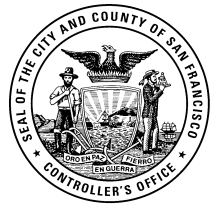


City and County of San Francisco

Office of the Controller

FY 2010-11 Six-Month Budget Status Report



February 9, 2011



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Summary

The Controller's Office provides periodic budget status updates to the City's policymakers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides expenditure and revenue information and projections as of December 31, 2010.

As shown in Table 1, this report projects a FY 2010-11 ending General Fund balance of \$89.2 million.

- Our office projects an ending General Fund Balance of \$89.2 million for the current fiscal year. This represents a \$42.7 million improvement from the first quarter report issued in October. This also represents a \$14 million improvement from the assumptions included in the Mayor's Office December 2010 updated deficit projection and mid-year savings plan.
- This strength versus the adopted budget is driven predominantly by a modest improvement in the City's general tax revenues. Property transfer tax is significantly exceeding budgeted levels, driven by voter approval of a rate increase in November 2010 that was not assumed in the budget. Property taxes and business taxes are also projected to exceed budget.
- Department spending levels net of department revenues are trending at budgeted levels, except for the Department of Public Health, which we project will require additional support from the General Fund of \$37.8 million. This deficit is mostly offset by a budgeted assumption of \$30 million of state revenue losses that have been absorbed within departments' budget.
- This projected ending balance will be available to address a portion of the projected shortfall for the coming fiscal year. But a substantial budget shortfall for FY 2011-12 will remain. Our office, in conjunction with the Mayor's Budget Office and the Board of Supervisors' Budget Analyst will issue a projection for FY 2011-12 through FY 2013-14 in March and will update projections for the current year revenues and expenses in April.

Table 1. FY 2010-11 Projected General Fund Variances to Budget (\$Millions)

	Surplus (Shortfall)
A. Starting Balance	
Better than anticipated starting balance	\$ 25.4
Budgeted General Fund reserve	25.0
Subtotal Starting Balances	<u>50.4</u>
B. Citywide Revenues and Baselines	
Citywide Revenue Surplus	70.4
Rainy Day Reserve Withdrawal Threshold No Longer Met	(12.3)
General Fund Impact of Baseline Revenue Transfers	(9.6)
Subtotal Citywide Revenues and Baselines	<u>48.5</u>
C. Departmental Operations	
Budgeted allowance for State revenue shortfall	30.0
Net Departmental Summary	(39.7)
Subtotal Departmental Operations	<u>(9.7)</u>
D. Ending Surplus (Shortfall)	<u>\$ 89.2</u>

A. General Fund Starting Balance

The General Fund available fund balance at the end of FY 2009-10 was \$105.3 million. The FY 2009-10 budget assumed and appropriated \$79.9 million of this balance, leaving a surplus of \$25.4 million available for use in the current fiscal year. The FY 2010-11 budget also included a General Fund Reserve of \$25.0 million in the adopted budget. Together these represent a starting balance of \$50.4 million.

B. Citywide Revenues and Baseline Transfers

As shown in Table 2, Citywide revenues are projected to be \$70.4 million above budgeted levels. This is primarily due to an improved outlook for property tax, payroll tax, property transfer tax and sales tax, offset by a reduced projection for hotel tax, utility user taxes, Health and Welfare Realignment vehicle license fee revenues, and interest income. These changes are described in more detail in Appendix 1.

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

	Budget	6-Month Projection	Surplus (Shortfall)
Property Tax	984.8	1,020.0	35.2
Payroll & Business Registration Tax	342.4	362.0	19.6
Sales Tax - Local 1% and Public Safety	161.9	165.3	3.4
Hotel Room Tax	157.2	148.9	(8.3)
Health & Welfare Sales Tax/VLF Realignment	138.2	136.2	(2.0)
Utility User & Access Line Taxes	134.7	130.9	(3.9)
Transfers In from Other Funds	114.5	115.4	0.9
Property Transfer Tax	70.9	94.6	23.6
Parking Tax	65.3	66.5	1.2
Interest Income	9.5	6.8	(2.8)
Other	14.8	18.3	3.5
Total Major Citywide Revenues	2,179.4	2,246.3	70.4

Table 3 shows that as a result of the improvement in discretionary revenues, projections for baseline and parking tax in-lieu transfers to the MTA, Library and Public Education Enrichment Fund are increased by a net \$9.6 million compared to budget.

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

Note: negative variance indicates increased transfer from General Fund. This will appear as a surplus to the recipient Agency or Department

	Budget	6-Month Projection	General Fund Savings (Cost)
Baseline Transfer to MTA	175.0	181.7	(6.7)
Parking Tax in Lieu Transfer to MTA	52.2	53.2	(1.0)
Baseline Transfer to Library	43.5	45.2	(1.7)
Baseline Transfer to Public Education Fund	5.5	5.7	(0.2)
Total	276.2	285.8	(9.6)

In addition, the Children's Baseline minimum funding requirement increased by \$2.9 million to \$98.3 million. Since FY 2010-11 Children's Baseline-eligible appropriations are already budgeted above minimum requirements at \$106.1 million, no additional appropriation requirements are currently projected.

C. Departmental Operations

We project a net departmental operations shortfall of \$39.7 million summarized in Table 4 below and further detailed and discussed in Appendix 2. This includes the Mayor's current year savings plan announced in December. Partially offsetting this shortfall is an additional budgeted \$30 million allowance for shortfalls related to the State budget which departments have absorbed in their budgets.

Table 4. Departmental Operating Summary: General Fund Differences to Budget (\$Millions)

	Revenue		Uses		Net Surplus /
	Surplus /		Savings /	(Deficit)	(Deficit)
	(Shortfall)		(Deficit)		
Net Shortfall Departments					
Public Health	\$ (23.2)	\$	(14.6)	\$	(37.8)
Sheriff	(0.4)		(5.1)		(5.5)
Public Works	(0.3)		(2.4)		(2.8)
General City Responsibility	-		(2.3)		(2.3)
City Administrator	-		(0.7)		(0.7)
City Attorney	-		(0.1)		(0.1)
Subtotal Departments with Net Deficits	\$ (24.0)	\$	(25.1)	\$	(49.1)
Net Surplus Departments					
Police	\$ 0.4	\$	2.8	\$	3.2
Human Services Agency	(10.6)		11.9		1.3
District Attorney	-		0.9		0.9
Recreation and Park	-		0.7		0.7
Assessor Recorder	-		0.6		0.6
Adult Probation	-		0.6		0.6
Other Net Surplus	(0.6)		2.8		2.2
Subtotal Departments with Net Surpluses	\$ (10.8)	\$	20.2	\$	9.4
Combined Total	(34.8)		(4.9)		(39.7)

Based on these projections, we expect supplemental budget appropriation requests to be submitted by the Departments of Public Health, Sheriff, Public Works and City Administrator's office and by the Controller on behalf of the General City Responsibility requirements. For all other departmental shortfalls, the Mayor's Office and the Controller's Office will continue to work with departments to develop a plan to bring expenditures in line with revenues by year-end without requiring supplemental appropriations.

D. Ending Available General Fund Balance of \$89.2 Million

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2010-11 of \$89.2 million.

E. Reserves

General Fund Reserve: To date, there have been no appropriations from the budgeted \$25.0 million General Fund Reserve. Pending and anticipated supplemental appropriation requests are reflected in the Departmental operating summary above.

Budget Savings Incentive Reserve: This projection assumes that deposits into the Citywide Budget Savings Incentive Reserve (authorized by Administrative Code Section 10.20) will be suspended for FY 2010-11.

Recreation & Parks Savings Incentive Reserve: As the Recreation & Parks Department is not anticipated to have operating savings, no deposits are projected for the Recreation & Park Savings Incentive Reserve established by Charter Section 16.107.

Rainy Day Economic Stabilization Reserve: Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization 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 Economic Stabilization Reserve began the year with \$39.6 million. The FY 2010-11 budget assumed a \$12.3 million allocation from the reserve to the General Fund, however, given revenue growth projected in this report, the City is no longer eligible to withdraw. The budget also assumed a \$6.1 million allocation to the San Francisco Unified School District, contingent upon confirmation of declining per-pupil revenues. If this allocation is made to the School District and there is no allocation to the City, the reserve balance is projected to be \$33.4 million at year end.

Budget Stabilization Reserve. In April 2010, Administrative Code Section 10.60 established a Budget Stabilization Reserve to augment the Rainy Day Economic Stabilization Reserve. In years in which General Fund revenues exceed their prior peak, the City must deposit 75 percent of the following revenue sources into the Budget Stabilization Reserve: real property transfer tax in excess of the prior five-year average, adjusted for any rate increases adopted during the prior five year period; the sale of certain fixed assets; and ending unassigned General Fund balances beyond those appropriated in the subsequent year's budget. The City is not projected to deposit transfer tax or fixed asset sale revenue into the reserve in FY 2010-11.

F. 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 3 provides a table of selected special revenue and enterprise fund balance projections and a discussion of significant issues associated with their operations.

The only item with a projected general fund impact for this fiscal year is a shortfall identified in the Local Courthouse Construction Fund. A reduction in projected parking fine surcharge revenues which are used to support debt service for the 400 McAllister Street Courthouse Certificates of Participation is anticipated to require a \$2.3 million general fund transfer in FY 2010-11. The Controller's Office and Mayor's Office will work with the State Administrative Office of the Courts to explore ways to reduce potential subsidies for the future if parking fine surcharges remain insufficient to cover debt service.

G. Projection Uncertainty Remains

Major uncertainties regarding these projections for the General Fund include:

- The potential for continued fluctuations in tax revenues in the final six months of the fiscal year.
- Property tax appeal decisions may require us to revise our assumptions regarding current year refunds and set-asides for future refunds.
- Potential for an additional election to be held in June.
- Any State budget decisions that could impact the current fiscal year.

We will update the year-end fund balance and budget year revenue projections in the Controller's Nine-Month Budget Status Report, scheduled for issuance in early May, 2011.

H. Appendices

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections
3. 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 \$65.6 million over revised budget. This includes the \$70.4 in citywide revenue, \$30 million \$34.8 million revenue shortfall related to departmental operations discussed in Appendix 2, offset by the \$30 million budgeted assumption for state revenue losses.

The FY 2010-11 budget assumed a moderate rate of recovery throughout the fiscal year. Tax revenues projected to recover beyond budgeted levels include property, payroll, sales and property transfer taxes. These gains are offset by shortfalls in key sources including interest income, charges for services, and state and federal subventions. Selected revenue streams are discussed below.

Property Tax. General Fund property tax revenues are projected to be \$5 million above budget, representing a \$17 million improvement from the surplus projected in the Three-Month Report. \$11 million of the improvement since the Three-Month Report is due to updated revenue projections from the Assessor's office regarding supplemental and escape tax assessments, \$3 million of the improvement is due to penalties and interest receipts coming in higher than budgeted, \$1 million is due to updated pass-through calculations from the San Francisco Redevelopment Agency, and the balance is due to an updated analysis of amounts required to be set aside for property tax appeals and current year roll corrections.

Payroll Tax revenues are projected to be \$19.4 million over budget, an improvement of \$8.4 million from the Three-Month Report due to updated estimates of total taxable payroll. A decline in private payrolls during the 2010 tax year is expected to be offset by increased wages, resulting in a total change in taxable wages of 0.5% from 2009. When adjusted to the fiscal year payroll tax payment schedule, revenues are projected to increase 2.4% over the prior year. Information available in March on receipts for tax year 2010 prepayments trued up to year-end results will be factored into projections in the Nine-Month Report.

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

GENERAL FUND (\$ Millions)	FY 2009-10	FY 2010-11		6-Month Projection	Surplus/ (Shortfall)	
	Year End Actual	Original Budget	Revised Budget			
PROPERTY TAXES	\$ 1,060.3	\$ 984.8	\$ 984.8	\$ 1,020.0	\$ 35.2	(1)
BUSINESS TAXES						
Business Registration Tax	7.9	7.9	7.9	8.1	0.2	(2)
Payroll Tax	345.6	334.4	334.4	353.8	19.4	(3)
Total Business Taxes	353.5	342.4	342.4	362.0	19.6	
OTHER LOCAL TAXES						
Sales Tax	96.6	98.0	98.0	99.5	1.5	(4)
Hotel Room Tax	135.5	157.2	157.2	148.9	(8.3)	(5)
Utility Users Tax	94.5	97.5	97.5	93.6	(3.9)	(6)
Parking Tax	66.5	65.3	65.3	66.5	1.2	(7)
Real Property Transfer Tax	83.7	70.9	70.9	94.6	23.6	(8)
Stadium Admission Tax	2.4	2.3	2.3	2.3	-	(9)
Access Line Tax	41.5	37.3	37.3	37.3	-	(10)
Total Other Local Taxes	520.7	528.5	528.5	542.6	14.1	
LICENSES, PERMITS & FRANCHISES						
Licenses & Permits	9.2	8.6	8.6	8.6	-	(10)
Franchise Tax	15.1	14.6	14.6	14.6	-	(11)
Total Licenses, Permits & Franchises	24.2	23.2	23.2	23.2	-	
FINES, FORFEITURES & PENALTIES	17.3	3.8	3.8	5.5	1.7	(12)
INTEREST & INVESTMENT INCOME	8.4	9.5	9.5	6.8	(2.8)	(13)
RENTS & CONCESSIONS						
Garages - Rec/Park	8.8	11.0	11.0	12.8	1.8	(14)
Rents and Concessions - Rec/Park	8.2	9.6	9.6	9.6	-	(15)
Other Rents and Concessions	1.8	1.8	1.8	1.8	-	(16)
Total Rents and Concessions	18.7	22.3	22.3	24.1	1.8	
INTERGOVERNMENTAL REVENUES						
Federal Government						
Social Service Subventions	181.9	203.0	205.4	200.1	(5.3)	(17)
Other Grants & Subventions	30.5	33.6	37.2	37.2	0.0	(18)
Total Federal Subventions	212.4	236.6	242.6	237.3	(5.3)	
State Government						
Social Service Subventions	140.4	133.6	133.8	128.1	(5.7)	(19)
Health & Welfare Realignment - Sales Tax	96.1	94.2	94.2	94.2	-	(20)
Health & Welfare Realignment - VLF	43.3	43.9	43.9	42.0	(2.0)	(21)
Health/Mental Health Subventions	78.7	107.8	107.6	87.0	(20.6)	(21)
Public Safety Sales Tax	65.8	63.8	63.8	65.8	1.9	(22)
Motor Vehicle In-Lieu	2.3	1.7	1.7	1.7	-	(23)
Other Grants & Subventions	27.6	19.9	19.9	19.9	-	(24)
State Budget Reduction Placeholder	-	(30.0)	(30.0)	-	30.0	
Total State Subventions	454.1	434.9	435.1	438.7	3.6	
CHARGES FOR SERVICES:						
General Government Service Charges	30.8	35.8	35.8	35.8	(0.1)	(25)
Public Safety Service Charges	21.9	20.9	20.9	20.6	(0.3)	(26)
Recreation Charges - Rec/Park	11.4	11.0	11.0	11.0	-	(27)
MediCal,MediCare & Health Service Charges	56.8	53.5	54.4	51.3	(3.1)	(28)
Other Service Charges	12.4	15.5	15.1	15.2	0.2	(29)
Total Charges for Services	133.2	136.7	137.2	133.9	(3.3)	
RECOVERY OF GEN. GOV'T. COSTS	7.9	9.4	9.4	9.4	-	(30)
OTHER REVENUES	19.8	21.5	21.5	21.7	0.1	(31)
TOTAL REVENUES	2,830.6	2,753.7	2,760.3	2,825.1	64.8	
TRANSFERS INTO GENERAL FUND:						
Airport	28.1	28.5	28.5	29.2	0.7	(32)
Other Transfers	64.1	85.7	86.0	86.2	0.2	(33)
Total Transfers-In	92.2	114.2	114.5	115.4	0.9	
TOTAL GENERAL FUND RESOURCES	2,922.8	2,867.8	2,874.8	2,940.5	65.6	

Local Sales Tax revenues are projected to be \$1.5 million over budget, or 3.0% over prior year actuals. This represents a \$1.5 million improvement from the Three-Month Report. Cash collections for the first quarter of FY 2010-11 improved 7.1% from the same quarter prior year, due to a 2.7% increase in taxable sales at restaurants and furniture stores offset by declines in building materials. The rest of the variance is due to increased remittance of use tax via state income tax forms, increased use tax remitted by online retailers, and increased use tax from third party vehicle sales. While sales tax revenues are projected to increase over FY 2009-10, we continue to anticipate that it will take several years to return to the prior peak in FY 2007-08.

Hotel Room Tax revenues are projected to be \$8.3 million below budget in the General Fund, which is \$7.0 million below the Three-Month Report projection. The budget assumed \$6.0 million in revenue from the passage of a November, 2010 ballot measure to require online travel companies to remit hotel tax on the retail price of hotel rooms, however, neither of the measures that would have closed this loophole passed. In addition, we are projecting slightly weaker growth toward the end of the fiscal year than initially expected. Table A1-2, monthly occupancy and Average Daily Room rates (ADR), illustrates the modest increases in both of these measures. Occupancy rates have stabilized and are increasing slowly, and room rates, which recover later than occupancy, have finally shown sustained, though modest, increases. Between July and November month-over-month changes in RevPAR (i.e. revenue per available room, or the combined effect of occupancy, ADR, and room supply) averaged 6.2%. Our projections assume monthly RevPAR increases of 6.5% through year end. Any shortfall in hotel tax revenue is entirely reflected in the General Fund unless the allocation stipulated in the Annual Appropriation Ordinance (AAO) is changed.

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 will be either greater or less than our projection depending on developments with these suits.

Table A1-2. Hotel Occupancy and Average Daily Room Rates (ADR)

Hotel Occupancy Rates

MONTH	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	Change - Value	Change - %
July	84.9%	88.8%	86.0%	88.4%	2.4%	3%
August	87.1%	91.8%	88.7%	92.4%	3.7%	4%
September	86.9%	86.6%	86.3%	87.9%	1.6%	2%
October	86.4%	82.4%	87.5%	88.3%	0.8%	1%
November	76.0%	68.5%	69.8%	71.2%	1.4%	2%
December	64.0%	66.8%	64.8%			
January	64.5%	61.0%	61.4%			
February	73.9%	59.1%	69.8%			
March	76.5%	68.3%	76.8%			
April	77.4%	74.9%	79.8%			
May	79.8%	74.7%	82.5%			
June	85.6%	80.5%	84.1%			
AVG. OCC. RATE - ANNUAL (YTD)	78.6%	75.3%	78.1%	85.6%		
% Rate Chg from PY	1.7%	-3.3%	2.8%	7.5%		
% Change from PY	2.2%	-4.2%	3.8%	9.6%		

Average Daily Room Rates (ADRs)

MONTH	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	Change - Value	Change - %
July	\$ 183.85	\$ 188.17	\$ 152.44	\$ 158.16	\$ 5.72	4%
August	\$ 185.94	\$ 181.69	\$ 151.06	\$ 166.04	\$ 14.98	10%
September	\$ 200.86	\$ 206.06	\$ 175.64	\$ 187.57	\$ 11.93	7%
October	\$ 213.31	\$ 208.04	\$ 198.93	\$ 194.35	\$ (4.58)	-2%
November	\$ 192.62	\$ 178.61	\$ 153.89	\$ 156.58	\$ 2.69	2%
December	\$ 156.01	\$ 167.17	\$ 132.81			
January	\$ 182.11	\$ 167.20	\$ 151.47			
February	\$ 192.56	\$ 154.23	\$ 146.54			
March	\$ 184.00	\$ 160.35	\$ 149.41			
April	\$ 179.77	\$ 154.53	\$ 146.51			
May	\$ 183.13	\$ 152.68	\$ 158.42			
June	\$ 197.04	\$ 149.98	\$ 153.33			
AVERAGE ADR - ANNUAL (YTD)	\$ 187.60	\$ 172.39	\$ 155.87	\$ 172.54		
\$ Change from PY	\$ 12.09	\$ (15.21)	\$ (16.52)	\$ 16.67		
% Change from PY	6.9%	-8.1%	-9.6%	10.7%		

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

Real Property Transfer Tax revenues are projected to be \$23.6 million over budget and Three-Month Report projections, and 13% above prior year levels. As illustrated in Table A1-3 below, total taxes paid through December were approximately 72% above the same period prior year. This increase is largely due to particularly high receipts in November and December 2010, which are due in part to transactions being timed to conclude before the December 17, 2010 effective date of the November 2010 Proposition N tax rate increase. Receipts from January to June are projected to be level with those in the second half of FY 2009-10. This revenue has traditionally been one of the General Fund's most volatile taxes and is highly dependent on a number of factors including investor interest, economic cycles, interest rates, and credit availability.

Table A1-3 Transfer Tax Revenues and Transaction Counts

Tax Rate Fiscal Year	Real Property Transfer Tax Revenue (\$ millions)*					Timing Differences	Total Revenue
	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%			
	<\$250K	>\$250K	>\$1 M	>\$5 M			
FY 2004-05	\$ 0.6	\$ 37.2	\$ 78.9	N/A	\$ 0.10	\$ 116.8	
FY 2005-06	\$ 0.5	\$ 31.4	\$ 98.3	N/A	1.0	131.3	
FY 2006-07	0.4	29.3	114.3	N/A	0.0	144.0	
FY 2007-08	0.5	24.7	61.0	N/A	(0.0)	86.2	
FY 2008-09	0.8	19.8	27.1	1.3	-	48.9	
FY 2009-10	1.7	24.1	25.8	32.1	-	83.7	
Through December 2010							
	<\$250K	>\$250K	>\$1 M	>\$5 M	Total		
FY 2009-10 YTD	\$ 1.2	\$ 13.1	\$ 12.6	\$ 12.2	\$ 39.20	\$ 78.4	
FY 2010-11 YTD	0.5	10.2	12.8	44.0	67.60	135.2	
Change	-57%	-22%	1%	260%	72%	72%	

*Amounts to be adjusted for timing differences between Recorder's System and revenue recognition requirements at year end.

Transaction Count

Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	
Fiscal Year	<\$250K	>\$250K	>\$1 M	>\$5 M	Total
FY 2004-05	1,176	8,699	3,056	N/A	12,931
FY 2005-06	931	7,400	3,355	N/A	11,686
FY 2006-07	800	7,225	3,003	N/A	11,028
FY 2007-08	810	6,498	2,951	N/A	10,259
FY 2008-09	1,611	5,332	1,627	11	8,581
FY 2009-10	4,818	6,434	1,769	90	13,111
Through December 2010					
	<\$250K	>\$250K	>\$1 M	>\$5 M	Total
FY 2009-10 YTD	3,678	3,418	887	45	8,028
FY 2010-11 YTD	1,182	2,849	853	78	4,962
Change	-68%	-17%	-4%	73%	-38%

Utility Users Tax revenues are projected to be \$3.9 million under budget, or 1% below prior year actuals, and \$3.9 million below the Three-Month Report estimate. Telephone user tax revenue is expected to be level with the prior year, or \$3.8 million below budget due to a slower rate of increase than experienced in FY 2009-10 and projected for FY 2010-11. Gas and electric user tax is projected to be on budget, which is a 2.2% decline from prior year due mainly to reduced natural gas prices and commercial user consumption. Water user tax revenue is projected to remain at prior year levels, which is slightly under budget due to lower than expected sales of water.

Fines, Forfeitures & Penalties revenues are projected to be \$1.7 million above budget due to allocations of the \$3.4 million Office Depot settlement to General Fund departments.

Interest & Investment Income is projected to be \$2.8 million under budget, or 13% below prior year actuals. The projection is an improvement of \$1.5 million from the Three-Month Report, and is due to lower than expected interest rates partially offset by higher cash balances. The projection assumes average monthly interest rates of 1.1% and the same level of improvement in cash.

Public Safety Sales Tax revenues are projected to be \$1.9 million over budget and Three-Month Report estimates, or level with prior year actuals. This is due to an improvement in the statewide sales tax base for this subvention almost entirely offset by a decrease in San Francisco's share of these taxable sales during the prior calendar year.

Health & Welfare Realignment – Vehicle License Fee revenues are projected to be \$2.0 million under budget, or 3.0% below prior year actuals. The projection is \$1.4 million below the Three-Month Report estimate, and is based on the assumption that the 3.0% decline in revenue experienced thus far will continue through year-end.

Appendix 2. General Fund Department Budget Projections

Table A2-1. General Fund Supported Operations Difference to Budget (\$ 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	11.45	10.9	-	0.6	0.6	
Superior Court	32.77	32.8	-	-	-	
District Attorney	32.99	32.1	-	0.9	0.9	1
Emergency Management	40.90	40.8	-	0.1	0.1	
Fire Department	262.48	261.7	(0.7)	0.7	-	
Juvenile Probation	31.87	31.9	-	-	-	
Public Defender	25.31	25.3	-	0.1	0.1	
Police	391.46	388.6	0.4	2.8	3.2	2
Sheriff	135.98	141.0	(0.4)	(5.1)	(5.5)	3
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Public Works	33.55	36.0	(0.3)	(2.4)	(2.8)	4
Economic & Workforce Development	11.87	11.7	-	0.2	0.2	
Board of Appeals	0.95	0.9	(0.1)	0.1	-	
HUMAN WELFARE & NEIGHBORHOOD DEVELOPMENT						
Children, Youth & Their Families	29.84	29.5	-	0.4	0.4	
Human Services	647.88	635.9	(10.6)	11.9	1.3	5
Environment	2.99	3.0	-	-	-	
Human Rights Commission	0.21	0.2	-	-	-	
County Education Office	0.08	0.1	-	-	-	
Status of Women	3.29	3.3	-	-	-	
COMMUNITY HEALTH						
Public Health	672.1	649.3	(23.2)	(14.6)	(37.8)	6
CULTURE & RECREATION						
Asian Art Museum	7.12	6.8	-	0.3	0.3	
Arts Commission	9.63	9.6	-	-	-	
Fine Arts Museum	11.06	11.1	-	-	-	
Law Library	0.74	0.7	-	-	-	
Recreation and Parks	72.57	71.9	-	0.7	0.7	7
Academy of Sciences	4.24	4.2	-	0.1	0.1	
GENERAL ADMINISTRATION & FINANCE						
City Administrator	52.39	53.1	-	(0.7)	(0.7)	8
Assessor / Recorder	18.49	17.9	-	0.6	0.6	
Board of Supervisors	11.31	11.3	-	-	-	
City Attorney	7.40	7.5	-	(0.1)	(0.1)	
Controller	23.72	23.4	-	0.3	0.3	
City Planning	22.92	22.9	-	-	-	
Civil Service Commission	0.50	0.5	-	-	-	
Ethics Commission	8.20	8.1	-	0.1	0.1	
Human Resources	14.19	13.9	-	0.3	0.3	
Health Service System	0.79	0.8	0.1	-	0.1	
Mayor	9.79	9.7	-	0.1	0.1	
Elections	9.29	9.2	-	0.1	0.1	
Retirement System	1.69	1.7	-	-	-	
Technology	3.71	3.7	-	-	-	
Treasurer/Tax Collector	22.19	22.2	-	-	-	
GENERAL CITY RESPONSIBILITIES						
	170.4	172.7	-	(2.3)	(2.3)	9
TOTAL GENERAL FUND	2,850.4	2,818.0	(34.8)	(4.9)	(39.7)	

1. District Attorney

The District Attorney projects to end the fiscal year with an expenditure savings of \$0.9 million due mainly to salary and fringe benefit savings.

2. Police Department

The Police Department projects to end the fiscal year with a net surplus of \$3.2 million. The Department projects expenditure savings of \$2.8 million primarily in salaries and fringe benefits. The \$2.8 million in expenditure savings was part of the Mayor's mid-year contingency request. The Department projects a revenue surplus of \$0.4 million driven by an increase in parking lot and garage licensing fee revenue which was previously collected by the Fire Department.

3. Sheriff

The Sheriff projects to end the fiscal year with a net \$5.5 million deficit, including a \$0.4 million revenue shortfall, mostly due to decreased state funding for boarding of prisoners. The projected \$5.1 million expenditure deficit includes a \$7.3 million over-expenditure in salaries and fringe benefits due to fewer retirements than anticipated in the budget, an increase in the jail population since July, and several large unplanned public events, as well as a \$0.2 million shortfall in workers' compensation. This shortfall is offset by \$2.3 million in debt service savings due to refinancing of the San Bruno Jail debt. The Sheriff plans to submit a supplemental to cover the expenditure deficit.

4. Public Works

The Department of Public Works projects to end the fiscal year with a net deficit of \$2.8 million. The Department projects a \$2.4 million expenditure deficit primarily due to pending litigation. A supplemental appropriation request has been submitted for these expenses. The Department also projects a \$0.3 million revenue shortfall in the Bureau of Street use and Mapping due to the economic downturn and the anticipated reduction in the demand for permits.

5. Human Services

The Human Services Agency projects to end the fiscal year with a \$1.3 million surplus. The Department projects expenditure savings of \$11.9 million offset by \$10.6 million in revenue shortfalls. Major programmatic variances are:

- \$2.7 million net surplus in Aid programs mainly due to lower than expected caseloads in In-Home Support Services (IHSS) and Adoption Aid, and lower than expected expenditures in Foster Care Childcare Aid.
- \$3.9 million net shortfall in Child welfare, Economic Support and Self Sufficiency, and Aging and Adult Services programs based on FY 2010-11 time studies.
- \$2.5 million net surplus due to mid year contingency plans, project savings, adjustments to prior year close outs, and increased parking fees charged to employees.

6. Public Health

The Department of Public Health projects to end the fiscal year with a net deficit of \$37.8 million. This shortfall is due to several major issues:

Revenues

- State and Federal Revenue Shortfalls (\$60.5)
- Additional Revenues from the 1115 Medi-Cal waiver \$25.8
- Better than expected Net Patient Revenues \$26.2
- Other offsetting revenues (\$3.1)

Expenditures

- Expenditures greater than budget (\$26.3)

The Controller's Three-month report assumed the loss of \$ 31.4 million of the \$60.5 million in state and federal revenues identified above, and the department has since identified an additional \$28.8 million in revenues that are unlikely to be received. These include an additional \$10 million of Hospital Fee revenue and \$16 million in funds associated with a continued delay in approval of the State Plan Amendment to draw down federal funds for excess costs under Short-Doyle/MediCal program, as well as \$2.1 million in realignment funds which are unlikely to be received. Were it not for the loss of these revenues, the department would have a surplus. The Department intends to submit a supplemental appropriation request to cover the projected expenditure overruns.

Fund	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Surplus / (Deficit)
Public Health General Fund	\$ (23.2)	\$ 0.5	\$ (22.7)
Laguna Honda Hospital	8.9	(10.1)	(1.2)
San Francisco General Hospital	4.9	(16.7)	(11.8)
SF General Realignment	(2.1)	-	(2.1)
Total All Funds	\$ (11.5)	\$ (26.3)	\$ (37.8)

Non-Hospital Operations in the General Fund

The Department of Public Health projects a \$22.7 million deficit in its non-hospital operations in the General Fund, of which \$20.6 million is in mental health due to a shortfall in revenues as a result of a delay in an effective date for a State Plan Amendment to draw federal matching funds for the Short-Doyle program. Additionally there were reductions to the enhanced Federal Medical Assistance Percentages (FMAP) associated with the federal stimulus program as well as a \$1.8 million deficit in personnel costs. The department is

projecting slight variances in other divisions including surpluses of \$0.5 million in primary care, and \$0.4 million in substance abuse offset by deficits of \$0.8 million in health at home, \$0.6 million in jail health and \$0.2 million in public health.

San Francisco General Hospital

The Department of Public Health projects a \$11.8 million deficit for the San Francisco General Hospital. The Department estimates a \$31.4 million revenue surplus comprised of a \$25.8 million favorable variance in Medi-Cal Waiver funding, \$17 million in net patient revenue, and \$3 million in prior year settlements offset by deficits of \$37 million in funding from SB188/AB1383 Hospital fees (which includes the \$26.5 million known at the time of the Three-month report) and \$0.5 million in federal matching payments (FMAP). Expenditure shortfalls are due to personnel and unbudgeted security costs.

Laguna Honda Hospital

The Department projects a \$1.2 million deficit for Laguna Honda Hospital, made up of a projected \$8.9 million revenue surplus primarily due to increases in Skilled Nursing Facility (SNF) base rates retroactive to August 1, offset by \$10.1 million deficit in expenditures due to \$6.5 million in personnel costs, \$2.5 million in pharmaceutical costs, and \$1.1 million in unbudgeted security costs.

7. Recreation and Park

The Recreation and Park department is anticipating \$0.7 million in savings due to the Mayor's current year savings plan. These projections do not include the supplemental appropriation currently pending at the Board of Supervisors for the suspension of botanical garden entrance fees.

8. General Services Agency – City Administrator

The General Services Agency (GSA) – City Administrator projects to end the fiscal year with a net deficit of \$0.7 million. The Department projects revenues to be on budget; however, they project an expenditure deficit of \$0.7 million due to pending litigation.

9. General City Responsibility

The projected \$2.3 million shortfall in General City Responsibility is due to the anticipated need for a \$2.3 million transfer from the General Fund to the Local Courthouse Construction Fund to offset a shortfall in revenues from parking fine surcharges needed to support debt service on the 400 McAllister Street Courthouse construction Certificates of Participation. The Controller's Office anticipates working with the Mayor's Office to submit a supplemental appropriation request to support the transfer. The Controller's Office is working with the State Administrative Office of the Courts to request credit against future surcharge revenue for any current General Fund subsidy provided for this purpose.

Appendix 4. Other Funds Highlights

Table A4-1. Other Funds Highlights, \$ Millions

	Prior Year		FY 2010-11					Estimated Year-end Fund Balance	Note
	FY 2009-10 Year-End Available Fund Balance	Fund Balance Used in FY 10-11 Budget	Starting Available Fund Balance	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Operating Surplus / (Deficit)			
<u>SELECT SPECIAL REVENUE FUNDS</u>									
Building Inspection Operating Fund	\$6.0	\$0.0	\$6.0	\$2.6	\$0.0	\$2.6	\$8.6	1	
Children's Fund	\$0.2	\$0.0	\$0.2	\$1.3	\$0.2	\$1.5	\$1.7	2	
Convention Facilities Fund	\$5.1	\$0.0	\$5.1	\$0.0	\$2.4	\$2.4	\$7.5	3	
Golf Fund	(\$0.3)	\$0.0	(\$0.3)	(\$0.3)	\$0.3	\$0.0	(\$0.3)	4	
Library Preservation Fund	\$16.0	\$3.7	\$12.3	\$0.4	\$1.5	\$2.0	\$14.3	5	
Local Courthouse Construction Fund	\$0.2	\$1.0	(\$0.8)	(\$1.5)	\$0.0	(\$1.5)	(\$2.3)	6	
Open Space Fund	\$2.5	\$1.6	\$0.9	\$1.1	\$0.0	\$1.1	\$2.0	7	
<u>SELECT ENTERPRISE FUNDS</u>									
Airport Operating Fund	\$97.8	\$25.9	\$71.9	(\$3.2)	\$20.8	\$17.6	\$89.5	8	
MTA – ALL Funds	\$19.4	\$0.0	\$19.4	(\$0.6)	(\$20.6)	(\$21.2)	(\$1.9)	9	
Port Operating Fund	\$31.4	\$9.9	\$21.5	\$4.4	\$2.6	\$7.0	\$28.5	10	
PUC – Hetch Hetchy Operating Fund	\$95.1	\$31.1	\$64.0	\$3.5	\$14.5	\$18.0	\$82.0	11	
PUC – Wastewater Operating Fund	\$15.4	\$0.0	\$15.4	(\$5.4)	\$21.8	\$16.4	\$31.8	12	
PUC – Water Operating Fund	\$40.1	\$0.0	\$40.1	(\$51.0)	\$16.6	(\$34.5)	\$5.6	13	

Notes to Special Revenue and Enterprise Funds

Select Special Revenue Funds

1. Building Inspection Fund

The Building Inspection Department operating fund began the year with \$6.0 million in available fund balance. The Department projects operating revenues net of refunds to be \$2.6 million over budget. This results in a projected ending fund balance of \$8.6 million.

2. Children's Fund

The Children's Fund began the fiscal year with a fund balance of \$0.2 million with no appropriations in the FY 2010-11 budget. Current year revenues are projected to be \$1.3 million better than budget due to the projected increases in Property Tax revenue. The fund is also projecting \$0.2 million in expenditure savings for a projected year end fund balance of \$1.7 million.

3. Convention Facilities Fund

The Convention Facilities Fund began the fiscal year with \$5.1 million in available fund balance. The Department projects revenues to be on budget and expenditure savings of \$2.4 million due to Moscone Center debt service savings. The net result is an operating surplus of \$2.4 million and an expected fiscal year-end available fund balance of \$7.5 million.

4. Golf Fund

The Golf Fund began the fiscal year with no appropriated fund balance in the budget and a deficit of \$0.3 million in available fund balance, due to \$0.7 million (\$0.4 million appropriated in FY 2009-10 and \$0.3 million appropriated in FY 2010-11) owed by the Professional Golfer's Association for the Charles Schwab Cup in November 2010. The Department has billed the Association for costs incurred for the Tournament and will receive payment during FY 2010-11. The Department projects that revenue shortfalls due to rain in October and November will be offset by expenditure savings. The net result is a zero operating surplus and no available fiscal year-end fund balance.

5. Library Preservation Fund

The Library Preservation Fund began the fiscal year with \$12.3 million in available fund balance. The Department projects a revenue surplus of \$2.8 million due to increases in the Property Tax allocation and the General Fund baseline contribution. The Department projects expenditure savings of \$1.5 million primarily due to savings in salaries and fringe benefits. Pursuant to San Francisco Charter Section 16.109, the Department would also return the General fund share of savings, resulting in further reductions to the required baseline contribution of \$2.4 million, for a total revenue surplus of \$0.4 million. The net result is an operating surplus of \$2.0 million and an expected fiscal year-end available fund balance of \$14.3 million.

6. Local Courthouse Construction Fund

The Local Courthouse Construction Fund began the year with a fund balance shortfall of \$0.8 million due to the prior year-end fund balance of \$0.2 million being insufficient to support the \$1.0 million appropriated in the FY 2010-11 budget. This was due to a decline in parking fine revenue surcharges. The surcharge revenue decline has continued in FY 2010-11 with a projected current year shortfall of \$1.5 million, for a combined year-end shortfall of \$2.3 million. Parking fine surcharge revenues are used to support debt service on Certificates of Participation sold to support construction of the 400 McAllister Street Courthouse. Under the terms of agreements with the State of California, the City and County of San Francisco is responsible for debt service on this Courthouse. The Controller's Office will work with the Mayor's Office to prepare a General Fund supplemental to support the operating shortfall in this fund in FY 2010-11 and will explore options with the State Administrative Office of the Courts to reduce the General fund impact of this debt service in the future.

7. Open Space Fund

The Open Space Fund began FY 2010-11 with appropriated fund balance of \$1.6 million. Revenues are anticipated to be \$1.1 million over budget due to an increased Property Tax allocation.

Select Enterprise Funds

8. Airport Operating Fund

The Airport Operating Fund began the fiscal year with \$71.9 million in available fund balance. The Department is projecting a net revenue shortfall of \$3.2 million. This consists of a \$13.5 million increase in operating revenues including a \$9.9 million increase in non-airline revenue and a \$3.6 million increase in aviation revenues. However, this increase is offset by a shortfall in non-operating revenues consisting of a \$10.6 million projected shortfall in interest income and a \$6.1 million difference between airline rates and the budgeted use of fund balance for deferred aviation revenue. The Department projects expenditure savings of \$20.8 million primarily driven by a \$10.8 million savings in non-personnel services, \$3.4 million in services of other departments, \$2.8 million in materials and supplies, \$1.4 million in salaries and fringe benefits, and \$1.2 million in equipment. This results in a projected net surplus of \$17.6 million and a fiscal-year end available fund balance of \$89.5 million.

9. MTA – All Funds

MTA began the fiscal year with \$19.4 million in available fund balance. At the January 4, 2011 Board meeting, the Department projected a net revenue shortfall of \$4.6 million which has been reduced to \$0.6 million. This consists of a \$14.2 million shortfall in Parking and Traffic fees and fines and \$0.5 million in advertising due to the tabling of an advertising contract amendment. These revenue shortfalls are partially offset by a revenue surplus of \$7.4 million in transit fares and \$6.7 million in the General Fund Baseline (the \$2.7 million Baseline reported at the January 4, 2011 Board meeting has been increased by \$4.0 million). The Department projects an expenditure deficit of \$20.6 million, \$16.6 million of which is due mainly to overtime as a result of vacancies due to early retirements, furlough backfills for front line positions, and special events (e.g. Major League Baseball 2010 World Series). The remaining expenditure deficit of \$4.0 million is due to recently identified needed repairs to tracks, the automatic train control system, and transit vehicles. This results in a projected net operating deficit of \$21.2 million and an estimated fiscal year-end negative fund balance of \$1.9 million. The MTA plans to address the budget deficit by ensuring hiring and overtime is limited to essential front line positions, enter only into contracts with a service impact, and reduce rent by maximizing use of space across facilities.

10. Port Operating Fund

The Port Operating Fund began the fiscal year with \$21.5 million in available fund balance above the \$9.9 million appropriated in the budget. The Port projects an operating surplus of \$7.0 million in the current year, including a \$4.4 million revenue surplus due to better than expected commercial and industrial rents, parking, and other revenues. The \$2.6 million in expenditure savings is due to salary savings generated by a delay in filling several vacant positions, lower than anticipated rent expenses for the lease of the Port offices at Pier 1, and

lower than previously anticipated interdepartmental work order charges. This results in a projected fiscal year-end available fund balance of \$28.5 million.

11. Public Utilities Commission – Hetch Hetchy Operating Fund

The Hetch Hetchy Operating Fund began the fiscal year with \$64 million available fund balance above the \$31.1 million appropriated in the budget. The Department projects a net revenue surplus of \$3.5 million including a \$7.3 million due to greater Western Systems Power Pool and excess power sales, offset by a PG&E reduction for Enterprise comparable rates and lower than expected natural gas prices. Expenditure savings are projected to be \$14.5 million, including \$6.1 million in power purchases, \$4.0 million in General reserve contingency, and \$1.1 million due to anticipated Independent Systems Operator market prices. This results in a projected net surplus of \$18 million and a fiscal year-end available fund balance of \$82 million. Of the \$82 million of projected available fund balance, the Enterprise's already adopted budget for FY 2011-12 appropriated \$31.5 million for capital projects and power programs.

12. Public Utilities Commission – Wastewater Operations Fund

The Wastewater Operations Fund began the fiscal year with \$15.4 million in available fund balance. Revenues are projected to be \$5.4 million lower than budget due to lower than projected water consumption. This shortfall is projected to be offset by \$21.8 million in expenditure savings, including \$20.9 million in a budgeted reserve. This results in a projected net savings of \$16.4 million and a fiscal year-end available fund balance of \$31.8 million. Of the \$31.8 million of projected available fund balance, the Enterprise's already adopted FY 2011-12 budget assumed the retention of the balance as reserves.

13. Public Utilities Commission – Water Operating Fund

The Water Operating Fund began the fiscal year with an available fund balance of \$40.1 million. Revenues are projected to be under budget by \$51 million, due to lower wholesale and retail revenues (\$25.5 million and \$12.2 million, respectively), lower Federal Interest Subsidy (\$8.9 million), lower quarries and mining revenues (\$4.4 million), and lower water sales from City departments (\$0.8 million). Expenditures are expected to be under budget by \$16.6 million, largely due to debt service savings from delayed debt issuance compared to budget. This results in a projected net shortfall of \$34.5 million and a projected fiscal year-end available fund balance of \$5.6 million. Of the \$5.6 million of projected available fund balance, the Enterprise's already adopted FY 2011-12 assumed the retention of the balance as reserves.

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