funding for Health & Welfare Realignment programs, and the State effectively made 'whole' Realignment by shifting MVL-VLF subvention revenues. A net shortfall of \$28.78 million is reflected here as the \$30.00 million State Revenue Loss Reserve is shown to offset part of the total MVL-VLF revenue loss.

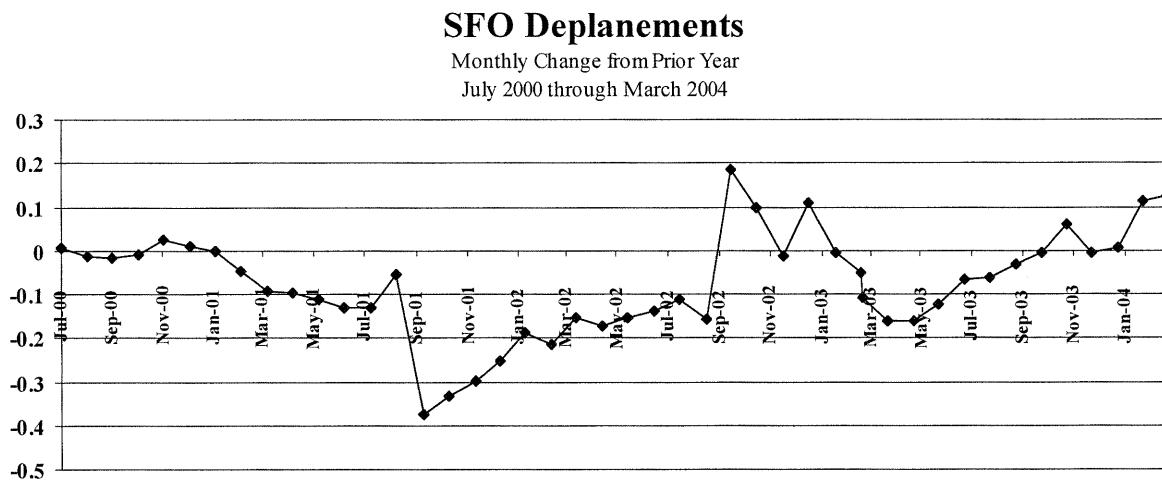
- (20) **Other Grants & Subvention** revenue is projected to be \$7.81 million under budget due to two events: 1) \$3.79 million related to the State's deferral of SB 90 State Mandated Reimbursements for FY 2003-04, and 2) \$4.02 million of possible State audit disallowances of previously recognized revenue related to SB 90 claims for the Police Office Bill of Rights program. The POBAR claims audit is still underway and should be finished by fiscal year-end.
- (21) **Service Charges – General Government** revenues are projected to be \$1.95 million less than budget due to the following:
- -\$1.20 million less in City Planning revenues primarily related to fee increases not being introduced and approved,
 - -\$0.94 million less in Department of Adult & Aging Service's Public Administrator, Public Guardian and Representative Payee fees,
 - -\$0.35 million less in Election's voter modernization funding from the State,
 - -\$0.32 million less in Police Service 10B Overhead Charges as the budget assumed a higher overhead rate than is actually being charged by the Police Department,
 - +\$0.05 million more primarily to same-sex certified copies of marriage certificates at the Assessor / Recorder,
 - +\$0.11 million more due to higher event revenues at Administrative Services,
 - +\$0.30 million more in recording fees at Assessor / Recorder, and
 - +\$0.39 million more in cost recovery reimbursements for the District Attorney.
- (22) **Service Charges - Public Safety** revenue is projected to be \$0.99 million less than budget due to the following:
- -\$1.07 million less due to Right of Way and Street Space revenues at Public Works,
 - -\$1.00 million less due to lower State Probation Boarding fees at the Sheriff's Department,
 - -\$0.10 million less due to lower Farmer's Market fee revenue at Administrative Services - Consumer Assurance,
 - +\$0.19 million more due to pest exclusion contract revenues at Administrative Services - Consumer Assurance,
 - +\$0.20 million more due to slightly higher inspection permit revenues at the Fire Department, and
 - +\$0.79 million more due to higher Alarm Permit revenue (reflecting collections for both FY 2003-04 and FY 2002-03 billings received in FY 2003-04).
- (23) **Service Charges – MediCal, Medicare, & Health Services** revenue is projected to be \$0.97 million better than budget due to \$0.70 million of higher Fire EMS fee revenue and \$0.27 million of higher net patient revenues in Public Health's Primary Care and Health at Home programs.
- (24) **Service Charges – Other** revenue is projected to be \$0.25 million better than budget due to the affinity phone card agreement with SBC Communications.

(25) **Recoveries** are projected \$10.00 million better than budget due to the following:

- +\$7.24 million reimbursement for current and prior-year costs incurred by the General Fund for the Foster Care Program,
- +\$1.88 million reimbursement from FEMA for expenses incurred by the Public Health Department during the February 1998 storm,
- +\$0.58 million for recoveries from bond-funded capital projects related to Fire facilities, and
- +\$0.30 million for reimbursement of California Fire Assistance related to Southern California fires in the Fall of 2003.

(26) **Other Revenues** are projected to be \$1.04 million better than budget due to Expired Check Cancellation revenue.

(27) **Transfers In – Airport.** The General Fund share of **concession revenue** at San Francisco International Airport is projected to be under budget by \$0.15 million after factoring in the fiscal impact of concession revenue lease amendments and passenger traffic. The last couple of months have shown some traffic improvement at SFO. The chart below show the year-over-year change for the last couple of years with February and March 2004 showing respectable gains from the prior year.



(28) **Transfers In – Other Transfers.** Other Transfers In are projected to be \$1.50 million better than budget as a result of the **911 Fee** increases implemented mid-fiscal year which allows transfer funding to cover 911 operating costs budgeted in the General Fund.

* Revised Budget includes approved supplemental appropriations, transfers and carryforwards of prior year encumbrances.

III. Uses of Funds, Chart D (continued)

	FY 2002-03	FY 2003-04						
	Actuals	Original Budget	Revised Budget*	9-Month Projection	Expenditure Savings / (Shortfall)	Dept. Revenue Surplus / (Shortfall)	Net Surplus / (Shortfall)	
GENERAL FUND								
CULTURE AND RECREATION								
Asian Art Museum	5.08	6.01	6.01	5.81	0.20	(0.05)	0.15 (18)	
Arts Commission	0.95	0.77	0.78	0.68	0.10	(0.10)	0.00 (19)	
Convention Facilities	0.22	0.00	0.20	0.20	0.00	0.00	0.00 (2)	
Fine Arts Museum	4.33	4.52	4.52	4.52	0.00	(0.12)	(0.12) (20)	
Law Library	0.49	0.51	0.53	0.53	0.00	0.00	0.00 (2)	
Recreation and Park	53.96	49.92	50.32	49.47	0.85	(1.20)	(0.35) (21)	
Academy of Sciences	1.94	1.85	1.85	1.89	(0.04)	0.00	(0.04) (22)	
County Educational Office	0.07	0.07	0.07	0.07	0.00	0.00	0.00 (2)	
Total Culture, etc.	67.04	63.63	64.27	63.17	1.11	(1.47)	(0.37)	
GENERAL ADMINISTRATION & FINANCE								
Administrative Services	16.11	29.04	28.90	28.25	0.65	0.24	0.88 (23)	
Assessor/Recorder	9.04	8.51	8.71	8.36	0.35	0.35	0.70 (24)	
Board of Supervisors	8.40	8.57	8.87	8.83	0.05	0.00	0.05 (25)	
City Attorney	5.47	5.01	5.44	5.44	0.00	0.00	0.00 (2)	
Controller	18.18	19.16	21.84	21.59	0.25	0.00	0.25 (26)	
City Planning	12.07	11.43	11.46	11.53	(0.06)	(1.20)	(1.26) (27)	
Civil Service	0.67	0.52	0.58	0.58	0.00	0.00	0.00 (2)	
Ethics Commission	0.73	0.75	0.75	0.75	0.00	0.00	0.00 (2)	
Human Resources	14.39	13.71	14.82	14.82	0.00	0.00	0.00 (2)	
Mayor	20.38	5.57	7.19	7.19	0.00	0.00	0.00 (2)	
Elections	7.39	13.44	16.74	16.74	0.00	(0.35)	(0.35) (28)	
Treasurer/Tax Collector	17.40	17.79	18.42	18.12	0.30	(0.00)	0.30 (29)	
General City Responsibility	52.14	45.09	56.27	60.46	(4.19)	(27.28)	(31.47) (30)	
Total General Admin.	182.37	178.61	199.99	202.65	(2.66)	(28.24)	(30.91)	
TOTAL GENERAL FUND EXPS.	1,854.61	1,844.97	1,895.93	1,883.41	12.52	(34.69)	(22.16)	
TRANSFERS OUT OF GENERAL FUND:								
Contribution to MUNI	100.79	95.41	95.41	98.70	(3.29)		(3.29) (31)	
Contribution to SFGH	78.02	80.81	80.81	75.41	5.40		5.40 (32)	
Contribution to LHH	32.48	31.29	31.29	30.66	0.64		0.64 (33)	
Contribution to Library	28.76	29.48	29.48	30.32	(0.84)		(0.84) (34)	
Contribution to Parking and Traffic	36.34	33.61	33.61	34.28	(0.67)		(0.67) (35)	
Other Transfers	20.12	4.58	4.58	4.58	-		-	
TOTAL TRANSFERS OUT	296.51	275.19	275.19	273.94	1.25	0.00	1.25	
Projects, Capital & Facilities Maintenance Reserves	94.44	86.17	123.89	122.28	1.61		1.61	
	0.00	13.41	13.41	13.41	-		-	
TOTAL PROJECTS & RESERVES	94.44	99.58	137.30	135.69	1.61	0.00	1.61	
TOTAL GENERAL FUND USES	2,245.56	2,219.74	2,308.42	2,293.04	15.38	(34.69)	(19.31)	

* Revised Budget includes approved supplemental appropriations, transfers and carryforwards of prior year encumbrances.

Notes to Uses of Funds Schedule:

- (1) The **Adult Probation** is projected to be on budget after reducing five positions (including one 1410 Chief Clerk, one 1426 Senior Clerk Typist, one 1446 Secretary II, one 1632 Senior Account Clerk and one 4322 Cashier II) effective April 1, 2004. The department is also reducing work orders by \$0.13 million to come in at budget.
- (2) Based on current spending patterns, these departments are projected to end the year on budget and have no departmental revenue shortfalls.
- (3) The **Trial Courts** is projected to end the year \$0.50 million over budget. The Board has released \$3.6 million reserve related to Indigent Defense. The department appears to need to a supplemental appropriation to cover projected indigent defense costs.
- (4) The **District Attorney** is projected to go \$1.35 million over its appropriation budget. This is due to \$0.80 million projected over-expenditure in their work order with Police, \$0.36 million in salaries over-expenditure and \$0.19 million in services of other departments. The work order with Police relates to court overtime costs. During FY 2002-03, the Police Department billed \$2.80 million in costs related to court overtime; however, for FY 2003-04 only \$2.00 million was budgeted by the District Attorney. The department is projected to have surplus revenue related to title companies \$0.39 million and consumer protection fines \$0.16 million, for a net departmental shortfall of \$0.80 million. The department would need to have the Board's approval of a supplemental appropriation if it is proposing to use the projected \$0.55 million in revenue to cover a portion of its projected over-expenditure.
- (5) The **Emergency Communications** is projected to have a surplus of \$0.87 million due to operation savings. Additionally, 911 Fee revenue is projected to be \$1.50 million more than budget, resulting in a gross departmental surplus of \$2.37 million.
- (6) The **Fire Department** is projected to end the year \$1.27 million over its appropriation budget. The principal factors include over expenditure in personnel costs, mainly overtime, energy costs and information service costs. On the revenue side, the department is projected to generate an additional \$1.78 million in emergency medical service and permit fees, and recoveries, for a net departmental surplus of \$0.52 million. The department would also need to have the Board's approval of a supplemental appropriation if it is proposing to use a portion of the projected \$1.78 million in revenue to cover its projected over-expenditure. The Fire Department's \$1.54 million reserve related to training costs was released in April.
- (7) The **Juvenile Probation** department is projected to end the year \$0.32 million under its appropriation due to its savings plan. This included staff reductions of six positions (including 1844 Sr. Mgmt. Asst., 1840 Jr. Mgmt. Asst., 1932 Asst. Storekeeper, two 1426 Sr. Clerk Typists, and a 7524 Institutional Utility Worker), a 4 percent reduction to most Community Based Organization (CBO) contracts, and increased work order billings. Layoff notices were issued January 5, 2004 and were effective March 4, 2004. The Department has reported that all six staff persons were reassigned to other departments. Additionally, the department is bridging its departmental revenue shortfall by deferring maintenance expenditures and limiting overtime costs. The \$0.34 million revenue shortfall

is related to in Temporary Assistance for Needy Families (TANF) program at Log Cabin Ranch and the State's elimination of Peace Officer Training funding in their FY 2003-04 final budget. The net departmental shortfall is \$0.02 million.

- (8) The **Public Defender** is projected to have \$0.24 million in salary savings due to hiring delays.
- (9) The **Police** department is projected to end the year on budget. However, the Police 10B Administrative Overhead Fee Recovery revenues are projected to be \$0.32 million short because of a lower overhead rate that was recalculated by the department after the budget had passed. The budget had assumed an overhead rate of 25.71 percent; however, the rate was recalculated by the department and subsequently billed out at 14.7 percent.
- (10) The **Sheriff** is projected to end the year \$3.07 million over its appropriation budget due primarily to over-expenditure in personnel costs and food costs at the jail. The department has a projected State revenue shortfall of \$1.00 million, for a gross shortfall of \$4.07 million. This \$3.07 million over-expenditure is contingent upon the department reducing its facility maintenance expenses by \$0.2 million, reducing contracts and work orders by \$0.95 million and equipment by \$0.43 million. In addition, the department is working with the Mayor's Office to reflect debt service savings for the new jail and other overtime savings strategies to bridge the remainder of the projected shortfall. A supplemental appropriation may be needed for this department.
- (11) The **Department of Public Works** is projected to end the year \$1.10 million under its appropriation budget. However, the department has a projected revenue shortfall of \$2.02 million, for a net shortfall of \$0.92 million. The department is working with the Mayor's Office to develop a plan to bridge its remaining revenue shortfall.
- (12) The **Public Finance and Business Affairs** department is projected to end the year with a net surplus of \$0.27 million by using Bond issuance proceeds after offsetting a small projected salaries deficit.
- (13) The **Telecommunications and Information Services** department is projected to end the year \$0.03 million under the budget due to salary and fringe benefit savings.
- (14) The **Aging and Adult Services** department is projected to be \$0.39 million under its appropriation budget due to salary savings. However, the department's parking tax allocation and departmental fees are also projected to be \$1.29 million under budget, resulting in a net departmental shortfall of \$0.90 million.
- (15) The **Human Services** department is projected to end the year with \$17.00 million in savings. As noted above in the Sources of Funds (Note # 16, Social Services Subventions, page 12), the Department's revenues are also projected to be off \$6.29 million. The net result is that the Department is providing \$10.71 million in savings to the General Fund.
- (16) The **Environment** department is projected to end the year \$0.14 million under budget due to salary and fringe benefit savings.

- (17) The **Department of Public Health** is projected to end the year with a gross departmental surplus of \$2.36 million in the non-hospital portions of the department. Across all funds, including SF General Hospital and Laguna Honda Hospital, the department will end the year with a net surplus of \$8.41 million accruing to the General Fund (i.e. the \$6.52 detailed below plus the \$1.89 million from the Office of Emergency Services for prior year storm reimbursements).

Total expenditures are projected to exceed appropriations by \$7.08 million, whereas total revenues are projected to exceed budget by \$13.60 million, yielding a net surplus of \$6.52 million. A supplemental appropriation in the amount of \$12.31 million, funded by departmental revenues, is pending in the Mayor's Office. See also Notes #34 and #35 below regarding the Contribution Transfers to San Francisco General Hospital and Laguna Honda Hospital.

PUBLIC HEALTH Thousands \$	SOURCES			USES			Department
	Revised Budget	Projected	Surplus/ (Shortfall)	Revised Budget	Projected	Savings / (Shortfall)	Savings / (Shortfall)
S.F. General Hospital	\$ 499,722	\$ 512,061	\$ 12,339	\$ 499,722	\$ 506,657	\$ (6,935)	\$ 5,404
Laguna Honda Hospital	148,703	149,703	1,000	148,703	149,065	(362)	638
Primary Care	45,830	45,871	41	45,830	46,042	(212)	(171)
Health at Home	4,586	4,811	225	4,586	4,941	(355)	(130)
Jail Health	22,207	22,207	0	22,207	24,742	(2,535)	(2,535)
Public Health	90,726	90,726	0	90,726	88,544	2,182	2,182
Mental Health	170,489	170,489	0	170,489	170,078	411	411
Substance Abuse	64,650	64,650	0	64,650	63,927	723	723
Subtotal - General Fund	398,488	398,754	266	398,488	398,274	214	480
Department Total - All Funds	\$1,046,913	\$1,060,518	\$ 13,605	\$ 1,046,913	\$1,053,996	\$ (7,083)	\$ 6,522

- (18) The **Asian Art Museum** is projected to be under its budget by \$0.20 million. However, the hotel room tax allocation is also projected to be \$0.05 million less than budget, resulting in a net departmental surplus of \$0.15 million.
- (19) The **Arts Commission** is projected to be \$0.10 million under budget, just enough to cover the hotel room tax allocation which is also projected to be \$0.10 million less than budget.
- (20) The **Fine Arts Museum** is projected to be on budget, and have a \$0.12 million revenue shortfall related to the hotel room tax allocation, resulting in a \$0.12 million net departmental shortfall.
- (21) The **Recreation and Park** Department is projected to be under its budget by \$0.85 million due to savings in personnel costs. Departmental revenues are projected to be off by \$1.20 million, for a net departmental shortfall of \$0.35 million.
- (22) The **Academy of Sciences** is projected to end the year with \$0.04 million over budget due to overspending in salaries and information services. A supplemental may be needed.

- (23) The **Administrative Services** department is projected to be under its budget by \$0.65 million. Additionally, the department is projected to have a revenue surplus of \$0.24 million. The net result is a surplus of \$0.88 million for the department overall, including Consumer Assurance, Office of Contract Administration, and Animal Care & Control.
- (24) The **Assessor/Recorder** is projected to end the year with a saving of \$0.35 million on salaries and benefits. Additionally, the department is projected to have \$0.35 million in fee revenues better than budget, resulting in a net departmental surplus of \$0.70 million.
- (25) The **Board of Supervisors** is projected to be under its budget by \$0.05 million due to systems project savings.
- (26) The **Controller** is projected to end the year with a surplus of \$0.25 million in salary savings.
- (27) The **City Planning** department is projected to be over its appropriation budget by \$0.06 million, assuming the \$1.38 million of Board reserves pertaining to salary appropriation is released. Additionally, the department is projected to be \$1.20 million short on revenue, for a net departmental shortfall of \$1.26 million. To address the revenue shortfall, the department has been trying to increase collections for delinquent billings and fees. The department also reported that they have experienced an increase in the filings of larger development proposals, which will help to offset lower revenue collections in the first quarter of 2004. A supplemental appropriation of \$1.29 million that would use Department of Building Inspection fund balance as the funding source is pending the Board.
- (28) The **Department of Elections** is projected to end the year on budget, and therefore does not appear to need any supplemental appropriation, due to lower than originally anticipated ballot card cost in the November 2003 and March 2004 elections. The department also streamlined the process by conducting four elections within a five-month period. However, the department is projected to have a \$0.35 million shortfall in revenues related to voter modernization funding from the State, resulting in a net departmental shortfall of \$0.35 million.
- (29) The **Treasurer/Tax Collector** is projected to end the year with a surplus of \$0.30 million in salary savings.
- (30) **General City Responsibility** is projected to be \$4.19 million over budget due to:
- -\$3.00 million in lower work order recoveries for Police traffic control services from the MTA, given weakness in Parking Meter revenue collections,
 - -\$2.40 million in retiree health insurance subsidy costs,
 - -\$1.00 million in lower Port work order reimbursements,
 - -\$0.79 million in federal child support penalties related to California's delays in upgrading our statewide tracking system, and
 - +\$3.00 million in MOU reserves closeouts.

- (31) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to MUNI** is projected to be \$3.29 million greater than budgeted. The amount of the transfer out is dependent upon aggregate city discretionary revenue and policy-driven revenue changes year-to-year. Most of the \$3.29 million – that is, \$3.00 million – is due to fine revenues (which were increased in FY 2002-03) being weaker than budgeted and therefore requiring a backfill of baseline contribution.
- (32) The **Transfer Out – Contribution to SFGH** is projected to be \$5.40 million less than budget due to a net surplus in the San Francisco General Hospital's budget. This net surplus is primarily attributed to higher departmental revenues than were assumed in the budget. See also Note #17 above – Department of Public Health.
- (33) The **Transfer Out – Contribution to LHH** is projected to be \$0.64 million less than budget due to a net surplus in Laguna Honda Hospital's budget. This net surplus is primarily attributed to higher departmental revenues than were assumed in the budget. See also Note #17 above – Department of Public Health.
- (34) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to the Library** is projected to be \$0.84 million more than originally budgeted. This transfer out is dependent upon aggregate city discretionary revenue and State Library Funding.
- (35) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to Parking & Traffic** is projected to be \$0.67 million more than originally budgeted. The transfer out is dependent upon aggregate city discretionary revenue.

Workers' Compensation Summary

Overall, the City's workers' compensation costs are projected to be 14.3 percent greater in FY 2003-04 than the FY 2002-03 actuals. This is in contrast to 4.3 percent growth in FY 2002-03 and 6.2 percent growth in FY 2001-02. The increase is mainly due to medical cost inflation. The estimates are based on nine-month actuals as well as prior year spending patterns. The expenditure projections in Section III, Chart D reflect the impact for various General Fund Supported departments.

Chart E: Worker's Compensation Summary (in US\$ thousands)

	<u>FY 2002-03</u>	<u>FY 2003-04</u>				
<u>Fund/Service Area</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>9-Month Actual</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>
<u>GENERAL FUND</u>						
Public Protection						
Fire Department	\$7445	\$8,229	\$8,229	\$5,812	\$7,741	488
Police Department	8,136	8,138	8,138	7,140	9,447	(\$1309)
Sheriff	1,699	2,362	2,362	1,630	2,128	234
Juvenile	973	943	943	1,144	1,487	(\$544)
Other GF Departments	575	520	520	629	828	(\$308)
Public Works, Transportation & Commerce						
Public Finance and Business Affairs	3	3	3	0	1	3
Human Welfare and Neighborhood Development						
Aging & Adult Services	133	224	224	224	288	(\$64)
Human Services	1,831	1,800	1,800	1,297	1,778	22
Other GF Departments	39	-		43	57	(\$57)
Community Health						
Public Health	1,257	1,541	1,541	1,280	1,689	(\$147)
Culture & Recreation						
Asian Art Museum	12	7	7	17	21	(\$14)
Convention Facilities	0.03	-	-	0	0	(\$0)
Fine Arts Museum	75	112	112	50	64	48
Recreation & Park	2,311	2,384	2,384	2,106	2,778	(\$394)
Other GF Departments	137	-	-	103	132	(\$132)
General Administration & Finance						
Assessor/Recorder	244	279	279	189	250	29
City Attorney	131	164	164	127	165	(\$1)
Human Resources	377	873	873	26	33	840
Treasurer/Tax Collector	150	165	165	113	151	14
Other GF Departments	305	105	105	829	1,078	(\$973)
Subtotal General Fund (GF)	25,834	27,849	27,849	22,760	30,115	(2,265)
<u>GENERAL FUND SUBSIDIZED</u>						
Community Health						
SF General Hospital	4,979	4,316	4,316	4,100	5,418	(1,101)
Laguna Honda Hospital	3,154	3,203	3,203	2,491	3,300	(\$97)
Subtotal General Fund Subsidized	8,133	7,519	7,519	6,592	8,717	(1,198)
Subtotal General Fund & Subsidized	\$33,968	\$35,369	\$35,369	\$29,352	\$38,832	(\$3,463)

Energy – Natural Gas

Natural gas prices spiked in the first half of the fiscal year, in part pushed up by cold weather in the East. This adversely impacts a number of departments who are larger users of natural gas, including General Fund Supported departments like Public Health and the City Museums. The expenditure projections in Section III, Chart D reflect the impact for various General Fund Supported departments. Overall General Fund Supported departments are projected to be \$1.53 million (or 33 percent) over budgeted levels.

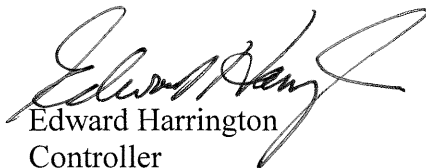
IV. CONCLUSION

Overall, funds available appear to be sufficient to carry the City through the remainder of the fiscal year and result in a projected year-end fund balance of \$5.86 million. This reflects an improvement from the (\$1.26) million projected shortfall included in the Controller's Six-Month Report due to additional departmental expenditure savings.

Our projections assume that a gradual economic recovery takes hold through the second half of FY 2003-04. If the lagging, jobless recovery in the Bay Area continues, additional revenue weakness of \$5 to \$10 million is estimated in the current fiscal year. However, we could also see good news by year-end as the Mayor's Office continues to work with departments with projected shortfalls to reduce spending. This could add another \$5 to \$7 million to the projected year-end fund balance.

My staff and I are available to respond to any comments or questions you may have at this time.

Sincerely,



Edward Harrington
Controller

Attachments: Appendix A: Status of Supplemental Appropriations
Appendix B: Status of General Fund Board Reserves

CC: Department Heads
Ben Rosenfield, Mayor's Budget Office
Harvey Rose, Budget Analyst

**APPENDIX A: Status of Supplemental Appropriations – GENERAL FUND
FY 2003-04
As of May 6, 2004**

GENERAL FUND SUPPLEMENTALS	APPROVED CHANGES	PENDING / POTENTIAL CHANGES
Arts Commission - Municipal Symphony Funding	\$ 23,273	
Elections - October 2003 Recall Election	3,382,983	
Recreation & Park - Loss of Parking Revenue in GGP	700,000	
Human Services - CalWorks, Medi-Cal, IHSS and Foster Care	2,399,795	
Total Changes Approved	\$ 6,506,051	
Total Changes Approved, Where General Reserve Was Used	\$ 3,732,983	

Supplementals Pending at the Board

Elections - December Run-Off*	\$ 2,016,330
*Assumed not needed in 9-Month Report projection.	

Supplementals Pending in the Mayor's Office

Total Supplementals Pending - General Fund Only

\$ 2,016,330

**APPENDIX A: Status of Supplemental Appropriations – NON-GENERAL FUND
FY 2003-04
As of May 6, 2004**

NON-GENERAL FUND SUPPLEMENTALS	APPROVED CHANGES	PENDING / POTENTIAL CHANGES
Approved Supplementals		
Brannan St. Wharf and Pier 30-32 Cruise Terminal Project	\$ 29,700,000	
DPW - Land Sale / Lease Octavia Blvd.	14,010,630	
Unified School District - Release of Bond Proceeds	29,480,000	
DHS - Human Services - Zygmunt Arendt Fund	3,800,000	
Community College District - Education Facilities Bond	4,400,000	
PUC - Capital Improvement Program (WIP)	7,000,000	
DPH - Laguna Honda Hospital Replacement Program	211,539,481	
CRT - Courthouse Construction Fund	1,782,000	
PUC - EBMUD, PEIR, CIP Continuation	16,719,301	
Total Changes Approved	\$ 318,431,412	
Supplementals Pending at the Board		
PUC - Electrical Reliability Power Project		\$ 2,666,667
MTA - Modification No. 12 to Contract No. 309 Breda ^		12,274,340
MTA - Breda Lease-Leaseback Revenue for Capital Projects * ^		35,506,484
* Originally FY 2002-03 proposed Supplemental, reactivated 3/30/04.		
^ Insufficient funding for both to be approved as of May 2004.		
CPC - Eastern Neighborhoods Initiative & Rincon Project		1,290,592
Supplementals Pending in the Mayor's Office		
PUC - Irrigation and Mitigation of the Sunol Golf Course		\$ 2,500,000
PUC - Electrical Reliability Power Project		2,666,667
DPH - SF General and Laguna Hospital Operations		12,307,000
Total Supplementals Pending - Non-General Fund Only		\$ 69,211,750

**APPENDIX B: Status of Board Reserves Included in the FY 2003-04 Budget
As of May 6, 2004**

GENERAL FUND RESERVES	BEGINNING BALANCE	RELEASED	REMAINING BALANCE
City Planning Commission			
Salaries (pending approval of revenues)	\$ 1,375,000	\$ -	\$ 1,375,000
Trial Courts			
Conflict Council (6 Months of Contract)	3,597,426	3,597,426	-
Emergency Communications Department			
False Alarm Salaries (6 Month Pending Program Operation)	48,959	48,959	-
Elections			
Sheriff's Security Services	135,000	-	135,000
Fire			
Training	3,903,139	3,903,139	-
TOTAL GENERAL FUND	<u>\$ 9,059,524</u>	<u>\$ 7,549,524</u>	<u>\$ 1,510,000</u>
NON-GENERAL FUND RESERVES	BEGINNING BALANCE	RELEASED	REMAINING BALANCE
Children, Youth and Their Families	\$ 37,500	\$ -	\$ 37,500
Community Based Organization			
Department Building Inspection			
Salaries	269,281	-	269,281
PUC - Hetch Hetchy			
Power for Resale Budget to Supplement Hetch Hetchy Generation (10%)	4,392,200	-	4,392,200
Port Commission			
Environmental Justice	412,549	-	412,549
TOTAL NON-GENERAL FUND	<u>\$ 5,111,530</u>	<u>\$ -</u>	<u>\$ 5,111,530</u>
TOTAL BOARD RESERVES	<u>\$ 14,171,054</u>	<u>\$ 7,549,524</u>	<u>\$ 6,621,530</u>