CITY AND COUNTY OF **SAN FRANCISCO, CALIFORNIA**

Five-Year Financial Plan

Fiscal Years 2011-12 through 2015-16

ADOPTED JUNE 7, 2011

Acknowledgements

Department	Staff
Mayor's Budget Office	Greg Wagner, Rick Wilson, Kate Howard, Leo Chyi, Melissa Howard, Manish Goyal, Rebekah Krell, Meghan Wallace, Renee Willette, Jonathan Lyens
The Controller's Office	Ben Rosenfield, Monique Zmuda
The Controller's Office: Budget and Analysis	Ted Egan, Aimee Fribourg, Cindy Czerwin, Joe Nurisso, Leo Levenson, Michelle Allersma, Sarah Anders
The Controller's Office: City Services Auditor	Peg Stevenson, Natasha Mihal, Dennis McCormick, Lani Kent, Keith DeMartini, Drew Murrell, Katie Martinez
Airport	Cindy Nichol, Julia Dawson
Capital Planning	Brian Strong, Fran Breeding, Brian Benson
Committee on Information Technology	Planning and Budget Subcommittee members
Fire Department	Mark Corso, Chief Monica Fields
Human Services Agency	Phil Arnold, Celia Pedroza, Dan Kelly, Derek Chu
Library	Jill Bourne, George Nichols, Christine Murdock, John Doidge
Municipal Transportation Agency	Sonali Bose
Police Department	Deborah Landis
Port of San Francisco	Elaine Forbes, Monique Moyer, Meghan Wallace, Larry Brown
Public Health Department	Gregg Sass, James Alexander, Jenny Louie
Public Works Department	Douglas Legg, Maureen Singleton, Debbie Kennedy
Public Utilities Commission	Todd Rydstrom, Charles Perl
Recreation and Parks Department	Katharine Petrucione, Mary King-Gorwky
Sheriff's Department	Undersheriff Jan Dempsey, Maureen Gannon

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Executive Summary

Purpose of the Plan

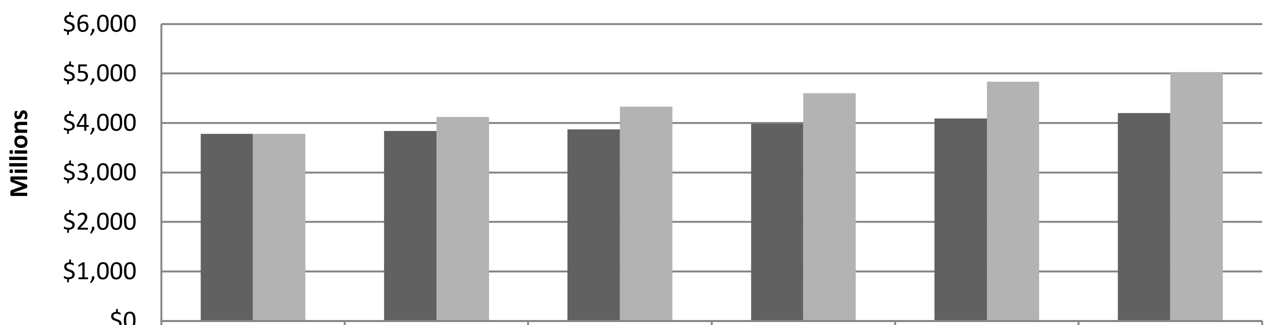
The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The City Charter requires the plan to forecast expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments.

Five-Year Outlook

Over the next five years, the City will experience a continued recovery in tax revenues, most of which bottomed out in Fiscal Year (FY) 2008-09 or FY 2009-10 and are projected to return to pre-recessionary levels in FY 2012-13 or later. Despite the fall-off and slow recovery, San Francisco's current budget and financial status is relatively stable compared to many municipalities in California and to other parts of the United States.

Nonetheless, the Five-Year Financial Plan shows the cost of city services is projected to steadily outpace revenue growth during the five-year period. If the City does not take corrective action, the gap between revenues and expenditures will rise from $283 million to approximately $829 million from FY 2011-12 to FY 2015-16.

Five-Year Outlook Before Proposed Fiscal Strategies



	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Revenue	3,777	3,837	3,872	3,984	4,091	4,199
Expense	3,777	4,120	4,330	4,603	4,837	5,028

Source: Base Case Outlook

Employee pension costs, wages and other benefit growth are the single largest driver of cost growth and the imbalance between revenues and expenditures, growing by $648 million, or 32 percent, during the five years of the plan. Benefit costs alone are projected to grow 62 percent by FY 2015-16. In contrast, total General Fund revenues are projected to grow only $416 million over the same period, or 11 percent.

Other costs projected to increase include: Professional & Contractual Services ($127 million, 19 percent); Aid Assistance and Grants ($56 million, 13 percent); Materials and Supplies ($49 million, 43 percent); and Capital and Debt Service ($100 million, 157 percent).

Strategies to Restore Fiscal Stability

Despite these challenges, if the City takes proactive action to address the imbalance between revenues and expenditures, it can restore stability to its finances over the next five years and prepare for future economic downturns. The plan proposes the following strategies to restore fiscal stability:

Strategies to Restore Fiscal Stability ($ Millions)

	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Base Case Outlook	(283)	(458)	(619)	(746)	(829)
Proposed Financial Strategies Savings					
Capital Spending and Debt Restructuring	55	45	35	25	15
Control Wage and Benefit Costs	25	100	150	200	200
Additional Tax, Fee and Other Revenues	60	70	80	90	100
Adjust Baselines and Revenue Allocations	20	25	30	30	30
Limit Non-Personnel Inflation	20	45	75	90	105
Non-Recurring Revenues and Savings	40	30	20	0	0
Ongoing Departmental Revenues and Savings Initiatives					
New Ongoing Savings Initiatives	63	80	87	81	68
Cumulative Savings from Prior Year Initiatives		63	143	229	311
Adjusted Outlook	0	0	0	0	0

These strategies represent ambitious but achievable targets so the City can begin developing revenue, savings, and operational proposals that may require multi-year planning efforts. There remains a significant amount of work and planning by City departments and policy makers to develop more detailed plans to implement these strategies.

Capital Planning

The Fiscal Year 2012-21 Capital Plan recommends $8.7 billion in capital projects over the next five years, including $2.7 billion for General Fund departments and $6 billion for enterprise departments. These proposed investments will safeguard and improve the City’s infrastructure, facilities and parks.

Major capital projects taking place over the next five years include a new air traffic control tower at San Francisco International Airport, the Central Subway for enhanced Muni service, waterfront improvements in preparation for the 34th America's Cup in 2013, the Sewer System Improvement Program, and the Earthquake Safety and Emergency Response bond program.

Technology Planning

The Information and Communication Technology (ICT) Plan currently being developed by the Department of Technology identifies a total of $338 million in technology projects over the next five years. Of these projects, $172 million are proposed to be funded through Non-General Fund sources. In contrast, $166 million of General Fund-supported projects are identified, but only $40 million in General Fund support is assumed to be available over the next five years. To address this shortfall, the ICT Plan identifies alternative funding sources and strategies.

Major information technology projects discussed in this Financial Plan include consolidation of the City's data centers to improve service and efficiency, replacement of emergency radios to enhance public safety and emergency response, implementation of electronic medical records at the City's hospitals and health clinics, and migration to Voice over Internet Protocol technology for the City's telephone systems.

Department Plans

The Five-Year Financial Plan includes discussion of major financial and operational issues for the City's largest General Fund departments and all of the Enterprise departments. Significant issues identified in the Plan include:

- **Airport:** Increasing passenger traffic and maximizing revenues while managing rising benefit and debt expenses.
- **Fire:** Meeting minimum staffing levels in the most cost-effective manner.
- **Human Services Agency:** Managing increasing demand for services due to demographic changes and Federal healthcare reform.
- **Municipal Transportation Agency:** Reducing operating costs to improve Muni service while implementing the Transit Effectiveness Project and new parking management programs.
- **Police:** Maintaining public safety through strategic management and increased use of technology.
- **Port Commission:** Preparing for the 34th America's Cup in 2013.
- **Public Health:** Preparing for Federal healthcare reform and the opening of the new San Francisco General Hospital.
- **Public Library:** Managing increased service demands at branch libraries and expanding public service hours.
- **Public Utilities Commission:** Implementing seismic and reliability upgrades to sewer and water systems.
- **Public Works:** Maintaining and improving the condition of City streets in the face of budget shortfalls.
- **Recreation and Park Department:** Meeting high standards in park maintenance and improving recreation services quantity and quality.
- **Sheriff:** Managing the anticipated increase in the county jail population due to the State's public safety realignment program and other State policy changes.

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Five-Year Outlook and Proposed Fiscal Strategies

Purpose of the Plan

The Five-Year Financial Plan is a component of a comprehensive effort by the City to improve its long-range financial management and planning. To this end, the City is currently implementing the following strategies:

- **The Five-Year Financial Plan:** The City is forecasting and analyzing revenues and expenses for the next five years on a Citywide basis, including changes in major service areas, departmental operations, facilities, debt management, capital and technology;
- **Two-Year Budgeting:** In the budget process beginning in the Spring of 2012, the Mayor will propose and the Board of Supervisors will adopt a Citywide budget for both FY 2012-2013 and FY 2013-2014;
- **Citywide Technology Plan:** This plan will have detailed financial information and project descriptions showing the City's planned spending on systems, software and telecommunications for the period. This document accompanies the ten-year Capital Plan that has been in place since 2006;
- **Formal Financial Policies:** To date, the City has adopted a new policy for a budget stabilization reserve and a new policy for building its general reserve up to two percent of general fund revenues. Policies are in process for one-time revenues, cash management, and emergency response. These instruments will help stabilize the budget and assist in maintaining the City's good credit ratings.

Proposition A, passed in 2009, requires:

- Two-year budgets;
- Five-year financial plans;
- Financial reserve policies;
- One-time and volatile revenues policies;
- Financial disaster recovery plans.

Multi-year budgeting and forecasting are best practices for all governments. The five-year plan process is designed to enhance the City's ability to identify the key drivers of city revenues, expenditures, and needed public services. In an era of constantly changing funding from the federal and state government, San Francisco will be able to thoughtfully plan for those revenue swings and adapt its programs accordingly. Overall, the City will minimize volatility by looking beyond the typical budget horizon, and put in place more stable public service delivery that citizens can expect and rely on.

Using the detailed revenue and expenditure forecasts and analysis of the effects on public services, the City can institute changes that will minimize volatility, bring down the structural budget deficit, and right-size public services. Some changes require longer lead times including changes to the City's facilities, workforce, and service mix. The Five-Year Financial Plan will help identify the need for new public program designs, changes to government organizations and cost management that is needed in the near and mid-term time frames.

Five-Year Outlook for General Fund-Supported Operations

Economic Projections: Over the next five years, our projections assume a continued recovery in tax revenues from the improvements experienced in FY 2009-10 and projected for FY 2010-11. Most local tax revenues bottomed out in FY 2008-09 or FY 2009-10, and are projected to return to pre-recessionary levels in FY 2012-13 or later. The exceptions to this pattern are property tax, noted below, and real property transfer tax and parking tax, which have already recovered in part due to both tax rate and base rate increases. The speed of the recovery will depend heavily on job growth and changes in business activity and tourism.

San Francisco entered the recession later than many of its counterparts, and its unemployment rate has been below that of the state and other large cities. This was partly because it experienced less of a residential construction-related boom in employment before the recession. However, while employment in tech-heavy cities in Silicon Valley is recovering rapidly, San Francisco's employment base relies more heavily on finance and professional services industries, which are projected to recover very slowly. Private employment, which is a key lagging indicator, reached a trough in 2010. It is expected to recover very modestly in 2011, and then grow at a rate of two percent per year thereafter. For City revenues, this means that payroll tax revenues are projected to return to pre-recession levels in FY 2012-13.

Despite the fall-off and slow recovery, San Francisco's current budget and financial status is relatively stable compared to many municipalities in California and to other parts of the United States. The City's property tax, sales tax and other tax bases retained more of their original value than other surrounding counties, and are projected to grow steadily as the economy recovers. This good news contributes to San Francisco's relative stability and capacity to deliver public services, finance infrastructure improvements, and stay an attractive market and an appealing place to live, work and visit.

Summary of 'Base Case' Projections and Findings: Since 2008, with the significant fall-off in local tax revenues and in Federal and State funding, the gap between revenues and expenditures has persisted and grown. In each of the most recent three budget cycles, the City has had to close projected deficits of more than $300 million, more than 10 percent of General Fund-supported services in each year. A substantial proportion of these budget-balancing efforts have been made with one-time cost reductions and revenue solutions, and the underlying problem has not been fully addressed.

Similarly, the five-year projections shown in the table on the next page portray a significant gap between projected revenues and expenditures over the period if current service levels and policies are continued—this is the 'base case.' The base case projection starts with what the City's spending looks like as of the Spring of 2011 and estimates all of the significant changes that are known in the coming five-year time horizon. From today's public service levels, the projection adds known revenue and expense changes in all areas where there is reasonable information or basis for a projection.

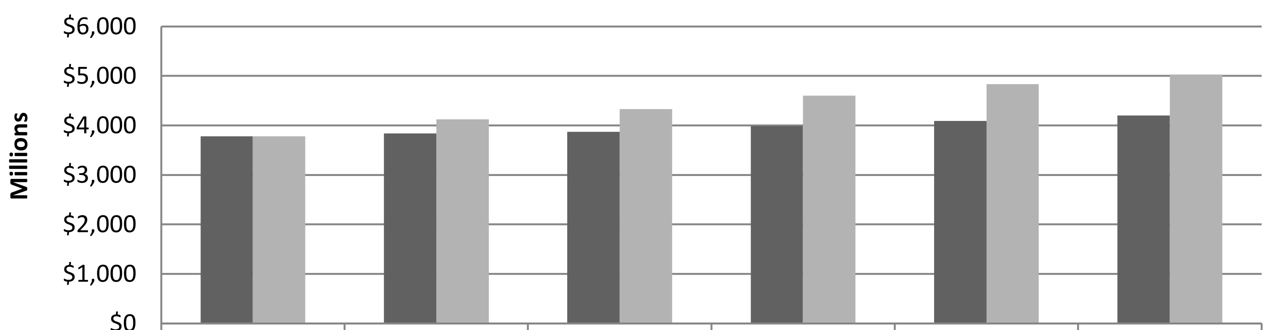
For example, the City has previous plans and bond commitments to renovate branch libraries, and plans to build a Police/Fire station to serve the Mission Bay area; these specific operating costs are firm and relatively predictable. Other areas are less clear—for example, the Federal healthcare reforms between now and 2014 will change the population using public health services and the mix of local, State, Federal programs and private health insurance that will fund those services for thousands of San Franciscans. These changes are much less predictable but are modeled as much as possible.

On the revenue side, all reasonably known and expected changes in the period are included in the projections. This includes slowly increasing general tax revenue, such as property, business and sales tax as the economy recovers, known changes in state and federal revenues, and changes in projected fees that track the economy, such as building inspection and planning fees.

The City's base case shows the cost of city services is projected to steadily outpace revenue growth during the five-year period. The gap is attributable to some clear factors. Pension costs increase by more than 10 percent each year until FY 2015-2016 for the multi-year period over which the City must pay for investment losses in the Retirement Trust following the 2008 economic downturn. In FY 2011-12 and FY 2012-13, salary and wage costs grow according to existing union contract agreements, with an effective cost increase of 4.6 percent Citywide. After the expiration of current contracts, in the years FY 2013-14 and beyond, labor costs are preliminarily projected to increase at the rate of inflation (the Consumer Price Index [CPI], approximately three percent on average during the period). Health benefit costs have higher growth rates—more than six percent on average each year—due to actual and projected medical inflation rates higher than CPI. Most other operating expenses are preliminarily projected to grow at the rate of inflation, though the plan includes detailed projections for some areas of known cost.

With these growth rates, if the City does not take corrective action, the gap between revenues and expenditures will rise from $283 million to approximately $829 million from 2012 to 2016.

Five-Year Outlook Before Proposed Fiscal Strategies



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Revenue	3,777	3,837	3,872	3,984	4,091	4,199
Expense	3,777	4,120	4,330	4,603	4,837	5,028

Source: Base Case Outlook

Base Case Outlook	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Sources ($ millions)						
Property Tax	984.8	1,019.0	1,044.0	1,075.0	1,107.0	1,146.0
Business Tax	342.4	389.3	412.2	434.8	456.4	476.7
Local Taxes	528.5	595.7	625.0	652.2	675.2	697.1
Licenses, Permits & Franchises	23.2	23.9	24.1	24.3	24.5	24.7
Fines, Forfeitures & Penalties	3.8	3.8	3.8	3.8	3.8	3.8
Interest & Investment Income	9.5	4.7	4.8	6.4	8.3	6.0
Rents & Concessions	22.3	22.7	19.6	20.0	20.4	20.8
Federal Revenue	236.6	206.8	206.8	206.8	206.8	206.8
State Revenue	434.9	425.7	429.9	435.3	440.8	446.5
Charges for Services	136.7	135.3	136.6	138.0	139.4	140.8
Recovery of Government Costs	9.4	9.5	9.6	9.7	9.8	9.9
Other Revenues	21.5	7.4	7.4	7.4	7.4	7.4
Total Revenues	**2,753.7**	**2,843.8**	**2,923.9**	**3,013.7**	**3,099.8**	**3,186.4**
Transfers-In	114.2	103.9	104.7	105.7	106.3	106.8
Total General Fund Resources	**2,867.8**	**2,947.7**	**3,028.6**	**3,119.4**	**3,206.1**	**3,293.2**
Fund Balance	79.9	90.2	26.0	30.3	38.7	47.5
Reserves	19.6	9.6	6.1	6.1	6.1	6.1
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total Incl. Fund Balance & Reserves	**2,967.4**	**3,047.5**	**3,060.8**	**3,155.8**	**3,250.9**	**3,346.9**
Other General Fund-Supported Sources	1,032.7	1,032.7	1,032.7	1,032.7	1,032.7	1,032.7
Transfers & Adjustments	(223.3)	(243.1)	(221.4)	(204.8)	(192.5)	(180.2)
TOTAL SOURCES	**3,776.7**	**3,837.1**	**3,872.1**	**3,983.7**	**4,091.0**	**4,199.3**
USES ($ millions)						
Salaries & Wages	1,432.9	1,502.7	1,568.3	1,620.2	1,669.7	1,728.8
Fringe Benefits	564.5	622.9	695.4	804.4	888.8	916.1
Overhead	30.7	31.2	32.1	33.0	34.0	35.0
Professional & Contractual Services	662.6	690.6	717.8	743.8	765.6	789.4
Aid Assistance / Grants	438.0	449.1	457.9	474.3	487.3	500.1
Materials & Supplies	112.3	125.6	134.9	143.5	152.2	161.3
Equipment	2.9	5.0	5.1	5.3	5.4	5.6
Capital	42.3	81.5	68.6	73.9	84.2	100.0
Debt Service	21.3	45.0	58.9	67.2	73.1	63.4
Services of Other Departments	250.6	257.6	267.9	277.4	288.2	300.9
Expenditure Recovery	(162.0)	(165.0)	(169.4)	(174.3)	(179.3)	(184.9)
Transfers Out	680.6	718.2	737.5	756.8	775.3	793.8
Budgetary Reserves	47.7	48.1	53.0	65.9	84.3	104.0
Other Departmental Adjustments		55.3	49.1	59.3	55.6	62.6
Transfers & Adjustments	(347.6)	(347.6)	(347.6)	(347.6)	(347.6)	(347.6)
TOTAL USES	**3,776.7**	**4,120.3**	**4,329.6**	**4,603.1**	**4,836.8**	**5,028.5**
Surplus/(Shortfall)	**0.0**	**(283.1)**	**(457.5)**	**(619.4)**	**(745.7)**	**(829.1)**

San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require a combination of expenditure reductions and/or additional revenues. Strategies and proposed solutions to address these issues, as well as the public service effects of these challenges, can be found below.

Detail of Base Case Citywide Revenue Projections:

Assumptions of Percentage Change in Major General Fund Revenues

	FY11-12 Forecast	FY12-13 Forecast	FY13-14 Forecast	FY14-15 Forecast	FY15-16 Forecast	5yr average
Property Tax	3.5%	2.5%	3.0%	3.0%	3.5%	3.1%
Business Tax	13.7%	5.9%	5.5%	5.0%	4.4%	6.9%
Local Taxes	12.7%	4.9%	4.3%	3.5%	3.2%	5.8%
Licenses, Permits & Franchises	3.0%	0.8%	0.8%	0.8%	0.8%	1.2%
Fines, Forfeitures & Penalties	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest & Investment Income	-51.1%	2.0%	34.0%	30.0%	-28.0%	-2.6%
Rents & Concessions	1.7%	-13.9%	2.1%	2.2%	2.0%	-1.2%
Federal Revenue	-12.6%	0.0%	0.0%	0.0%	0.0%	-2.5%
State Revenue	-2.1%	1.0%	1.2%	1.3%	1.3%	0.5%
Charges for Services	-1.1%	1.0%	1.0%	1.0%	1.0%	0.6%
Recovery of Government Costs	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Other Revenues	-65.5%	0.0%	0.0%	0.0%	0.0%	-13.1%

Source: Master Financial Schedule Summary

- **Property Tax:** The base case projections assume the residential portion of the property tax base will remain relatively stable, while commercial property tax revenues will slowly increase. Recent commercial transactions support this projection, with many buyers seeking high quality and leased properties in San Francisco office and commercial markets. The projection takes into account multiple factors, including reserving funds for assessment appeals. Considering the mix of factors affecting property tax collections, the projection assumes revenues will increase by 0.4 percent in FY 2011-12 and then begin growing by roughly 3 percent annually between now and FY 2015-16. In this scenario, the General Fund share of property tax revenue is projected to increase to $1 billion in FY 2011-12 and grow to $1.1 billion by FY 2015-16. One additional factor that may impact this projection is the Governor's proposal regarding redevelopment, which will reduce options for property tax related 'tax increment' financing.

- **Business tax and local taxe*s*:** Taken together, this group of locally generated revenues is projected to increase by over 12 percent in FY 2011-12 primarily due to the recovery of property transfer tax revenue and to the higher transfer tax rates approved by voters in November 2010, plus growing payroll tax receipts. Wage inflation, more than employment, is driving projected payroll tax revenue growth. Overall, excluding the one-time growth of FY 2011-12, this group of taxes is expected to grow on average four percent annually as the economy improves. In this scenario, business tax and other local taxes together are projected to grow steadily from $1.3 billion in FY 2011-12 to $1.6 billion by FY 2015-16.

- **Licenses, Permits, Franchise Fees**: These locally-controlled revenues are projected to grow by three percent in FY 2011-12 primarily due to increases in utility revenues and economic improvement, and then grow more slowly in the subsequent years. In this scenario, these local taxes are projected to grow steadily to $24.7 million by FY 2015-16.

- **State and Federal Revenues:** The Federal Stimulus' enhanced Federal Medical Assistance Percentage (FMAP) funding will expire on June 30, 2011, requiring the San Francisco General Hospital, Laguna Honda Hospital, and the Human Services Agency to replace $47 million in lost revenues. Due to the State's severe budget shortfall, significant cuts are expected in State funding; however, specific figures will not be known until the State budget is finalized. These projections include a $30 million preliminary assumption for reductions in State funding beginning in FY 2011-12. Additionally, a decrease of $18 million is anticipated in social service, health, and mental health subventions. These losses are partially offset by increases in local allocations of State sales tax and vehicle license fee revenue, bringing the total FY 2011-12 decline in General Fund state funding to $8.7 million, followed by increases of $4 million and $6 million in FY 2012-13 and FY 2013-14, respectively. The Governor's proposed State budget includes measures that would realign responsibilities for various criminal justice and health and human services programs from the State to local governments. These revenue projections do not reflect the proposed realignment of revenues to pay for these activities. Overall, State and Federal revenues are assumed to be roughly flat or declining during the period, dropping from an aggregate total of $671 million to $653 million by FY 2015-16.

Detail of Base Case Citywide Expense Projections:

- **Wage and Salary Costs:** This report projects General Fund-supported salary and fringe benefits to increase from $2.0 billion in FY 2010-11 to $2.6 billion in FY 2015-16, an increase of $647 million or 32 percent. These increases reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs. Most of the City's collective bargaining agreements will expire by the end of FY 2011-12. Actual contract costs will depend on negotiated agreements. The projections in this plan are based on rough assumptions, and do not reflect an intention by policy makers to fund wages at these levels. The projection for FY 2012-13 assumes salaries for most unions return to the levels that existed before the current furloughs were implemented, but with no additional increases in the first year of the new contracts. Beginning in FY 2013-14, the projection assumes that these bargaining units receive salary increases equivalent to the Consumer Price Index (CPI). The projection also assumes market wage adjustments where applicable. The CPI increase is projected to be 2.9 percent for FY 2013-14, 2.9 percent for FY 2014-15 and 3.1 percent for FY 2015-16.

- **Employee Benefits - Health and Dental:** The Charter requires the City's contribution for individual health coverage costs to increase based on a survey of California's ten largest counties. The most recently conducted survey resulted in an almost seven percent increase (from $472.85 to $503.94 per month) in the Charter-required contribution from FY 2010-11 to FY 2011-12. However, due to projected changes in plan utilization, costs related to current employees are projected to increase by only four percent or $7.4 million in FY 2011-12. San Francisco Bay Area medical costs inflation forecasts show growth of two percent, four percent and five percent FY 2011-12, FY 2012-13, and FY 2013-14, respectively. Using those forecasts, between FY 2011-12 and FY 2015-16, this report assumes that health and dental benefits for current employees will increase by six percent on average. Charter Section A8.428 also mandates health coverage for retired City employees. The cost of medical benefits for retirees is projected to increase to $93 million in FY 2011-12, up to $141 million in FY 2015-16. Not included in these figures are the City's unfunded liability for the benefits accruing to current employees, which was estimated at approximately $4.4 billion as of July 1, 2008, and which would require substantial annual funding above the City's current "pay-as-you-go" level to be considered fully funded on an actuarial basis. Current analysis is that the General Fund's share of the actuarially defined funding for this liability would be approximately $148 million beginning in FY 2011-12.

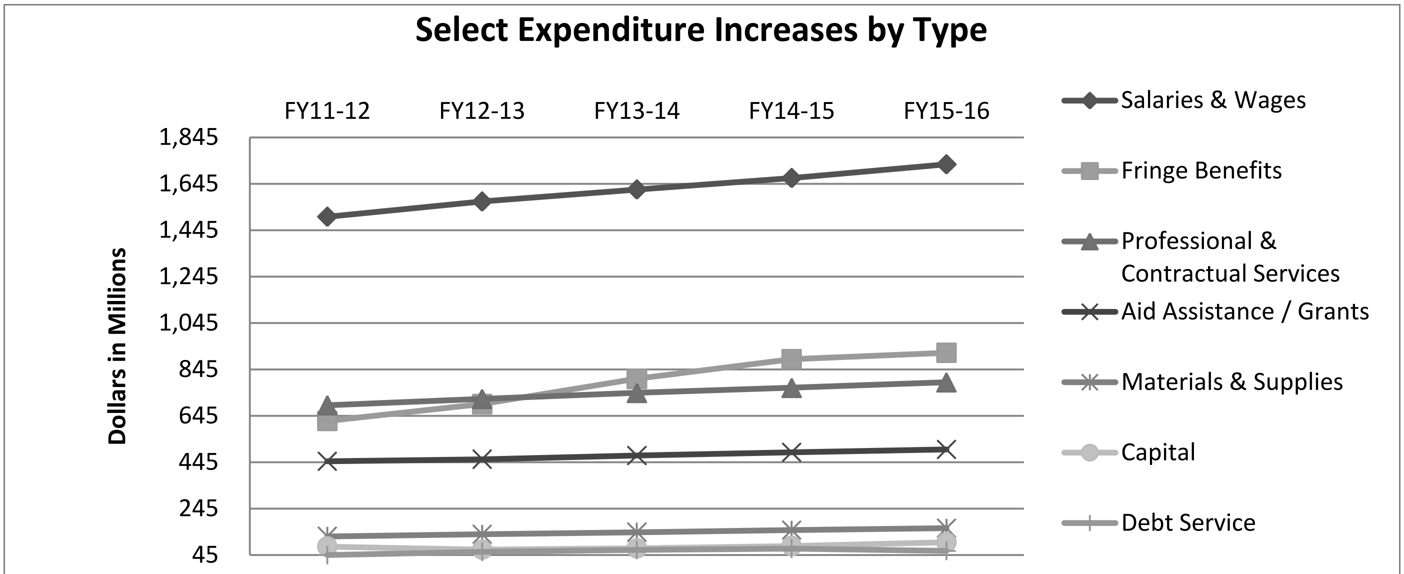
- **Employee Benefits - Retirement:** Total retirement costs are projected to increase primarily due to recent investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) and lower projected earnings on retirement plan assets. Total General Fund-supported contributions into SFERS and CalPERS are projected to increase to 18 percent of payroll or $245 million in FY 2011-12 and up to 27 percent of payroll or $434 million in FY 2015-16.

- **Baseline and Mandate Requirements:** The Charter specifies baseline-funding levels for various programs or functions, including the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, Public Education, Children's Services, the Human Services Care Fund, and the City Services Auditor. Baseline amounts are generally linked to changes in discretionary City revenues, though some are a function of Citywide expenditures or base-year program expenditure levels. The revenue and expenditure projections assumed in this plan result in increased contributions for Charter-mandated baseline requirements of $38 million in FY 2011-12 increasing to $114 million in FY 2015-16. In addition, the Public Education Enrichment Fund (PEEF) contribution mandated in the Charter is projected to increase by the percentage increase in the City's aggregate discretionary revenue. This report assumes that the City will fully fund the PEEF contribution in the five-year period; however, the Charter allows deferral of a portion of this obligation for future fiscal years.

- **Capital, Facilities Maintenance, Equipment, & Technology:** General Fund capital and facilities maintenance cost projections are consistent with those outlined in the FY 2012-21 Capital Plan, currently proposed at $76.5 million for FY 2011-12, increasing to $95 million in FY 2015-16. This report also assumes funding of $5 million in FY 2011-12 for the cash purchase of equipment and then increasing by CPI to $5.6 million in FY 2015-16. Also, $6.6 million is assumed in FY 2011-12 for investment in information technology systems and software and telecommunications, increasing by 10 percent each year for a total investment of $41 million over the five year period.

- **Inflation on Non-Personnel Costs and Grants to Non-Profits:** This projection primarily uses the Consumer Price Index (CPI) to estimate inflation in the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs. Some items have more detailed inflation projections, where warranted. These items are projected to increase by an average of approximately 2.7 percent annually between FY 2011-12 and FY 2015-16.

- **Debt Service & Lease Financings:** Based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as an assumed lease-financing program for equipment purchases, total debt service and lease financing costs are projected to increase from $21 million in FY 2011-12 up to $73 million in FY 2014-2015 and dropping to $63 million in FY 2015-16.



Source: Base Case Outlook

Assumptions of Percentage Change in Major General Fund Expenses

	FY11-12 Forecast	FY12-13 Forecast	FY13-14 Forecast	FY14-15 Forecast	FY15-16 Forecast	5yr average
Salaries & Wages	4.9%	4.4%	3.3%	3.1%	3.5%	3.8%
Fringe Benefits	10.4%	11.6%	15.7%	10.5%	3.1%	10.2%
Overhead	1.8%	2.7%	2.9%	2.9%	3.1%	2.7%
Professional & Contractual Services	4.2%	3.9%	3.6%	2.9%	3.1%	3.6%
Aid Assistance / Grants	2.5%	2.0%	3.6%	2.8%	2.6%	2.7%
Materials & Supplies	11.9%	7.4%	6.4%	6.1%	6.0%	7.5%
Equipment	74.1%	2.7%	2.9%	2.9%	3.1%	17.1%
Capital	92.6%	-15.8%	7.7%	13.9%	18.7%	23.4%
Debt Service	111.8%	30.8%	14.2%	8.7%	-13.2%	30.5%

Source: Base Case Outlook

Strategies to Restore Fiscal Stability

Financial stability is central to the City's ability to provide services to the public. The projections in this plan illustrate the importance of developing and implementing multi-year strategies to correct the projected imbalance between expenses and revenues. Actions taken in earlier years of the planning horizon can play a significant role in reducing projected future year deficits. The financial strategies outlined below provide a framework intended to meet the two key financial goals for the City during the coming five years: to restore increasing stability to the City's budget during the next three years as finances recover from the recent recession, and to increase the City's financial resiliency in preparation for future economic downturns. There remains a significant amount of work and planning by City departments and policy makers to develop more detailed plans to implement these strategies. The goal of the proposed strategies is to set ambitious but achievable targets so the City can begin developing revenue, savings and operational proposals that may require multi-year planning efforts.

Strategies to Restore Fiscal Stability ($ Millions)

	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Base Case Outlook	(283)	(458)	(619)	(746)	(829)
Proposed Financial Strategies Savings					
Capital Spending and Debt Restructuring	55	45	35	25	15
Control Wage and Benefit Costs	25	100	150	200	200
Additional Tax, Fee and Other Revenues	60	70	80	90	100
Adjust Baselines and Revenue Allocations	20	25	30	30	30
Limit Non-Personnel Inflation	20	45	75	90	105
Non-Recurring Revenues and Savings	40	30	20	0	0
Ongoing Departmental Revenues and Savings Initiatives					
New Ongoing Savings Initiatives	63	80	87	81	68
Cumulative Savings from Prior Year Initiatives		63	143	229	311
Adjusted Outlook	0	0	0	0	0

The Controller's Office shall periodically issue reports to the Mayor and Board of Supervisors advising them on changes to the long-range financial outlook assumed in the Financial Plan, and the progress adopted in annual budgets towards these financial strategies.

These financial strategies are sensitive and adaptable to changing economic conditions, as outlined in the table on the next page. Should General Fund revenues increase by 1.5% annually versus the base case assumption, it will reduce the need to adopt $124 million in cumulative ongoing reductions by the close of the plan period. Conversely, if revenues decrease 1.5% annually, an additional $120 million in cumulative budget reductions will be required to maintain balance during the coming five years.

Economic Assumption Scenarios ($ Millions)	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	Total
Base Case Outlook	(283)	(458)	(619)	(746)	(829)	
Ongoing Departmental Revenues and Savings Initiatives						
New Ongoing Savings Initiatives	63	80	87	81	68	379
Cumulative Savings from Prior Year Initiatives		63	143	229	311	
More Optimistic: Change to Base Case Outlook	**0**	**29**	**60**	**91**	**124**	
Ongoing Departmental Revenues and Savings Initiatives						
New Ongoing Savings Initiatives	63	51	57	49	35	255
Cumulative Savings from Prior Year Initiatives		63	113	170	220	
More Pessimistic: Change to Base Case Outlook	**0**	**(29)**	**(59)**	**(89)**	**(120)**	
Ongoing Departmental Revenues and Savings Initiatives						
New Ongoing Savings Initiatives	63	109	117	111	99	499
Cumulative Savings from Prior Year Initiatives		63	171	289	400	

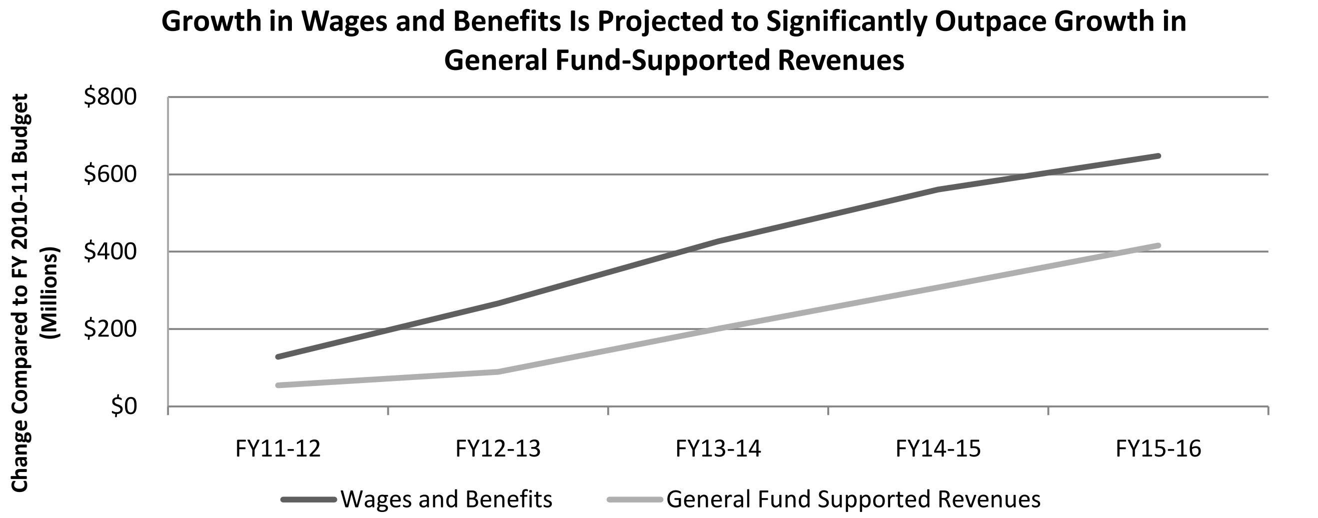
Restructure planned spending on capital projects and associated debt. The City proposes to restructure planned capital and debt spending during the coming five years to achieve savings versus the levels of investment assumed in the City's ten-year Capital Plan.

The City's Capital Plan has called for gradually increasing levels of General Fund cash investment in City-owned infrastructure since the Plan's inception in 2005. This assumed level of investment is included in the projected costs in the financial outlook outlined earlier in this plan. Given the effects of the economic downturn beginning in 2008, the City's General Fund cash expenditures on capital projects have been significantly lower than the level proposed in the Capital Plan. During that time, the City has deferred investments and used alternate revenue sources where available to preserve investments in critical projects. As a result, the Capital Plan's spending assumptions have become increasingly disconnected from actual General Fund cash appropriations. The Financial Plan proposes to reset capital spending assumptions at a lower level of investment for the coming year, then gradually increase investments in infrastructure in the following four years. These assumptions would return the City to the level of investment assumed in the Capital Plan in FY 2016-17.

Additionally, the City has successfully pursued refinancing and restructuring of existing debt obligations during recent years, resulting in lower annual debt service costs. The Financial Plan assumes continued restructuring of existing and planned debt to achieve additional savings, as well as the cancellation of planned prepayment of prior year variable rate debt assumed in the City's Capital Plan.

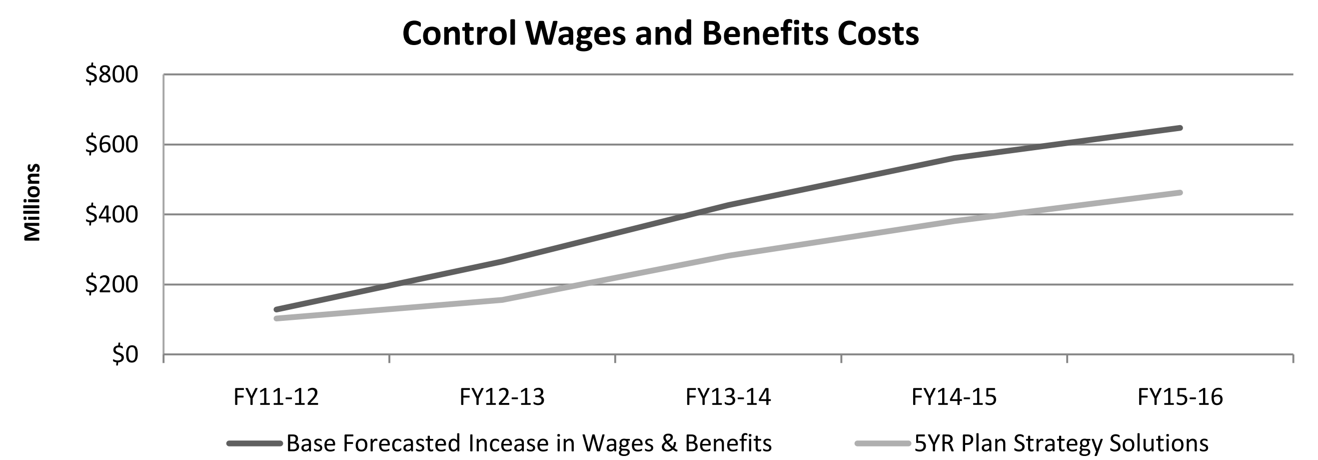
These strategies are projected to achieve a combined savings of approximately $55 million in FY 2011-12, declining in future years as capital spending returns to the higher levels assumed in the Capital Plan.

Control wage and benefit costs. As discussed above, the five-year outlook anticipates that, absent change, the rate of employee wage and benefit costs will significantly exceed the rate of General Fund-supported revenue growth during the coming five years.



Source: Base Case Outlook

In order to minimize service reductions and impacts on the City's workforce, the Financial Plan assumes that the City will take actions to reduce total employee costs through a combination of related approaches, including revisions to the City's employee retirement benefits, management of health benefit costs, and negotiation of future labor contracts.



Source: Base Case Outlook

Reducing the City's pension costs is a top priority and a key component of the financial strategies in this plan. Employer contributions to the pension system are projected to be a significant driver of benefit cost growth over the next five years as the City pays into the pension fund to recover from investment losses suffered during the economic downturn. The total employer contribution for the City will grow from $360 million in FY 2010-11 to $721 million in FY 2015-16, including a 61 percent share from General Fund-supported funds. To address this projected cost growth, the City has been meeting with its employee organizations and other stakeholders to develop a proposal to reduce the City's pension costs, and anticipates submitting a Charter amendment to voters for the November 2011 election. Absent changes, the City's pension contributions are expected to reach 29 percent of total payroll by FY 2014-15. Each percentage point this contribution is reduced will save approximately $15 million in General Fund-supported expenditures.

Like all employers, the City is actively engaged in efforts to minimize the impacts of health benefit cost inflation on both the City and our employees. These efforts include wellness programs designed to reduce overall health benefit costs, changes to the City's benefit program to align benefit levels with those offered by other large employers, and increases to cost-sharing with City employees and retirees designed to both reduce City costs and incent cost-effective health benefit choices. These changes will be required to contain health benefit cost inflation during the coming five years, given the expected rate of health benefit inflation and the City's financial outlook. Each five percent savings in health and related benefit costs equals approximately $30 million in FY 2011-12, rising to $60 million in FY 2015-16.

The majority of City employees are covered by labor contracts that expire at the end of FY 2011-12 and the remainder by contracts that expire at the end of FY 2012-13. The financial outlook detailed above assumes the expiration of concessions used by the City to balance its current year budget in FY 2012-13, with cost of living adjustments commencing in FY 2014-15. Given the current assessment of the City's financial outlook, it is unlikely the City can afford these increases without additional service reductions beyond those assumed in this plan. During the five-year horizon of this plan, the City will need to set goals for labor contract agreements that reduce costs relative to the projections assumed above. Each one percent reduction versus projected wage costs is equal to $12 million in FY 2011-12 rising to $18 million in FY 2015-16.

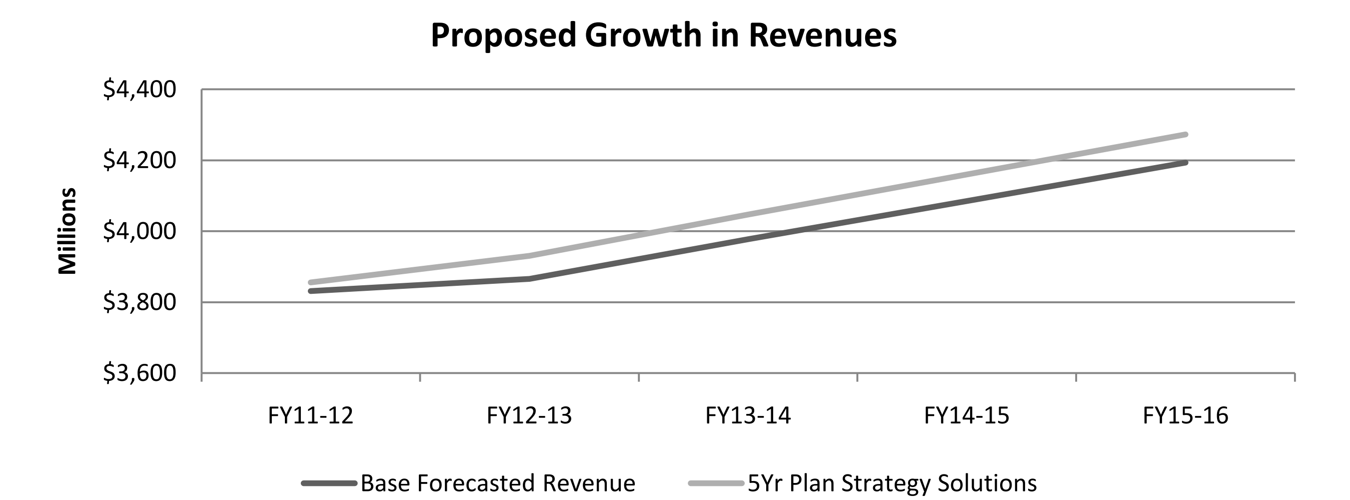
General Fund savings resulting from these strategies are estimated to generate approximately $25 million in the first year of the plan, growing to $100 million in FY 2012-13 and $200 million in FY 2015-16.

It should be stressed that these proposals represent planning goals – many of these solutions depend on voter approval, agreements with employee unions, and other factors that determine these costs. Total savings assumed in this Plan can be achieved in various ways using interrelated strategies. To the extent the City is unable to reduce the costs of wages and benefits through pension reform proposals, contract negotiations and other changes, it will need make up the difference through further reductions to the number of City employees with measures including layoffs, vacant position eliminations, and an extended hiring freeze. The savings proposed in this plan resulting from controlling employee wage and benefit costs is equivalent to eliminating approximately 1,500 City employees.

The Controller's Office, as part of existing required reporting on the cost of employee labor contracts and other legislation that materially effects wage and benefit costs, shall report on projected employee wage and benefit costs versus the strategy adopted in the Financial Plan.

Propose additional tax, fee, and other operating revenue. By far, the most significant factor in increased revenue is fostering a healthy economic climate, where growth in economic activity drives growth in revenues. In the base case projections above, the Five-Year Financial Plan assumes $433 million in base revenue growth over the coming five years as the economy begins to recover. This growth plays a significant role in reducing projected imbalances between revenue and spending over the plan's horizon.

In addition to revenue growth generated by increased economic activity, the Five-Year Financial Plan assumes the City will take actions to increase revenues over and above the base projection by $60 million beginning in FY 2011-12, growing to $100 million in the last year of the plan. The plan does not assume a specific source for this revenue, but assumes that policy makers will select and implement one or more actions from the options available to them under the constraints of State law and voter approval requirements.



Source: Base Case Outlook

The City has some degree of control to grow its revenues through its ability to adjust rates for permits, fees and certain other revenues. However, there are significant restrictions in State law on the City's ability to adjust the rates of taxes and many other revenues. Property taxes are the City's single largest General Fund revenue source (36 percent of projected General Fund-supported revenues in FY 2011-12), but authority to adjust property tax rates is highly restricted in the State Constitution. Proposition 26, approved by State voters in 2010, places new limits on local governments' ability to establish new fees and increase existing fee rates. Where tax and fee rate increases are allowed, voter approval is generally required. Over the horizon of the Five-Year Financial Plan, only two elections (November 2012 and November 2014) will provide an opportunity to adjust tax rates with a simple majority vote under State law. In each of the other elections, a two-thirds majority vote would be required.

The Controller's Office, as part of existing required reporting on the revenue generated by various tax measures, major fee increases, and other major revenue-related legislation, shall report on projected revenue increases versus the strategy adopted in the Financial Plan.

Adjust baselines and maximize General Fund revenues from other funding sources. The Five-Year Financial Plan proposes to maximize revenues available to the General Fund where possible and without impacting operations in other funds, by reallocating revenues to the General Fund from other baselines, funds, and funding allocations.

The Financial Plan assumes reduced contributions to the Public Education Enrichment Fund (Proposition H), a voter-adopted initiative that requires a certain amount of General Fund spending on schools and other educational programs, by 25 percent in years where the projected budget shortfall exceeds $100 million, as allowed under the voter initiative. This action creates savings of approximately $15 million in each year of the plan period without reducing spending on services below current levels.

In recent years, the City has, through the annual budget process, capped growth on hotel tax allocations scheduled by ordinance to flow to certain arts and cultural programs. The Five-Year Financial Plan proposes to continue capping growth in hotel tax allocations during the first three years of the plan, and then once again begin allocating growth to hotel tax funded programs to cover cost inflation beginning in year four.

General Fund savings resulting from these strategies are estimated to generate approximately $20 million in the first year of the plan, growing to annual savings of $30 million by FY 2015-16.

Limit non-personnel cost inflation. The five-year outlook assumes inflationary increases on most non-salary costs for the City, including spending on contracts, materials and supplies, and services provided by other City departments. Given slow revenue growth and the magnitude of the financial challenges facing the City, the Financial Plan assumes that City departments will absorb a portion of these cost increases within existing spending levels.

A large portion of community-based health and human services functions are provided through non-profit organizations. Over the past several years, the City has not granted cost-of-living adjustments to these contractors. Similar to assumptions for capital and employee cost spending levels, the plan assumes no inflationary increases in these contracts during the coming two years as the budget is stabilized. Given cost increases faced by these programs, this will likely require reductions in expected service levels. Cost-of-living increases are assumed on these contracts beginning after FY 2013-14.

For other categories of non-salary spending, the Plan generally assumes that inflationary cost increases will be absorbed in each year of the plan period. This will require continual reevaluation by City departments of priority purchasing needs, improved focus on effective purchasing practices to ensure the lowest possible price, and where necessary, adjustments in service levels.

Given cost increases assumed in the five-year outlook, General Fund savings resulting from these strategies are estimated to be approximately $20 million in the first year of the plan, growing to annual savings of $105 million by FY 2015-16.

Phase out use of one-time balancing solutions to restore stability to the annual budget. One of the primary challenges facing the City during the coming year is the expiration of one-time solutions—including the use of Federal, State, and local revenues and reserves—to preserve services during the economic downturn that began in 2008. The loss of these sources is a significant driver of the City's budget shortfall for the coming fiscal year, and improved management of the use of future one-time or limited-duration savings is critical to stabilizing the City's budget during the coming five-year period.

This plan recommends a decrease in the use of these volatile and unpredictable solutions during the coming three fiscal years, as more stable, long-term expenditure savings and revenue growth strategies are developed and implemented. The Plan proposes to cap the use of these one-time solutions, if they become available, to $40 million during FY 2011-12, $30 million in FY 2012-13, and $20 million in FY 2014-15. The Plan proposes to use time-limited solutions available after this time—or in excess of these annual amounts—for one-time purposes and to restore reserves depleted during the recent recession.

The Controller's Office shall research and develop financial policies, pursuant to the procedure outlined in Proposition A, to achieve this strategy.

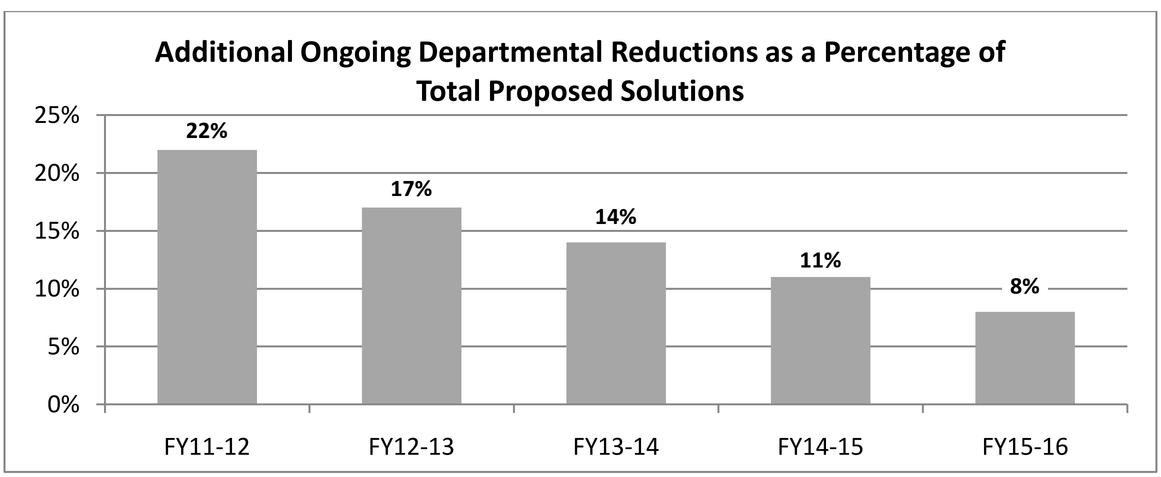
Implement ongoing departmental savings initiatives and revenues. The financial strategies outlined above will not be sufficient to fully restore structural balance to the City's budget during the plan period, even assuming a dramatic improvement in the local economy versus the current forecast. Accordingly, the Mayor and Board of Supervisors through the annual budget development process will be required to implement program changes, develop alternate funding strategies, prioritize services, and adjust service levels to balance each year's budget. These choices will require detailed analysis and work, and in many cases, more than a single year to implement.

Given the depth and duration of the recent economic downturn, the City has actively employed a number of strategies in recent years to balance the budget. These strategies, some of which are outlined below, will need to be pursued more aggressively in future years to achieve structural balance in the City's budget. A phased approach to implementing these strategies is recommended in order to minimize impacts to the public and to allow time for thoughtful planning processes for development of longer-term proposals. A phased approach will also allow the City to periodically reassess local economic conditions and other uncertainties and adjust future financial plans and budgets accordingly. In the past, the Mayor's Office has issued single-year budget reduction targets to departments. The goals set forth in the Financial Plan will allow departments to anticipate the size of likely future year reduction targets and plan accordingly.

To achieve ongoing operational savings, City departments should:

- Develop plans to operate with fewer employees to allow the workforce to shrink through attrition and retirements.
- Implement all possible administrative reductions and efficiencies.
- Maximize cost-recovery and revenue from non-General Fund sources.
- Use technology to more cost-effectively meet workload demands.
- Improve the use of performance-based contracting to efficiently meet program needs.
- Improve scheduling and staff deployment to manage overtime.
- Develop new program models that minimize costs.
- Consolidate targeted departments, programs, facilities, services, and contracts.
- Identify and prioritize core services.

The Financial Plan projects a need for approximately $60 million in ongoing departmental savings in FY 2011-12, and an additional $80 million in both FY 2012-13 and FY 2013-14. While these are significant savings goals, if the other balancing strategies included in the Five-Year Financial Plan are realized, the burden on City departments to reduce expenditures will return to more manageable levels over the horizon of the plan. New ongoing departmental budget reductions account for 22 percent of the proposed solutions in the first year of the Plan, but decline to eight percent of proposed solutions in year five. Over time, as savings initiatives are implemented, reduction targets needed to balance each year's budget will decline significantly as a percentage of total General Fund support.



Citywide

Capital Planning

Technology Planning

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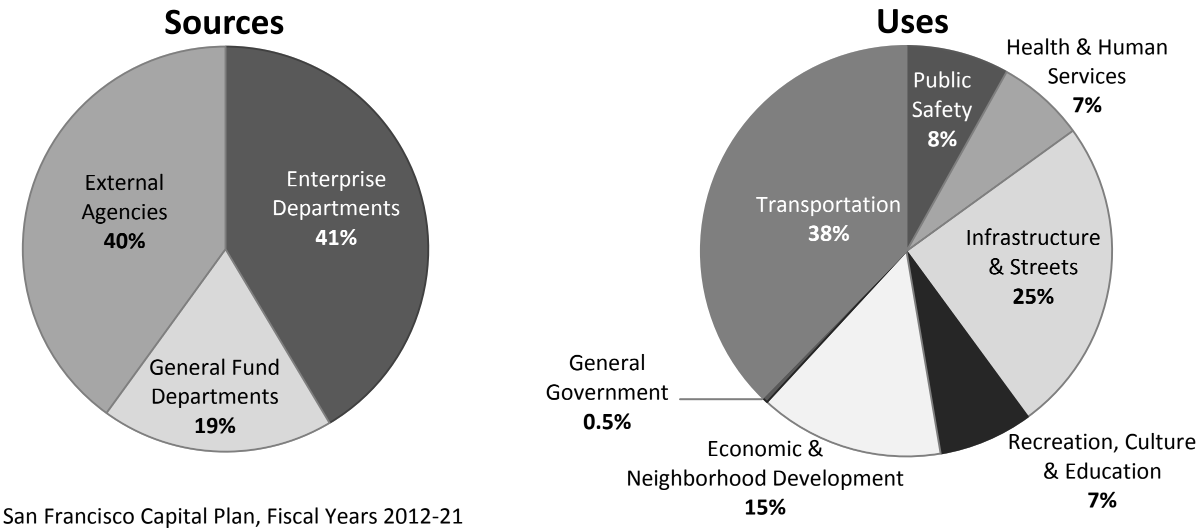
Capital Planning

Overview

San Francisco's ten-year Capital Plan, created in 2005, annually assesses infrastructure needs, identifies investments required to meet those needs and develops a finance plan to fund investments. The Capital Planning Committee, consisting of City agencies and departments, reviews the proposed capital expenditure plan and monitors the City's ongoing compliance with the final adopted capital plan.

The Fiscal Years 2012-21 Capital Plan recommends $2.7 billion in projects for General Fund departments over the next five years. For Enterprise departments that have their own dedicated funding sources, the Capital Plan proposes $6 billion in projects over the next five years. This proposed $8.7 billion investment in capital projects for General Fund and Enterprise departments will safeguard and improve the City's infrastructure, facilities and parks.

Proposed Capital Project Spending – $8.7 Billion
FY 2011-12 to FY 2015-16



Source: San Francisco Capital Plan, Fiscal Years 2012-21

Enterprise Department Highlights

> **$115 million**
>
> The cost to build a new control tower at the Airport

Airport: Construct a new air traffic control tower. San Francisco International Airport will construct a new 216-foot air traffic control tower and integrated base building between Terminals 1 and 2 to replace the existing tower in Terminal 2. The replacement tower will provide air traffic observation capabilities comparable to the existing tower. The Airport and the Federal Aviation Administration have forged a commitment to expedite this project and construction is tentatively scheduled to begin by 2012. The cost for the project totals $115 million. Specifically, the Airport will commit $21 million for the demolition of the existing control tower and $14 million for construction of the new tower and integrated facilities. The FAA is funding the remaining $80 million.

San Francisco Municipal Transportation Agency: Build the new Central Subway. Building the new Central Subway is the highest priority transit project for San Francisco and the single largest capital project in the San Francisco Municipal Transportation Agency's Capital Plan. The Central Subway plan consists of a 1.7 mile extension of the existing Third Street light rail, with recommended surface stops at Fourth and Brannan, and three underground subway stations at Moscone Center, Market Street/Union Square and Chinatown. Construction will start in 2012 and is slated to conclude in 2018. The Agency has undertaken a number of strategies to address the projected budget shortfall for this project and other capital projects, including new initiatives facilitated by the passage of Proposition A in November 2007, which provides the Agency with greater governing authority and additional funding. It is also considering revenue-generating strategies such as advertising and increased fees, as well as the option to issue bonds. If the Agency does not identify new revenues in coming years, some projects will be deferred.

77 thousand

Expected Central Subway daily riders by 2030

Port of San Francisco: Prepare for the 2013 America's Cup. In 2010 San Francisco was chosen to host the 34th America's Cup, to take place in 2013. In preparation for this event, the America's Cup Event Authority will expend $55 million to make substantial improvements to Port property, including upgrades to eight piers and the two-acre Seawall Lot 300, and in return it will receive long-term development rights at Piers 30-32 and Seawall Lot 300. Major components of this project include:

Eight

Piers impacted by upgrades for America's Cup

- America's Cup Village, which may draw between 25,000-50,000 visitors per day, will require vehicular and pedestrian access to Piers 27-29. This space will be used to provide the following: Food and beverage vendors, hospitality options, an outdoor amphitheater and event seating, a VIP hospitality area, a boat display area, interactive displays, a Children's area, retail and merchandizing.

- Ten team bases will require building temporary structures on Piers 30-32 for boat work and maintenance, deliveries, storage and ancillary team parking.

San Francisco Public Utilities Commission: Initiate the Sewer System Improvement Program. In May 2010 the Mayor and Board of Supervisors approved a $348 million supplemental appropriation to fund continued wastewater infrastructure improvements as part of the Sewer System Improvement Program. This program is a 20-year project that will evaluate the current treatment and collection system, outline a long-term wastewater and storm water management strategy, and identify necessary capital improvements to meet all regulatory requirements. The Plan proposes more than $4 billion in investments focusing on Project Planning, Odor Control, Treatment Facilities, Pump Stations, and Sewer/Collection System.

$4 Billion

Proposed spending on the Sewer System Improvement Program

General Fund Department Highlights

Public Safety: Replace the Hall of Justice. The majority of the proposed public safety investments focus on replacing the seismically deficient Hall of Justice. A major step in this process was passage of the $412 million Earthquake Safety and Emergency Response General Obligation Bond by 79 percent of the voters in June 2010. Sold in December 2010, the first issuance of $78 million from the bond will complete detailed design and begin construction on a new Public Safety Building at Mission Bay. The Capital Plan proposes a second Emergency Response General Obligation Bond in November 2013 for additional seismic upgrades and repairs to police stations, and the relocation of the Medical Examiner and Forensic Sciences Division of the Police Department. The plan also proposes issuing Certificates of Participation to replace the jails on the top two floors of the Hall of Justice.

$412 Million

Total amount of the Earthquake Safety and Emergency Response G.O. Bond

San Francisco Fire Department: Repair the high-pressure fire hydrant system and upgrade fire stations. As a result of the Earthquake Safety and Emergency Response General Obligation Bond, the Department will repair the high-pressure fire hydrant system, and initiate designs for safety improvements at fire stations as well as construction of new cisterns. The City, in partnership with the San Francisco Museum of Modern Art, is in the process of replacing Fire Station one at Third and Howard Streets with a state-of-the-art facility at 935 Folsom Street. In exchange for funding the project and providing the land, the Museum will receive the old fire station and part of Hunt Alley behind the station for expansion.

Department of Public Works: Repave the streets. An estimated $1.4 billion is needed for renewals and improvements of streets and right-of-way assets managed by the Department of Public Works. To address continuing General Fund budget shortfalls, the 2012-21 Capital Plan recommends funding be met through a General Obligation Bond in November 2011 and identification of a dedicated funding source for street resurfacing.

$1.4 Billion

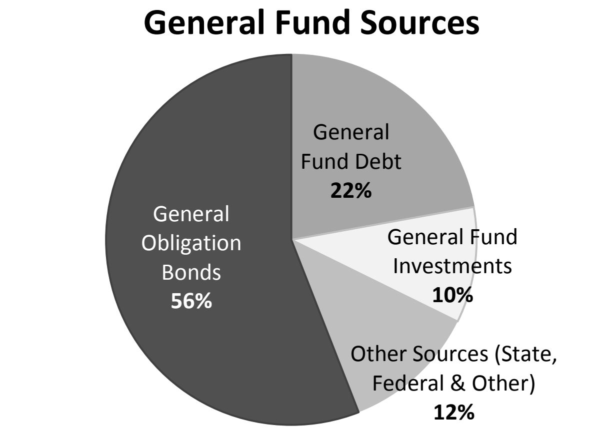
Estimated need for street maintenance and improvements

Department of Public Health: Rebuild San Francisco General Hospital. State law requires that all hospitals meet seismic standards by 2015, allowing them to remain operational after a major earthquake. In March 2010 the City approved the second SFGH Rebuild General Obligation Bond issuance totaling $294 million and the third bond sale will likely take place in Summer 2011. The Department is scheduled to complete the rebuild of the hospital in 2015, with upgrades that include decontamination showers, alternative powers sources in the event of City-wide power loss, and data back-up for all patient records. While construction is fully funded with proceeds of a General Obligation bond, the Department currently projects an additional $130 million will be needed for furniture and equipment not covered by the bond. Up to half of this may be funded by the San Francisco General Hospital Foundation via donations, and the hospital is actively working to develop a funding plan for the remaing half.

2015

Estimated completion date for the SFGH rebuild

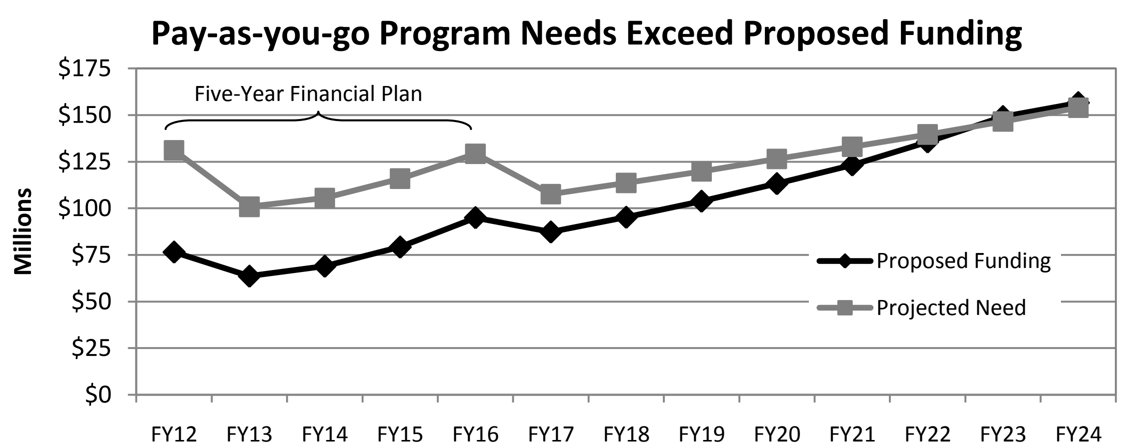
General Fund Programs



Source: San Francisco Capital Plan, Fiscal Years 2012-2021

General Fund sources include General Obligation Bonds, General Fund Debt, General Fund Investments, as well as other sources.

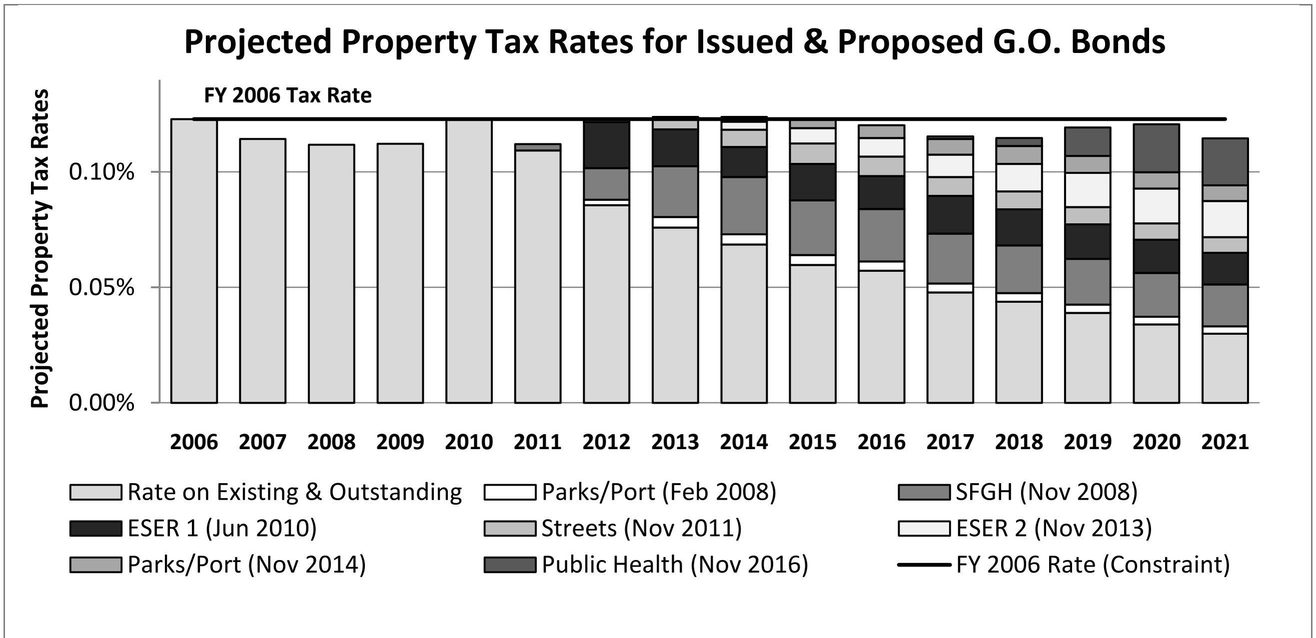
Pay-as-you-go program. The City addresses its ongoing, annual needs through the General Fund pay-as-you-go program. These are typically smaller investments needed to maintain facilities in a state of good repair. The FY 2012-21 Capital Plan proposes $77 million in General Fund dollars in FY 2011-12, which is less than the $131 million of projected need as shown in the graph below. The Capital Plan has identified funding strategies to reduce annual General Fund needs by about 31 percent, such as planning General Obligation bond initiatives for areas including street resurfacing needs and facility renewal needs for police and fire stations.



Source: San Francisco Capital Plan, Fiscal Years 2012-21

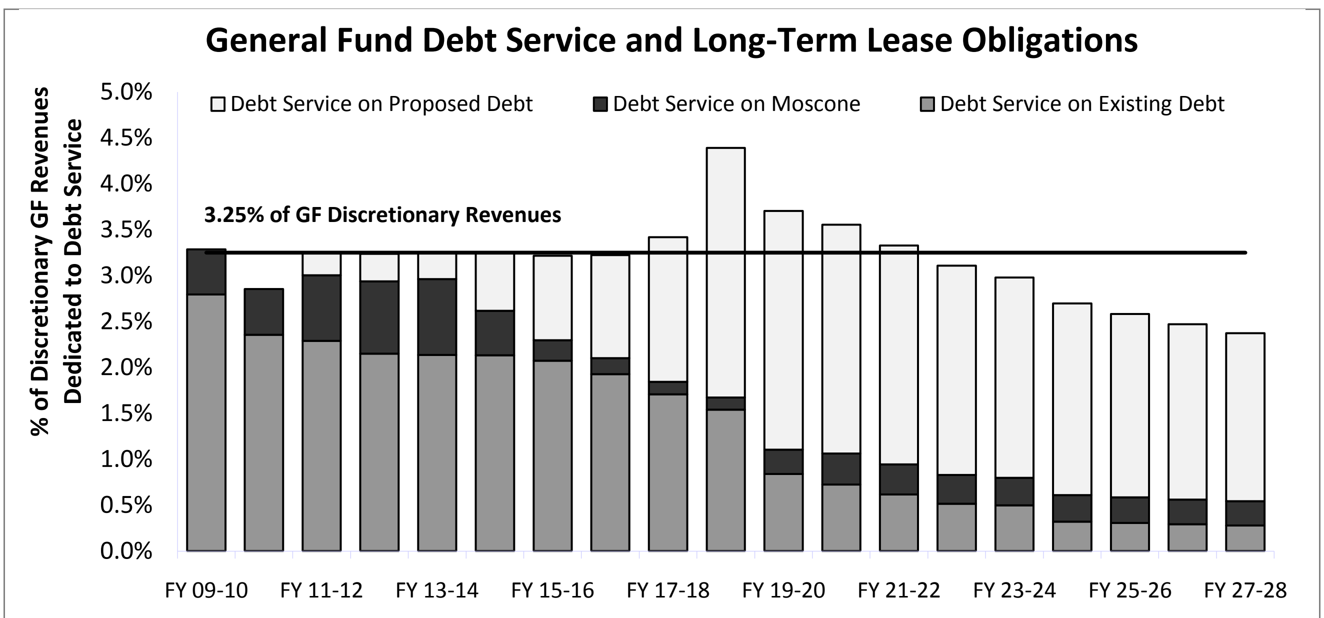
Debt Financing Program. Most of the major capital improvement or enhancement projects are funded with voter-approved General Obligation bonds or General Fund commitments such as lease revenue and Certificates of Participation bonds, as project costs often exceed the ability to use cash or pay-as-you-go revenue sources.

- General Obligation Bond proposals in California require two-third voter approval, a difficult threshold that limits municipalities' ability to deliver large capital projects. After eight years without an approved City bond proposal, voters have approved three G.O. bonds recently for parks, the San Francisco General Hospital rebuild, and earthquake safety and emergency response projects. Three bonds have been proposed for the next five years, including $170 million for Safe Streets & Road Repairs, $185 million for Neighborhood Parks & Open Space Improvements, and $390 million for Earthquake Safety & Emergency Response. The Capital Plan only proposes to issue new bonds as previous bonds are paid off to hold property tax rates at or below 2006 levels.



Source: San Francisco Capital Plan, Fiscal Years 2012-21

- Certificates of Participation & Lease Revenue Bonds are typically repaid out of the City's General Fund or revenue that would otherwise flow to the General Fund. General Fund receipts such as fees and charges are used as leverage to finance capital projects and property acquisitions, many of which provide direct revenue benefit or cost savings. Debt service payments for Certificates of Participation and lease revenue bonds are typically paid from revenues of the related project, or fees, taxes or surcharges. The Capital Plan strives to keep total General Fund debt service costs under 3.25 percent of total General Fund discretionary revenues.



Source: San Francisco Capital Plan, Fiscal Years 2012-21

Capital Program	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Enterprise		1,129.8	1,075.5	949.2	1,303.4	1,566.0
General Fund						
General Fund Debt		34.3	118.6	445.5	0.0	0.0
General Fund Investments		65.8	51.8	38.4	51.7	65.3
General Obligation Bonds		378.1	515.2	391.0	225.6	0.0
Other Sources (State, Federal & Other)		60.3	60.7	45.9	53.7	98.1
External Agencies		1,929.3	1,306.4	924.7	955.3	702.6
Sources Total		**3,597.5**	**3,128.2**	**2,794.6**	**2,589.7**	**2,432.0**
USES						
Expenditures						
Public Safety		151.9	126.9	817.3	78.5	3.3
Health and Human Services		350.0	340.3	111.4	105.6	99.7
Infrastructure and Streets		575.9	711.6	451.9	705.1	1,178.4
Transportation		1,468.0	1,266.2	1,036.7	1,013.4	695.3
Recreation, Culture and Education		569.7	196.0	40.9	208.9	61.1
Economic and Neighborhood Development		453.1	480.8	329.8	470.6	377.9
General Government		28.9	6.3	6.7	7.7	16.3
Uses Total		**3,597.5**	**3,128.2**	**2,794.6**	**2,589.7**	**2,432.0**
Projected Surplus/(Shortfall)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Percent Shortfall of Total Uses		**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Change from Prior Year			**0.0**	**0.0**	**0.0**	**0.0**

Technology Planning

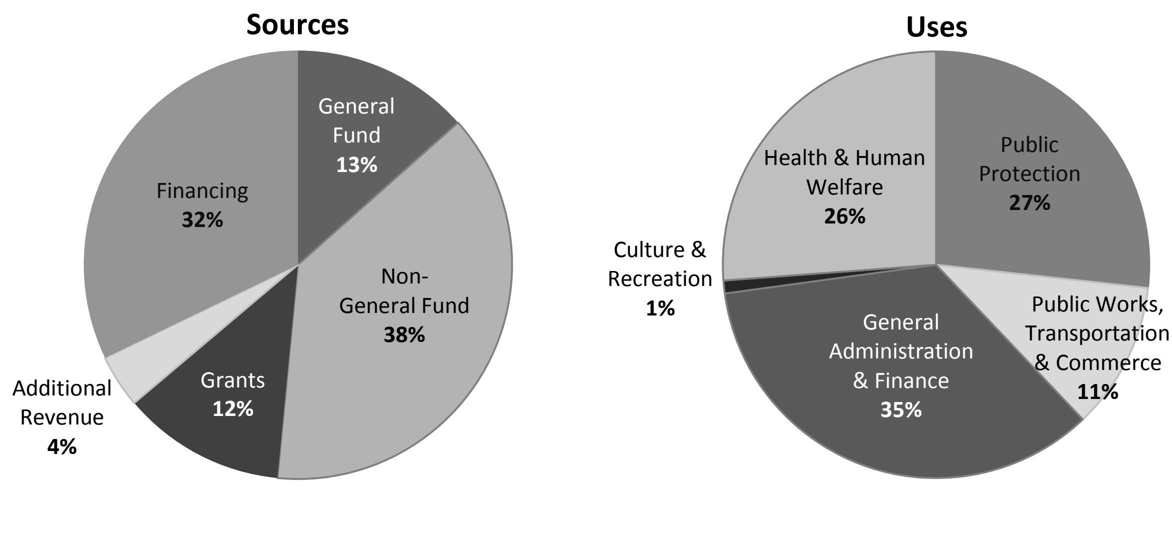
Overview

In 2010, the Board of Supervisors and the Mayor approved legislation requiring that the Department of Technology develop a five-year Information and Communication Technology (ICT) plan. The ICT Plan is under development and will be considered for approval in June 2011. This five-year financial plan incorporates the strategies and proposals presented in the ICT plan.

As part of the five-year planning effort, members of the Committee on Information Technology's (COIT) Budget and Planning subcommittee invited departments to present technological initiatives identified for the five-year horizon, and established evaluation criteria that were used to complement the ICT strategies of consolidation, standardization and simplification. Taking into consideration the business objectives of the City, the group prioritized projects based on additional factors including whether IT improvements will replace, enhance or create new infrastructure, operating systems and software applications. Each project was evaluated against this multi-criteria method in order to determine its place and priority for inclusion in the five-year ICT Plan.

The ICT Plan identifies a total of $338 million in future technology projects over and above the $160 million the City currently invests annually in technology services. Of these projects, $172 million are proposed to be funded through non-General Fund sources. In contrast, $166 million of General Fund-supported projects are identified, but only $40.3 million in General Fund support is assumed to be available over the next five years. To address this shortfall, the ICT Plan identifies alternative funding sources and strategies.

Proposed Technology Spending – $338 Million
FY 2011-12 to FY 2015-16



Source: Controller's Office; Information & Communication Technology Plan 2011

Enterprise Department Projects

The ICT Plan identifies $44 million in projects for Enterprise departments. Some project examples include the following:

Airport: The Airport Network Infrastructure Improvement and Expansion program includes upgrading and expanding current airport communications infrastructure to meet the needs of Airport tenants and operations. In addition, this program includes building a City data center at the Airport and will be one of the consolidated data centers Citywide. This data center project will build a state-of-the-art facility to ensure performance improvement and disaster recovery for selected City departments. The program is expected to begin in FY 2011-12 and to cost $12.5 million.

> $6 million
>
> Cost of City data center at the Airport

Municipal Transportation Agency: The Municipal Transportation Agency will focus its ICT initiatives in upgrading its infrastructure over the next two years. Projects include upgrading desktop and document management software, virtualizing servers, relocating the transit central control system, and establishing a robust disaster recovery capacity for the agency's systems. The project cost over the next five years is expected to be $3.9 million.

Port: The Port's Geographic Information Systems (GIS) project will allow the Department to view and integrate its data and facilities based on geography. This system will be integrated with the City's master address database administered by the Department of Building Inspection. The project cost over the next five years is expected to be $0.8 million.

Public Utilities Commission: The Public Utilities Commission (PUC) is building a new 13-story headquarters at 525 Golden Gate Avenue. The Network and Phone System for New Headquarters project will design and build the IT, networking and Voice over Internet Protocol communications systems for the new building. The project is expected to be completed in FY 2011-12 and will cost $4.1 million.

General Fund Department Projects

The ICT Plan identifies $295 million in projects for General Fund departments, requiring $166 million of new General Fund support. In several cases, departments have identified non-General Fund sources to fund these projects, as detailed below. Some project examples include the following:

> $91 million
>
> Projects to support public protection IT infrastructure

Department of Emergency Management: The 800MHz Citywide Emergency Radio Replacement project will replace 7,500 devices within the existing radio system to a standards-based digital voice radio system. Users include public safety departments, the Division of Parking and Traffic and the Recreation and Park Department. The project is expected to cost the General Fund $64.7 million over the next five years. The ICT Plan recommends developing a financing mechanism to pay for this project.

The Department of Emergency Management is also planning a Computer-Aided Dispatch Refresh project that would upgrade the call processing function for the City's 911 system and migrate the out-dated system to the latest version of this technology. The project would cost the General Fund $3.3 million over the next two years.

Police Department: The Police Department has initiated a project that will provide data warehouse capability to enable police incident (arrest and custody) reporting data to be used to support police prevention and response functions. This data can be shared with other criminal justice agencies. The project is expected to cost the General Fund $5 million over three years beginning in FY 2012-13.

Department of Public Health: In order to comply with new Federal healthcare reform requirements for meaningful use of electronic medical records, the Department of Public Health will develop and manage the Enhanced Medical Records and Financial Systems project. This project will expand regulatory compliance necessary for patient medical records and patient financial services. The Department has identified non-General Fund sources to fund the $28 million project cost over the next five years.

$30 million

Cost included in the SF General Hospital rebuild for improvements to technical infrastructure

The rebuild of San Francisco General Hospital is expected to include $30 million in technical infrastructure costs. The Department will equip the new hospital with the necessary infrastructure, operating systems and applications and will be completed in 2015. The total cost is expected to be incurred in FY 2015-16 and to be funded with bond proceeds and other non-General Fund sources.

At Laguna Honda Hospital, the Clinical, Long-Term Care and Nursing Systems will be consolidated into one integrated system to achieve regulatory compliance for patient documentation and treatment planning. The project is expected to cost $1.4 million.

$62.8 million

Projects to improve the City's aging financial and tax management systems

Controller's Office: The City's 20+ year old mainframe-based central financial and accounting information system will be replaced in phases over a period of years. Based on preliminary estimates, the project is expected to cost $45 million over the next five years and will be funded by a mix of General Fund and non-General Fund sources. In subsequent years an additional $30 million is estimated for a total cost of $75 million.

Treasurer/Tax Collector: The City's current business tax system is outdated. The Treasurer/Tax Collector will replace the current system with a new solution to be integrated with the department's general ledger, cashiering and investment systems used by three departments. The project is expected to cost the General Fund $1.8 million over the next five years.

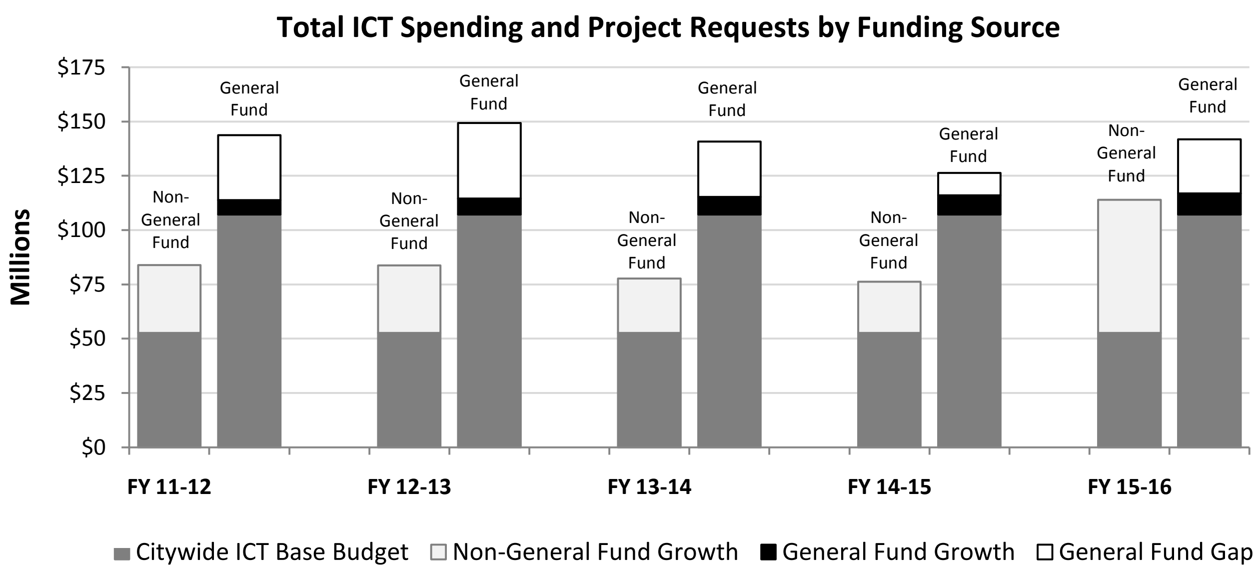
Building Inspection & City Planning: These two Departments are implementing a common system to process and track all permit and construction project transactions. This system will improve performance metrics, provide data on all permit transactions, track revenue recovery and reduce processing times. The $7.4 million project cost over the next five years will be funded predominantly through non-General Fund sources.

Department of Technology: The Citywide Telephone Replacement project will replace, in phases, existing telephone infrastructure with Voice over Internet Protocol technology and infrastructure on the Citywide fiber wide-area network. The project's $6.5 million cost will be funded by a mix of General Fund and non-General Fund sources, and future savings are expected from reductions in telephone charges.

Public Library: The Library plans to enhance and upgrade their network to increase free Citywide Wi-Fi access, public access computing and City-owned or licensed digital content downloads (e.g., eBooks, movies, online learning podcasts) through the Library Network and Bandwidth Upgrades project. This project will also increase the number of public access computers and laptops within City Libraries. The anticipated cost is $0.7 million over the next five years, funded through the Department's current sources.

Funding Strategies

The City must find a balance between available resources and the cost of new technology projects over the next five years. As depicted on the graph below, the City's current and future budget allocations are insufficient to meet the demand.



Source: Controller's Office; Information & Communication Technology Plan 2011

The City has already begun to improve its infrastructure and IT systems through a Citywide approach to developing IT solutions to meet common business objectives. Examples of these efforts include data center consolidation, standardizing IT platforms, and converting the City to one email system. However, the prioritized need identified in the ICT Plan of $338 million—for more than 100 separate projects in 20 departments—far exceeds the available funding. Even with additional aggressive deployment of the ICT strategies of consolidation, standardization and simplification, not enough funding will be available given the City's current financial framework. The following financial strategies will enable the City to meet demand for technology investments while recognizing our financial limitations:

- Develop bond/debt financing instruments for large infrastructure ICT replacements and enhancements in order to complete high priority projects in the next five years, while extending repayment over a longer period of time. For example, the City could finance emergency system infrastructure by increasing the user fees or taxes.

- Expand the City's current lease financing program to include more ICT projects, and commit to an annual allocation to pay for annual lease payments.
- Extend "enterprise" department ICT investments to citywide use to the extent allowed by regulations and law and reimburse them for citywide costs. Also, use an allocation methodology so that the costs of citywide investments are shared between enterprise departments and the General Fund.
- Pursue grants and other state and federal sources.
- Identify alternate revenue sources by providing ICT services to non-City entities and allocate projected revenue gains from the implementation of improved assessor and tax collector systems to fund these ICT projects.
- Increase the proposed $6.6 million General Fund allocation in Fiscal Year 2011-12 by 10 percent in subsequent fiscal years to address growing demand for ICT resources.
- Free up existing funds for ICT investments by pursuing the following strategies:
    - Redirect base budgets to fund future projects, and include ICT base budget funding in annual budget justification discussions.
    - Prioritize enterprise-wide applications and retire existing stand-alone systems that provide the same functional requirements.
    - Re-allocate savings from consolidations to fund ICT infrastructure improvements and new citywide or multi-department ICT projects.
- Defer projects to later years through prioritization and planning.
- Eliminate or reduce the cost of proposed projects to shrink overall funding need. This should be done through collaboration, sharing of current systems and review of alternatives with stakeholders.

By implementing these strategies, the demand on the General Fund can be reduced to match available funds. However, if these strategies are not successful, the City will continue to defer and eliminate key projects.

Technology	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
General Fund Base IT Budget (Operating)	107.0	107.0	107.0	107.0	107.0	107.0
Non-General Fund Base IT Budget (Operating)	52.7	52.7	52.7	52.7	52.7	52.7
Total Base IT Budget (Operating)	**159.7**	**159.7**	**159.7**	**159.7**	**159.7**	**159.7**
Adjustments to Base Sources						
Financing		29.5	33.3	28.8	4.1	0.7
Grant		7.7	9.8	6.9	6.2	6.2
Non-General Fund		13.2	16.8	14.5	15.8	53.8
General Fund		6.6	7.3	8.0	8.8	9.7
Additional Revenue		2.0	2.0	2.0	2.0	4.0
Sources Total	**159.7**	**218.7**	**228.9**	**219.9**	**196.6**	**234.1**
USES						
Base Expenditures	**159.7**	**159.7**	**159.7**	**159.7**	**159.7**	**159.7**
Citywide Adjustments to Base Expenditures						
1. Wage Rate & Benefit Cost Increases		8.9	20.4	38.3	51.6	54.2
2. Non-Salary Inflation		1.3	3.2	5.4	7.6	10.0
Adjustments to Base Expenditures						
Public Protection		28.1	32.5	26.6	3.2	0.1
Public Works, Transportation & Commerce		14.6	8.9	8.0	2.9	3.5
Health, Human Welfare & Neighborhood Development		9.6	15.1	11.3	11.3	41.3
Culture & Recreation		0.6	0.8	0.8	0.5	0.7
General Administration & Finance		14.7	16.1	12.1	24.9	50.4
Uses Total	**159.7**	**237.6**	**256.7**	**262.1**	**261.7**	**319.9**
Projected Surplus/(Shortfall)	**0.0**	**(18.8)**	**(27.8)**	**(42.2)**	**(65.1)**	**(85.9)**
Percent Shortfall of Total Uses		**-7.9%**	**-10.8%**	**-16.1%**	**-24.9%**	**-26.8%**
Change from Prior Year		**(18.8)**	**(9.0)**	**(14.4)**	**(22.9)**	**(20.8)**
Reduction/Reallocation of Funds		(18.8)	(27.8)	(42.2)	(65.1)	(85.9)
Revised Projected Surplus/(Shortfall)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
FTE						
Total FTE	**779.4**	**779.4**	**779.4**	**779.4**	**779.4**	**779.4**

Enterprise Departments

International Airport
Municipal Transportation Agency
Port of San Francisco
Public Utilities Commission

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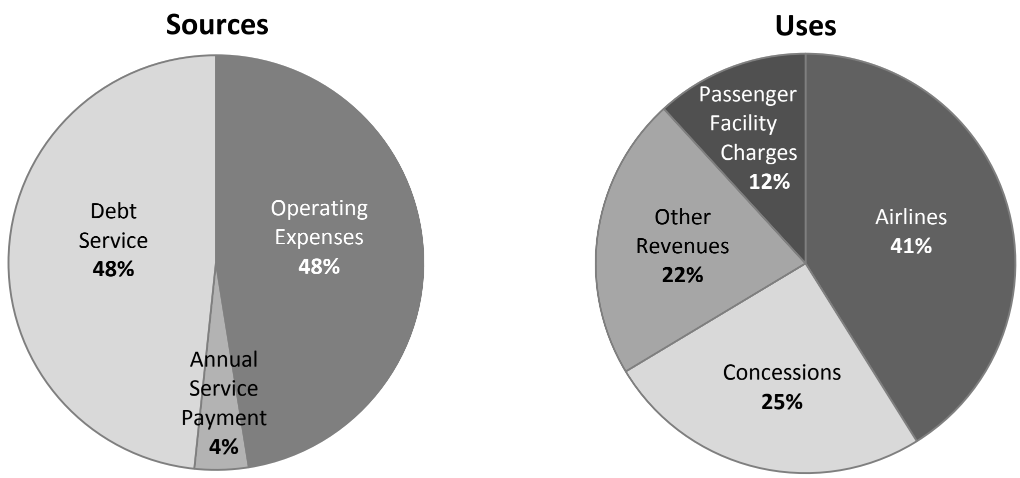
San Francisco International Airport

Organizational Overview

San Francisco International Airport (SFO or Airport) is a world-class airport that is operated as an Enterprise department by the City and County of San Francisco. One of the world's 30 busiest airports, SFO serves tens of millions of domestic and international passengers annually. SFO is a leader in safety and security, customer service, community relations, environmental commitment, and financial and economic vitality.

SFO's financial operations are governed by: (1) Federal regulations and policies of the Federal Aviation Administration (FAA), which issues guidelines on the acceptable methods of developing Airport rates and the appropriate use of Airport revenue; (2) The Transportation Security Administration (TSA), which issues guidelines on safety and security standards, and; (3) the Airport-Airline Lease and Use Agreement, which defines the rights, privileges, and obligations of the Airport, and stipulates the way that rentals, fees, and charges paid by the airlines are calculated and adjusted. It has a unique Annual Service Payment (ASP) provision that allows the Airport to pay 15 percent of its concession revenues to the City. This provides the Airport with an added incentive to increase concession revenues.

San Francisco International Airport Budget, FY 2010-2011



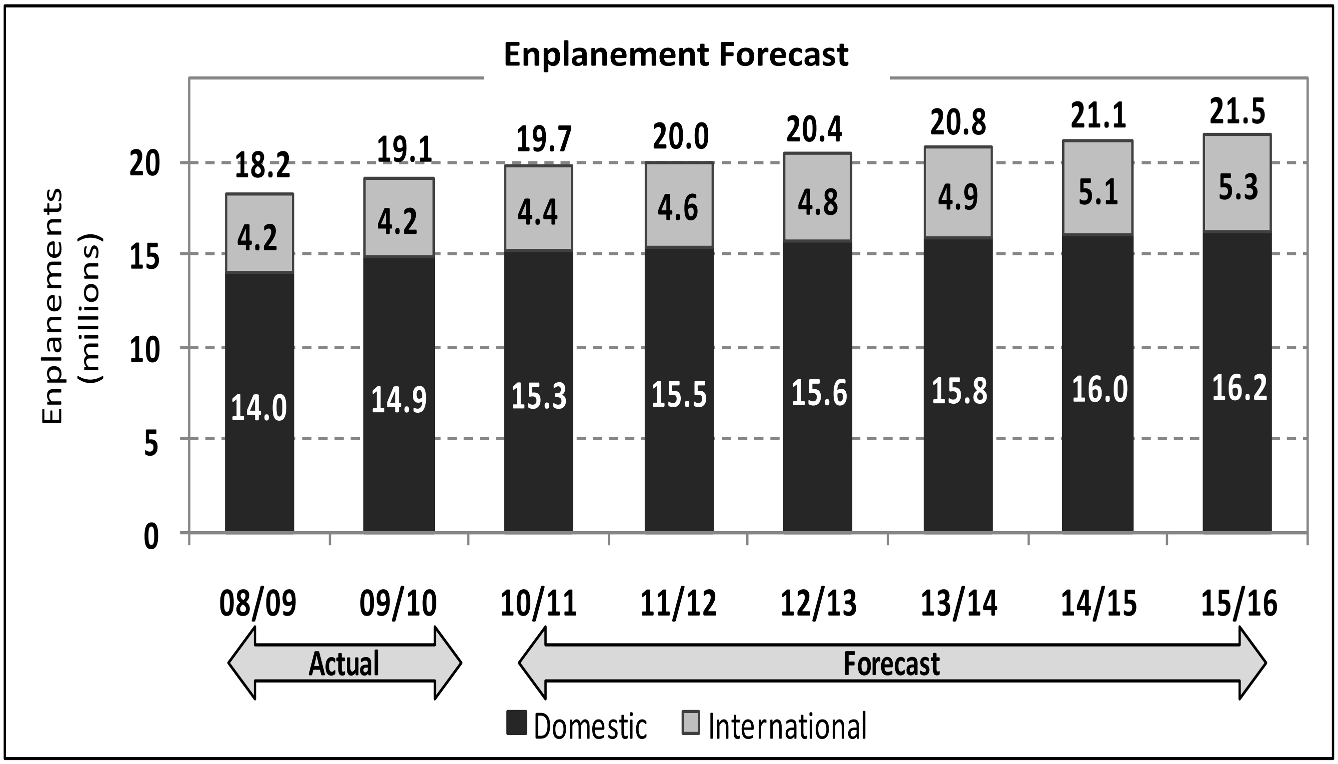
Source: Annual Appropriation Ordinance Fiscal Year 2010-11

In the next five years the Airport will undertake the following strategic initiatives:

1. Increase passenger traffic.
2. Maximize revenues and manage rising benefit and debt expenses.
3. Continue on-going and begin new capital projects to improve the Airport and ensure the longeviety of assets.

Five-Year Outlook

Increase passenger traffic. Based on traffic to date, the Airport expects to achieve the FY 2010-11 forecast of 19.7 million enplanements, an increase of three percent from the prior year. Over the next five years, the Airport anticipates a nine percent increase in passenger traffic with strong international activity and steady domestic growth. The Airport is projected to exceed peak year FY 1999-00 passenger traffic in FY 2012-13.



Maximize revenues and manage rising benefit and debt expenses. The Airport receives operating revenue from both airline and non-airline users based on lease agreements, fees set to recover costs, and non-operating revenues such as interest income and passenger facility charges.

- **Airline revenue consists of terminal rentals and aircraft landing fees.** The Airport receives 41 percent of its revenue from the airlines through various fees and charges. A calculation at the end of the fiscal year determines the amount that the Airport is either above over below revenue estimates. The ultimate risk of a budget deficit is on the airlines; however, any surplus amount is paid back to the airlines in the form of lower future rates as defined by the Lease and Use Agreement. At of the end of FY 2009-10, the Airport owed the airlines $49 million in revenue, as the Airport's financial results were better than forecast. Rates for airlines and other Airport users are set annually in a process that includes final review and approval by the Airport Commission in May of each year.

- **Concession revenue consists of activity-driven revenue and related support facilities.** The Airport receives 25 percent of its revenue from the sale of concessions. This concession revenue consists of terminal concessions, including duty free shops, retail, food and beverage, and passenger services and groundside concessions, including public parking, rental cars and ground transportation. The FY 2010-11 budget reflected lower passenger forecasts and per passenger spending rates, a trend that has reversed itself with the return of business travelers and easing of the recession. The Airport projects improved passenger traffic and spending trends in FY 2011-12 leading to an eight percent increase in concession revenues, while the remaining forecast years reflect more modest passenger growth. Parking and rental car revenues have shown the most significant growth, which suggests increasing business travel.

8 percent

Projected increase in concession revenues for FY 2011-12

- **Other revenue.** The Airport leases out a variety of aviation support facilities, such as United Airline's Maintenance Operations Center, the Superbay Hangar, cargo buildings, and airline operations facilities.

- **Manage rising benefit and debt expenses.** Expenses are increasing faster than revenues as a result of higher projected retirement and health benefit costs for Airport, Fire, and Police Department employees. In addition, debt service payments are rising due to scheduled increases for capital projects completed in past years and newer large-scale projects such as Terminal 2 and Runway Safety Areas. Non-labor expenses are forecast to increase by three percent annually from FY 2013-14 through FY 2015-16. The Airport's estimated expenses also incorporate service changes negotiated as part of the new Lease and Use Agreement, which goes into effect July 1, 2011.

$954 million

Planned spending on capital projects for the Airport over the next ten years

Continue on-going and begin new capital projects to improve the Airport and ensure the longeviety of assets. Over the next ten years, the Airport plans to spend $954 million on capital projects such as investing in airfield runway and taxiway reconstruction, runway safety area planning, terminal renovations and upgrades to terminal baggage systems. The 2012-21 Capital Plan also includes $206.5 million for the Runway Safety Area project to meet FAA requirements, and funding to complete renovations to Boarding Area E in Terminal 3; a large portion of these projects will start or be completed over the next five years.

International Airport	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Total Base Revenues	**679.2**	**679.2**	**679.2**	**679.2**	**679.2**	**679.2**
Adjustments to Base Revenues						
Airlines		31.1	67.4	113.6	152.9	163.4
Concessions		15.2	20.8	27.3	30.9	34.4
Other Revenue		(0.8)	4.6	15.7	21.1	25.9
Deferred Airline Revenue in Fund Balance		(0.9)	(13.2)	(20.9)	(20.9)	(20.9)
Passenger Facility Charges		1.3	1.3	(15.2)	(21.7)	(21.5)
Transfer to Fire and Police Departments		(6.6)	(11.3)	(15.8)	(19.8)	(22.1)
Sources Total	**679.2**	**718.5**	**748.8**	**783.9**	**821.7**	**838.4**
USES						
Base Expenditures	**679.2**	**679.2**	**679.2**	**679.2**	**679.2**	**679.2**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		8.5	14.0	17.3	20.7	24.4
Benefit Cost Increases		5.6	12.0	20.5	27.2	29.8
Departmental Adjustments to Base Expenditures						
Operating Expenses		1.7	6.5	18.6	25.7	33.1
Debt Service		18.8	31.0	40.6	60.7	63.1
Annual Service Payment		1.8	2.6	3.6	4.2	4.7
Small Capital Outlay		3.0	3.5	4.0	4.0	4.0
Uses Total	**679.2**	**718.5**	**748.8**	**783.9**	**821.7**	**838.4**
Projected Surplus/(Shortfall)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Percent Shortfall of Total Uses		**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Change from Prior Year		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
FTE						
Total FTE	**1,421.0**	**1,421.0**	**1,421.0**	**1,421.0**	**1,421.0**	**1,421.0**
Departmental Adjustments to FTE		84.5	88.8	88.8	88.8	88.8
Total Projected FTE		**1,505.5**	**1,509.8**	**1,509.8**	**1,509.8**	**1,509.8**

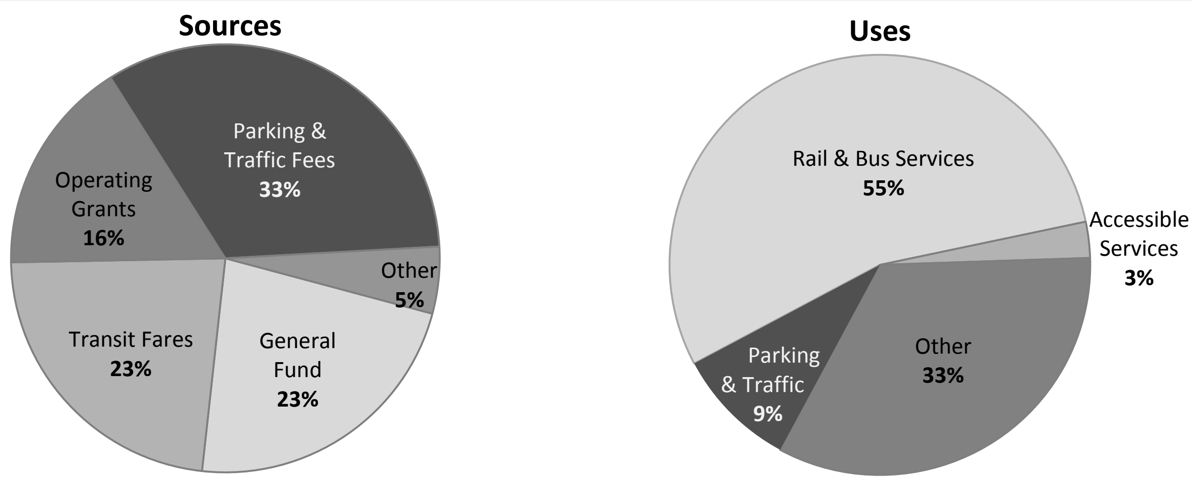
Municipal Transportation Agency

Organizational Overview

San Francisco's Municipal Transportation Agency (SFMTA or the Agency) operates the Municipal Railway (Muni), which is the largest public transportation agency in the Bay Area and carries more than 215 million riders annually on its fleet of buses, trolleys, light rail trains and cable cars. In accordance with the City's *Transit First* policy—which prioritizes public transit, walking, bicycling and alternatives to driving—the Agency also manages parking, traffic and taxi regulation and implements pedestrian, bicycle and better streets programs.

Over the next five years the Agency anticipates that expenditures will outpace revenues; expenditures are projected to grow by almost 12 percent, while revenues are projected to grow by only four percent. Successful implementation of the Agency's strategic initiatives will help close this projected funding gap and improve the service SFMTA provides.

San Francisco Municipal Transit Agency Budget, FY 2010-11



Source: Annual Appropriation Ordinance Fiscal Year 2010-11

In the next five years the Agency will undertake important strategic initiatives:

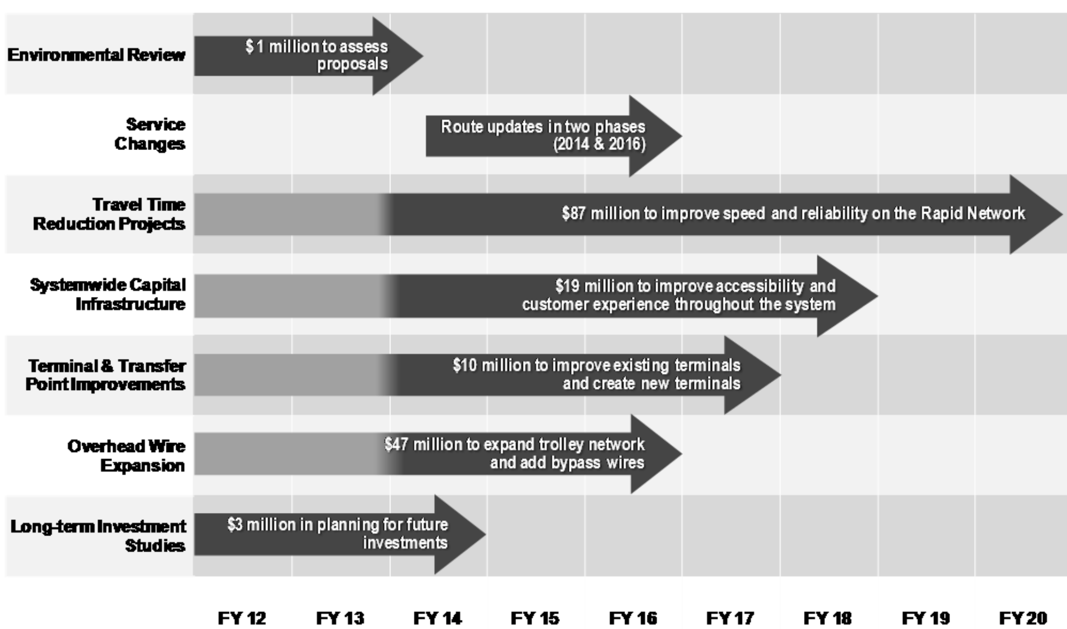
1. Optimize service delivery and work to reduce operating costs per unit of service.
2. Move forward with system changes, route updates and efficiency improvements laid out in the Transit Effectiveness Project.
3. Secure new and ongoing funding to address deficits and fund a rainy day reserve for the Agency.
4. Deliver critical capital projects including Van Ness Bus Rapid Transit, the Central Subway, bike network and pedestrian improvements and light rail improvements.

Five-Year Outlook

Optimize service delivery and work to reduce unit costs. SFMTA's analyses consistently show that reducing operating costs per unit and mile of service is possible and will provide the most benefits system-wide. Reducing travel time in major corridors allows the same number of vehicles and operators to make more trips in a service day. Using current passenger data and demand modeling, SFMTA has already begun changing schedules, running times, and operating methods, such as traffic enforcement and line management, to best use its existing fleet and staff. In November 2010, San Francisco voters approved Proposition G, allowing the City more flexibility to negotiate wage rates and work rules for Muni operators. The existing contract between the SFTMA and the Transport Workers Union Local 250-A expires on June 30, 2011. In addition to wage changes the SFMTA is working to negotiate changes that reduce overall labor costs and improve service delivery.

Move forward with the Transit Effectiveness Project. Service enhancements and cost efficiencies will emerge from the Transit Effectiveness Project (TEP), which is a comprehensive analysis and update of the transit system performed by the SFMTA and the Controller's Office in recent years. The TEP includes strategies to improve service, attract more transit customers, increase efficiency, and design for current and future travel patterns in San Francisco. TEP improvements are projected to result in cost savings by speeding up service with improved street and stop designs, signal systems and other technologies. Improved route designs will include more limited/rapid buses and community service buses, consolidation of routes or route segments, and increased frequencies on the busiest transit corridors and lines.

Transit Effectiveness Implementation Schedule



Source: Transit Effectiveness Project Implementation Schedule

Note: All dollars are capital dollars and are not included in the operating budget that is the subject of this report

Secure new and ongoing funding. The Agency's revenue comes primarily from three sources: parking, transit fares, and operating grants. The SFMTA anticipates opportunities to increase revenues from all of these existing sources, as well as from new funding sources. Specific revenue opportunities include:

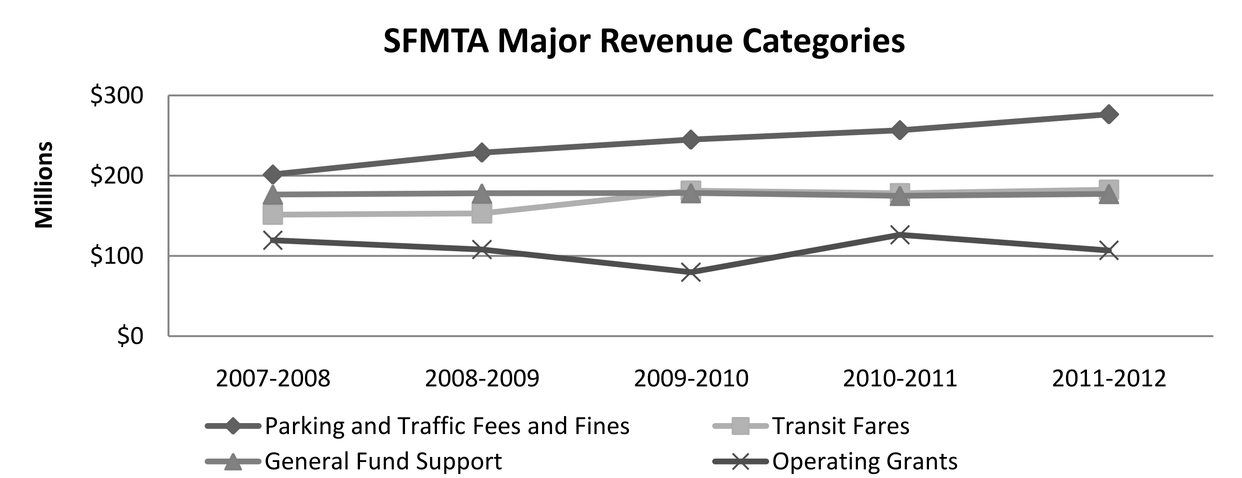
$19 million

Estimated revenue lost due to lack of proof of payment enforcement both in 2009 and 2010

- **SFPark:** In April of 2011, the Agency launched SFPark, a new Federally funded initiative using real-time parking demand data, online and cell phone payment methods for drivers, and market-based pricing. SFPark is projected to drive utilization such that drivers will be able to find and pay for parking more quickly and efficiently, and help optimize parking meter revenue for the City. At the same time, parking ticket fee revenue may decrease due to longer time limits at parking meters and easier payment methods. While SFPark may be revenue neutral, the program is designed to reduce congestion and will also improve Muni speed and schedule adherence and help in the effort to reduce Muni's operating costs and increase ridership.

- **Parking garage revenue:** The Agency receives dedicated revenues from 40 parking garages, as well as revenues from on-street parking meters and parking violations. The Agency projects that the cost of parking garage charges and parking violation fees will increase proportionately with average cost increase in other urban environments.

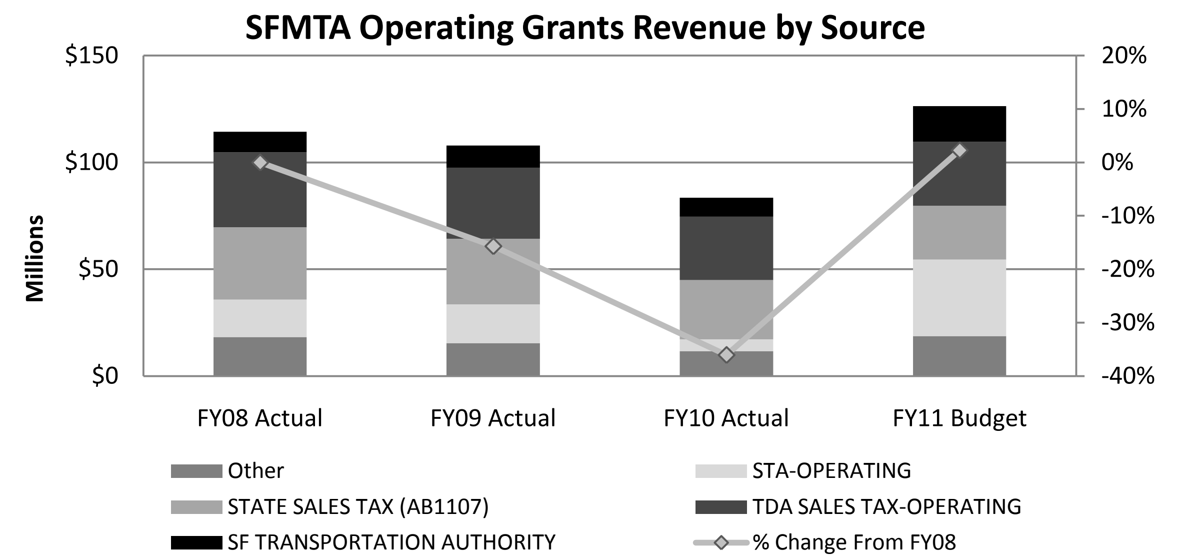
- **Transit fares:** Muni riders currently pay $2.00 for a regular adult cash fare and $60.00 for a monthly Muni-only Fast Pass. The Agency's Board has approved transit fare increases that are indexed to the average increase paid for transit in urban environments, as well as labor costs. The SFMTA Board approved a fare increase in FY 2010-11, and subsequent fare increases could be triggered in FY 2012-13 and FY 2014-15. Other options to increase transit fare revenue collection include the full implementation of the Clipper card on Muni, which is replacing paper fare media with smart card technology and allows for different pricing models. In addition the SFMTA has recently completed a proof-of-payment study and is underway with recommended improvements to improve fare collection and better deploy its staff to enforce full and consistent fare payment.



Source: SFMTA

- **Operating Grants:** The State of California has consistently reduced operating funding for transit services since 2008. However, based on recent legislation the Agency anticipates that State Transportation Assistance (STA) operating funds (shown as STA Operating on the chart below) will resume in FY 2011-12 and continue through the five year period at approximately $30 million per year.

- **Other Revenues:** In addition to the major operating revenue categories described above, the Agency also receives funding from miscellaneous sources such as property rentals, interest earned on cash balances, and revenues received for work performed for other City departments. Recent revenue enhancements—such as new advertising revenues that will result from new transit shelters—will provide the Agency with close to $15 million per year.



Source: SFMTA

Implement and fully fund the rainy day reserve policy. The SFMTA Board has adopted a reserve fund policy which requires the SFMTA to have 10 percent in operating funds set aside as a reserve to address emergency needs. The reserve fund has been depleted as the funds were used to offset the impact of the recession and significant losses of state and local funds over the past three years. With an operating budget of $775 million for FY 2010-11, $78 million should be available in reserve based on this policy. However, only $12 million in reserve funds were available at the beginning of FY 2010-11. The Agency's goal is to set aside funds to have a fully funded operating reserve by the beginning of FY 2012-13

Deliver critical capital projects. During the upcoming five-year period, the SFMTA is on track to build and install new transit facilities, including delivering major milestones on the Van Ness Bus Rapid Transit project, beginning construction of the Central Subway linking Mission Bay and South of Market with downtown, and completing track and routing improvements on the light rail system such as new service to Balboa Park, San Francisco State and the Park Merced areas. Funding is in place for most of these efforts, positioning the Agency to improve service as the operating environment and budget recover from the economic downturn.

Municipal Transportation Agency	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues	600.0	600.0	600.0	600.0	600.0	600.0
General Fund Baseline	175.0	175.0	175.0	175.0	175.0	175.0
Total Base Revenues	**775.0**	**775.0**	**775.0**	**775.0**	**775.0**	**775.0**
Adjustments to Base						
General Fund Baseline Adjustment		12.1	19.6	27.1	34.1	41.2
Fare Revenue - Rates and Collection		4.4	11.8	11.8	19.5	19.5
State Grants - Loss of Operating Assistance Funds		(19.4)	(13.7)	(12.2)	(10.7)	(9.2)
Parking and Traffic Fees and Fines		10.0	(9.0)	(7.7)	(5.7)	(3.6)
Taxi Medallions - Loss of One-Time Revenue		0.1	(11.1)	(11.1)	(11.0)	(11.0)
All Other -Advertising, Interest, Rent		(1.7)	0.7	1.2	1.7	2.2
Sources Total	**775.0**	**780.6**	**773.3**	**784.2**	**802.9**	**814.2**
USES						
Base Expenditures	**775.0**	**775.0**	**775.0**	**775.0**	**775.0**	**775.0**
Citywide Adjustments to Base Expenditures						
Wage and Benefit Rate Changes		(4.2)	24.5	40.9	56.1	71.8
Departmental Adjustments to Base Expenditures						
Professional Services and Other Contracts		6.6	(11.2)	(0.1)	4.0	5.2
Materials and Supplies		2.0	(6.5)	(5.7)	(4.9)	(4.1)
Equipment and Maintenance		(1.1)	(5.8)	(4.8)	(3.9)	(2.9)
Rent, leases, and Debt Service		(1.8)	1.4	1.5	1.6	1.7
Insurance and Claims		4.0	11.7	12.9	14.2	15.5
Interdepartmental Workorders		0.0	5.4	6.7	8.1	9.5
Uses Total	**775.0**	**780.6**	**794.4**	**826.3**	**850.2**	**871.7**
Projected Surplus/(Shortfall)	**0.0**	**0.0**	**(21.1)**	**(42.2)**	**(47.3)**	**(57.5)**
Percent Shortfall of Total Uses		**0.0%**	**-2.7%**	**-5.1%**	**-5.6%**	**-6.6%**
Change from Prior Year		**(0.0)**	**(21.1)**	**(21.1)**	**(5.1)**	**(10.2)**
FTE						
Total Projected FTE	**5,072.8**	**5,072.8**	**5,072.8**	**5,072.8**	**5,072.8**	**5,072.8**

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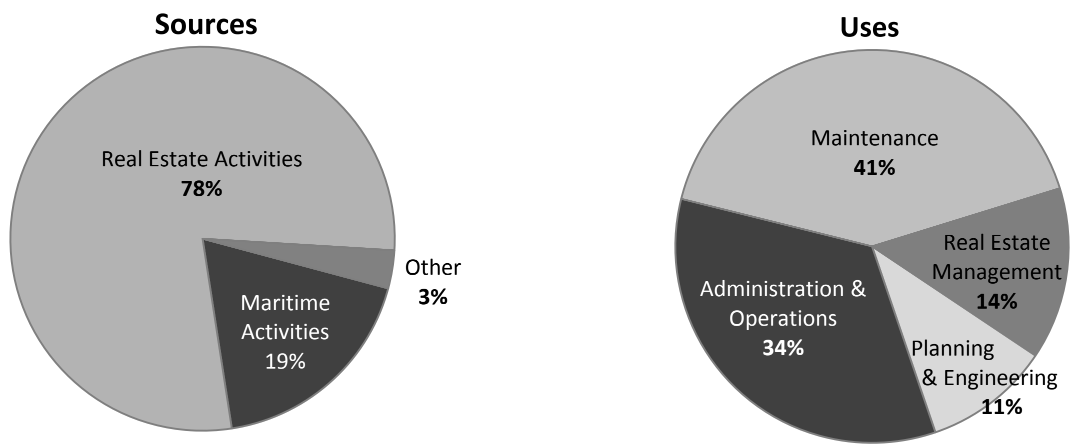
Port of San Francisco

Organizational Overview

The Port of San Francisco is an Enterprise department committed to promoting a balance of maritime, recreational, industrial, transportation, public access and commercial activities on a safe, secure and self-supporting basis. The Port's property consists of 7½ miles of mostly contiguous waterfront property adjacent to the Bay, from Hyde Street Pier in the northeast to India Basin in the southeast.

The Port is one of the most diverse ports in the nation and an economic engine for the City, generating revenues from real estate leasing, parking, maritime and development projects. These funds are used to support program areas such as real estate management, maintenance of facilities, debt service and administration. Any operating surpluses are utilized to fund the Port's capital program.

Port of San Francisco Budget, FY 2010-2011



Source: Annual Appropriation Ordinance Fiscal Year 2010-11

The next five years represent a rare opportunity for the Port, as San Francisco was selected to host the 34th America's Cup in 2013, subject to environmental review and certification. The requirements of hosting this historic event—combined with Port development projects already underway—will significantly accelerate waterfront improvements and create some financial uncertainty.

In the next five years the Port will undertake the following strategic initiatives:

1. Maintain a balanced operating budget in spite of growing costs.
2. Take part in a Citywide effort to deliver a successful 34th America's Cup, leveraging the event to accelerate development of the cruise terminal at Pier 27 and other waterfront improvements.
3. Repair and replace aging infrastructure by prioritizing revenue-generating development sites.

Five-Year Outlook

The next five years will contain new major challenges and opportunities for the Port, including preparing for the 34th America's Cup. The waterfront has seen a series of transformative events since the Loma Prieta earthquake in 1989, such as the removal of the Embarcadero Freeway, the Embarcadero Roadway project, the opening of AT&T Ballpark and the world-class Ferry Building rehabilitation project, among others. Port staff is confident that the 34th America's Cup will stand with these other achievements in the transformation of the San Francisco waterfront.

Maintain a balanced operating budget in spite of growing costs. The Port's current operating budget of $67.7 million is supported by revenue from real estate leasing, parking, maritime operations and development projects. Although revenues are projected to grow at an average rate of three percent over the next five years, they will be outpaced by four percent growth in expenditures, including $8 million (28 percent) growth in salary and fringe expenditures. As a result, without strategic management, the Port projects operating deficits beginning at $1 million in FY 2013-14 and increasing to $1.5 million in FY 2014-15 and FY 2015-16. With the commitment to maintain a 15 percent operating reserve to ensure financial stability, an investment covenant to maintain debt service coverage at 1.3 times, and the need to maintain current staffing levels, the Port must focus on preserving revenue sources and reducing non-personnel expenditures.

> $1.1 billion
>
> Annual economic activity within San Francisco produced by the Port
> (2006 estimate)

- **Protect Existing Revenues:** Even though Port revenue has remained relatively stable because of the diversity of its business lines, Port income depends in part on the financial success of the Port's tenants. The economic recession has impacted many tenants, the majority of which are small to medium sized businesses. The economic downturn has particularly impacted cargo operations, contributing to lower rents and higher vacancies especially of warehouse space. Additionally, the Port must account for swings in revenue resulting from the entrance and removal of large Port properties from the market as a result of construction or renovations.

Successfully leverage the 34th America's Cup to support a rich maritime history. The Port is a key stakeholder in the Citywide effort to deliver a successful 34th America's Cup Event. In addition to being the primary venue for the America's Cup, the Port is leveraging the event to accelerate the construction of a new Cruise Terminal at Pier 27 and other waterfront improvements that will serve the Port and the City for decades to come.

- **Maintain revenues in preparation for the 34th America's Cup:** While the 34th America's Cup will benefit the City economically and reinforce the Port's capital goals, the Port will lose operating revenues due to the displacement of current tenants. The Port will be reimbursed by the City for lost lease revenue through a payment in lieu of rent through the third quarter of FY 2013-14; the Port must replace the lost revenue by FY 2014-15.

- **Generate revenues after event*:*** The Port will likely begin to recover lost rents through interim parking revenues at event locations after completion of the 34th America's Cup. But this interim parking revenue will only be generated until the piers and seawall lots are developed. To replace its revenues and rebuild bonding capacity, the Port will need to deliver key development projects, such as the Pier 90-94 Backlands Improvements and Seawall Lot 337.

Strategically address repair and replacement of aging infrastructure by prioritizing revenue-generating development sites. The most challenging issue facing the Port is how to address the estimated $2.2 billion in repairs and replacement of its physical infrastructure, much of which is 80 to 100 years old and well past its original useable life. The Port utilizes operating surpluses from prior years to invest in its aging infrastructure, which have deteriorated more quickly due to deferred maintenance. However, given the volume of repairs and growing costs, the Port must identify the most efficient use of limited Port and external resources for capital.

- **Inadequate funding sources*:*** The Port has calculated a cost of $2.2 billion to adequately repair its portfolio, but only $752 million in anticipated funding sources has been identified. Of these sources, the Port anticipates having an annual average surplus of $9.7 million over the next five years from the operating budget to support capital needs, but due to growing operating costs, these surpluses will decline steadily in the future. Given the magnitude of need, the Port must consider other sources including grants, revenue bonds, City general obligation bonds, Infrastructure Financing District bonds, tax increment revenue, tenant contributions and developer partner equity. The Port's ten-year Capital Plan identifies up to $221 million of additional funds that the Port will pursue to address unmet need.

$2.2 billion

Cost required to adequately repair the Port's physical infrastructure portfolio

- **Beating rates of deterioration:** The Port is challenged by the need to replace the piles supporting the piers and the aprons that surround the pier sheds, which tend to degrade more rapidly due to their exposure to wet-then-dry conditions. Unfortunately, the Port has already lost 15 piers completely, including the loss of two piers within the past five years. Numerous other piers have been subject to severe weight restrictions thereby limiting their capacity to generate revenue. It will be critical for the Port to either repair these "challenged" facilities or create other new areas that will replace lost revenue from these sites.

- **High cost of facility maintenance, repair and enhancements:** Given the age and location of most of the Port's infrastructure, costs to maintain, repair, beautify and enhance Port facilities are greater than costs of equivalent landside facilities. While the historic and cultural value of many of the Port's buildings are a great asset, removal of hazardous materials and restoration to applicable standards for historic preservation make them much more costly to maintain, repair and reuse.

Port	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Total Base Revenues	**77.1**	**77.1**	**77.1**	**77.1**	**77.1**	**77.1**
Adjustments to Base Operating Revenues						
Operating Revenues		1.5	3.4	4.8	6.1	8.4
34th America's Cup Related Effects on Port Operations						
a. Rent Loss from Venue Sites		(2.7)	(3.6)	(2.7)	0.0	0.0
b. Payment in Lieu of Rent and Interim Rents		2.7	3.6	3.4	2.7	2.8
Departmental Adjustments to Capital Sources		3.3	(0.4)	(1.2)	(2.2)	(2.5)
Sources Total	**77.1**	**82.0**	**80.1**	**81.4**	**83.8**	**85.8**
USES						
Base Expenditures	**77.1**	**77.1**	**77.1**	**77.1**	**77.1**	**77.1**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		0.5	1.5	1.9	2.5	3.2
Benefit Cost Increases		1.0	2.1	3.1	4.3	4.7
Non-Salary Inflation		(0.8)	(1.3)	(0.6)	0.4	1.4
Departmental Adjustments to Base Operating Expenditures						
Debt Service		0.8	1.6	2.4	3.2	3.1
Facilities Maintenance, Annual Projects		(1.0)	(0.8)	(0.7)	(0.6)	(0.5)
Fire Boat Operations, SF Fire Department		0.1	0.2	0.3	0.5	0.6
Undetermined Reductions to Close Deficit		0.0	0.0	(1.0)	(1.5)	(1.5)
Departmental Adjustments to Capital Uses		3.3	(0.5)	(1.2)	(2.2)	(2.5)
Uses Total	**77.1**	**81.0**	**79.9**	**81.4**	**83.8**	**85.8**
Projected Surplus/(Shortfall)	**0.0**	**1.0**	**0.2**	**0.0**	**0.0**	**0.0**
Percent Shortfall of Total Uses		**1.2%**	**0.3%**	**0.0%**	**0.0%**	**0.0%**
Change from Prior Year		**1.0**	**(0.8)**	**(0.2)**	**0.0**	**0.0**
FTE						
Operating Positions	216.8	218.1	222.2	222.7	222.7	222.7
Project Positions	19.1	20.0	20.0	20.0	20.0	20.0
Total Projected FTE	**235.9**	**238.1**	**242.2**	**242.7**	**242.7**	**242.7**

Public Utilities Commission

Organizational Overview

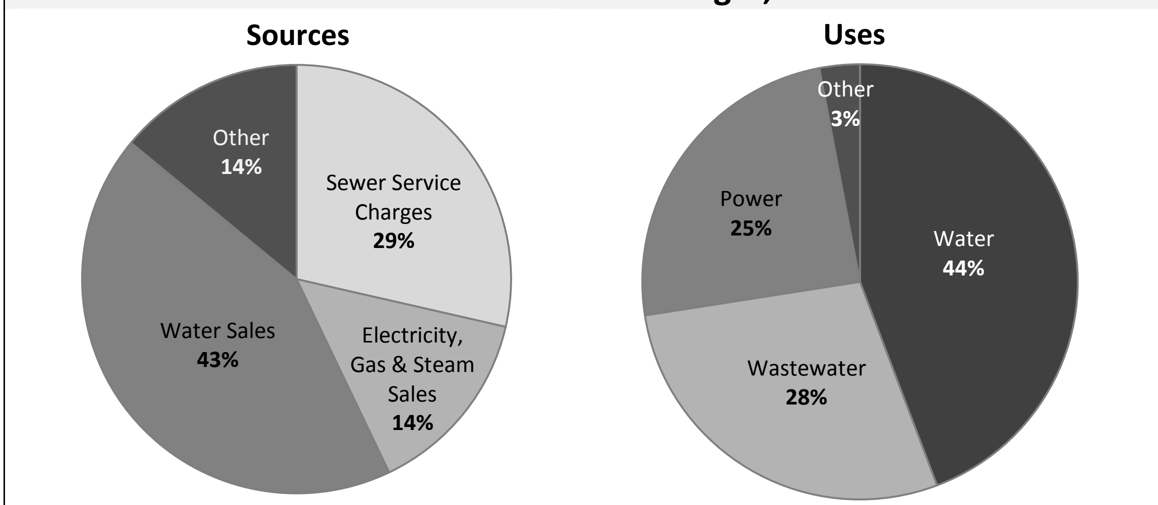
The San Francisco Public Utilities Commission (PUC) provides essential service utilities—water, wastewater, and power—to 2.5 million people in the San Francisco Bay Area.

- **The Water Enterprise supplies water and hydroelectric power**. Approximately 2.5 million people in the Bay Area rely on water supplied by the Water Enterprise, making the SFPUC the third largest municipal water agency in California.

- **The Wastewater Enterprise collects and treats storm and sanitary flows generated within San Francisco and adjacent communities.** To protect public health and the surrounding bay and ocean, the Enterprise operates four wastewater treatment plants, 71 sewage pumping stations, and 993 miles of combined storm and sanitary collection system pipes, sewer mains, transport/storage boxes, other storage structures and tunnels.

- **Hetch Hetchy Water and Power provides reliable, high quality water and electric energy to its customers.** Eighty-five percent of San Francisco's drinking water collects in Hetch Hetchy's three reservoirs.

Public Utilities Commission Budget, FY 2010-11



Source: Annual Appropriation Ordinance Fiscal Year 2010-11 and PUC Data

In the next five years the Public Utilities Commission will tackle several strategic initiatives:

1. Complete needed seismic and reliability upgrades to the water system.
2. Plan and implement the Sewer System Improvement Program to increase sewer system reliability.
3. Maintain reliable and high quality energy services.

Five-Year Outlook

Over the next five years the Public Utilities Commission will continue to prioritize and provide funding that ensures system reliability, regulatory compliance, resource sustainability, health and safety, community benefits and jobs, as well as environmental justice and stewardship. It will also complete construction of the new PUC Headquarters building at 525 Golden Gate Avenue.

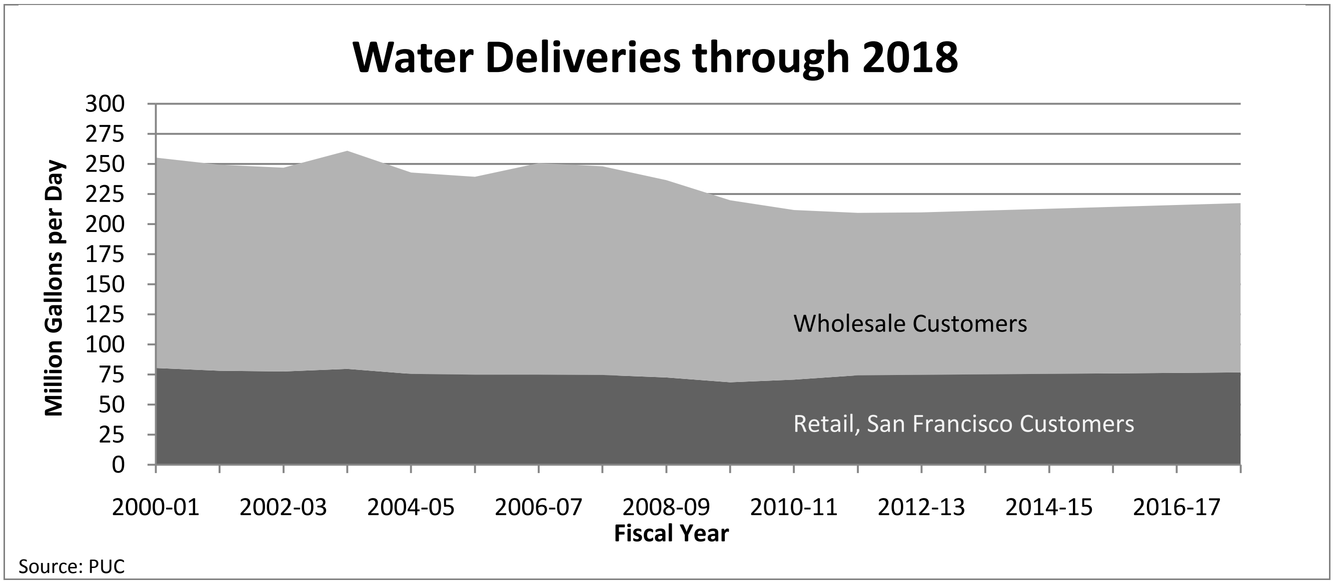
Complete needed seismic and reliability upgrades to the water system. The Commission's Water Enterprise division manages a system that delivers water to San Francisco and 27 wholesale water agencies in San Mateo, Santa Clara and Alameda Counties. Through a complex network of pipelines, tunnels, reservoirs, and water treatment plants, it draws approximately 85 percent of its water from the Upper Tuolumne River watershed. The remaining supply is drawn from local surface waters in the Alameda Creek and Peninsula watersheds. Several capital improvements are needed to keep this system operational and ensure that it continues to provide reliable, affordable, high-quality water through environmental sustainable means. The Commission will use approximately 80 percent of new water revenue to pay for the seismic and reliability upgrades as outlined in the Water System Improvement Program and the Renewal and Replacement program. Based on Bay Area population growth projections and planned rate increases, the Commission anticipates that revenues from water sales will grow from $364 million in FY 2011-12 to $548 million by FY 2015-16.

$184 million

Expected growth in revenue from water sales over the next five years

The Commission intends to make the following improvements over the next five years:

- Complete the regional reliability and seismic upgrades of the Hetch Hetchy Water System by 2015.
- Achieve planned water sustainability goals using no less than ten million gallons of water per day through a combination of conservation, groundwater, and use of recycled water.
- Complete the replacement of the 180,000 visual-read water meters with automated-read water meters.



Source: PUC

Plan and implement the Sewer System Improvement program to increase sewer system reliability. The Commission serves a population of approximately 840,000 within San Francisco and adjacent communities and protects public health and the surrounding bay and ocean by collecting and treating storm and sanitary flows. It operates and maintains the City's four wastewater treatment plants, 71 sewage pumping stations, 993 miles of combined sewer, storage and tunnels, 36 combined sewage discharge outfalls and four effluent outfalls. The City's last sewer system master plan was developed in 1974 and although the City's sewer system operates well, it is burdened by an aging infrastructure and deferred maintenance. The new Sewer System Improvement program is a series of capital improvement projects—costing between $4 to $6 billion over the next 30 years—that aims to maximize the ability of the sewer system to collect and convey wastewater. This includes addressing an aging infrastructure and odor control projects. As part of the effort to fund these improvements, the PUC will increase charges for wastewater collection and treatment by five percent each year from FY 2011-12 through FY 2013-14, and by nine percent during the final two years of the period.

$2 billion

Cost of sewer system improvements over the next five years

Maintain reliable and high quality energy services. From the Commission's three storage reservoirs in Hetch Hetchy, water flows by gravity through 160 miles of pipelines and tunnels and turns the turbines in four hydroelectric powerhouses, generating approximately 1.6 billion kilowatt hours of electricity. Transmission and distribution lines then move the electricity from the powerhouses to the San Francisco Bay Area. Sixty-nine percent of this power is used primarily by City and County of San Francisco offices and services, including the Municipal Railway (MUNI), the Port of San Francisco, and the San Francisco International Airport. The remaining 31 percent is sold to the Modesto and Turlock Irrigation Districts as wholesale customers, and other public customers. In order to maintain this system, the Commission is in the process of identifying funding for needed capital improvement projects. The Hetch Hetchy five-year Capital Plan proposes investments totaling approximately $460 million for capital improvements through a combination of revenue bonds and Enterprise revenues. If revenues are not available, the projects will be deferred, investments reduced, or additional sources of funding—such as raising rates—must be identified.

Proposed Projects	
Power	**Water**
• Power Infrastructure: *$95.9 million* • Street lighting: *$24.7 million* • Transmission and Distribution: *$6.2 million* • Generation and Renewables: *$19.2 million* • Energy Efficiency: *$12.2 million* • Treasure Island: *$20.3 million*	• Reservoirs and Dams: *$7.5 million* • Water Transmission: *$107.5 million* **Joint Water & Power** • Communications and Security Renewals: *$16.5 million* • Facilities, Roads and Right of Way: *$91.5 million*

Water Enterprise (5W)	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Total Base Revenues	**294.4**	**294.4**	**294.4**	**294.4**	**294.4**	**294.4**
Adjustments to Base Revenues						
Retail Rate Change		17.5	38.0	50.5	80.1	114.3
Wholesale Rate Change		54.2	66.2	84.3	101.4	136.3
Other Revenues		(1.9)	(0.4)	0.7	1.5	2.7
Fund Balance	40.1					
Federal Subsidy	15.6					
Sources Total	**350.1**	**364.1**	**398.1**	**429.9**	**477.3**	**547.6**
USES						
Base Expenditures						
(Excluding Exp Recoveries and ELU)	**338.6**	**338.6**	**338.6**	**338.6**	**338.6**	**338.6**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		3.0	4.9	5.4	6.3	7.3
Benefit Cost Increases		3.5	5.8	7.7	9.4	11.0
Departmental Adjustments to Base Expenditures						
Operations & Maintenance Costs		9.8	12.1	13.9	19.0	24.3
Hetchy Transfer		0.9	0.9	1.8	2.8	3.7
Debt Service		23.1	39.8	70.2	103.8	173.5
Revenue Funded Capital		(19.5)	1.2	10.7	17.1	3.3
Uses Total	**338.6**	**352.8**	**392.5**	**435.1**	**481.2**	**543.4**
Projected Surplus/(Shortfall)	**11.5**	**22.8**	**28.4**	**23.2**	**19.3**	**23.5**
Percent Shortfall of Total Uses		**6.5%**	**7.2%**	**5.3%**	**4.0%**	**4.3%**
Change from Prior Year		**11.3**	**5.6**	**(5.2)**	**(3.9)**	**4.2**
FTE						
Total FTE	**578.3**	**578.3**	**578.3**	**578.3**	**578.3**	**578.3**
Departmental Adjustments to FTE		2.0	2.0	2.0	2.0	2.0
Total Projected FTE		**580.3**	**580.3**	**580.3**	**580.3**	**580.3**

Wastewater Enterprise (5C)	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Total Base Revenues	**225.5**	**225.5**	**225.5**	**225.5**	**225.5**	**225.5**
Adjustments to Base Revenues						
Sewer Service Rate Change		8.4	20.9	34.4	59.0	86.0
Other Revenues		0.7	1.3	2.1	2.7	3.3
Fund Balance	15.4					
Proceeds From Debt	7.5					
Sources Total	**248.4**	**234.7**	**247.8**	**262.0**	**287.2**	**314.8**
USES						
Base Expenditures	**216.5**	**216.5**	**216.5**	**216.5**	**216.5**	**216.5**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		3.7	5.3	5.7	6.4	7.2
Benefit Cost Increases		3.3	5.3	6.9	8.1	9.4
Departmental Adjustments to Base Expenditures						
Operations & Maintenance Costs		1.2	2.3	6.0	10.3	14.8
Debt Service		(5.6)	(1.6)	1.5	13.6	37.7
Revenue Funded Capital		16.1	20.1	18.1	20.0	21.9
Uses Total	**216.5**	**228.2**	**237.3**	**242.1**	**260.4**	**290.9**
Projected Surplus/(Shortfall)	**31.9**	**38.3**	**48.8**	**68.7**	**95.6**	**119.5**
Percent Shortfall of Total Uses		**16.8%**	**20.6%**	**28.4%**	**36.7%**	**41.1%**
Change from Prior Year		**6.4**	**10.5**	**19.9**	**26.8**	**23.9**
FTE						
Total FTE	**433.3**	**433.3**	**433.3**	**433.3**	**433.3**	**433.3**
Departmental Adjustments to FTE		20.0	35.0	35.0	35.0	35.0
Total Projected FTE		**453.3**	**468.3**	**468.3**	**468.3**	**468.3**

Hetch Hetchy (5T)	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Total Base Revenues	**151.1**	**151.1**	**151.1**	**151.1**	**151.1**	**151.1**
Adjustments to Base Revenues						
Power/Water Rate Changes		(0.1)	0.9	9.5	13.0	17.9
Hetchy Transfer		0.8	0.8	1.8	2.7	3.7
Other Revenues		1.9	1.0	3.5	2.0	2.1
Fund Balance	95.1					
One Time Power Revenues	9.6					
Proceeds From Debt	13.1					
Sources Total	**268.9**	**153.8**	**153.8**	**165.8**	**168.8**	**174.7**
USES						
Base Expenditures	**187.3**	**187.3**	**187.3**	**187.3**	**187.3**	**187.3**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		2.3	2.9	3.1	7.5	4.0
Benefit Cost Increases		1.9	2.8	3.7	4.4	5.1
Departmental Adjustments to Base Expenditures						
Operations & Maintenance Costs		14.9	16.9	21.5	25.4	32.2
Debt Service		1.1	1.6	2.0	2.3	2.6
Revenue Funded Capital		(4.3)	(31.8)	50.4	39.9	(7.8)
Debt Proceeds		(24.1)	(18.2)	(49.7)	(48.3)	(31.1)
Uses Total	**187.3**	**175.0**	**155.8**	**211.5**	**206.6**	**183.2**
Projected Surplus/(Shortfall)	**81.6**	**60.4**	**58.5**	**12.8**	**(25.0)**	**(33.5)**
Percent Shortfall of Total Uses		**34.5%**	**37.5%**	**6.0%**	**-12.1%**	**-18.3%**
Change from Prior Year		**(21.2)**	**(2.0)**	**(45.7)**	**(37.8)**	**(8.5)**
FTE						
Total FTE	**433.3**	**433.3**	**433.3**	**433.3**	**433.3**	**433.3**
Departmental Adjustments to FTE		12.0	15.0	15.0	15.0	15.0
Total Projected FTE		**445.3**	**448.3**	**448.3**	**448.3**	**448.3**

General Fund Departments

Fire Department
Human Services Agency
Public Library
Police Department
Public Health
Public Works
Recreation & Park
Sheriff

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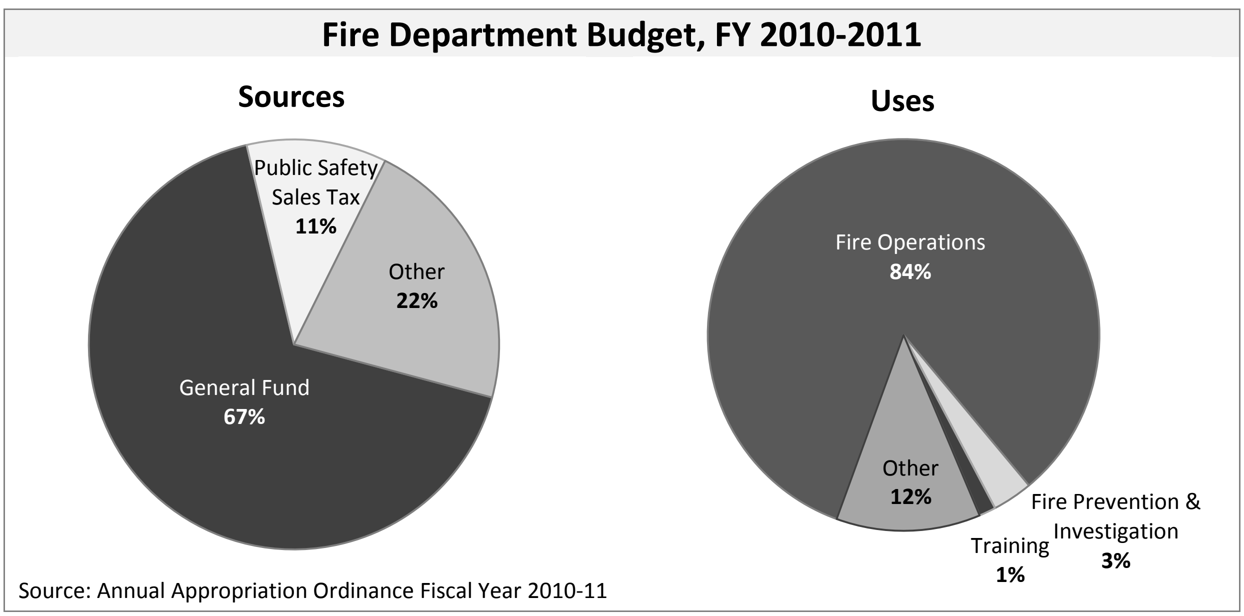
Fire Department

Organizational Overview

The Fire Department protects the lives and property of San Francisco's residents from fires, natural disasters, and hazardous materials incidents. It also provides emergency medical services and prevents fires through educational and planning programs. The Department staffs 43 fire houses in the City and County of San Francisco, including Treasure Island.

The Department's Fiscal Year (FY) 2010-11 approved operating budget is $289 million. General Fund support of $193 million provides 67 percent of the Department's budget. The second largest single revenue source (11 percent) is a portion of sales tax revenues that are dedicated to public safety under state law and for fire suppression activities. Other revenue sources include ambulance fees, Fire Prevention fees, and reimbursement for services provided to the Airport and Port. The vast majority of the Department's spending (84 percent) goes to staffing fire suppression and medical operations. The remaining 16 percent of the budget goes to the Department's Fire Prevention Bureau and Training Division, as well as to general support and administrative functions.



In the next five years the Fire Department will undertake the following strategic initiatives:

1. Formalize roles and responsibilities for public and private ambulance services.
2. Meet minimum staffing and apparatus levels in the most cost-effective manner.
3. Make needed repairs or replace stations and apparatus.
4. Identify a new training facility to replace the Treasure Island Facility.

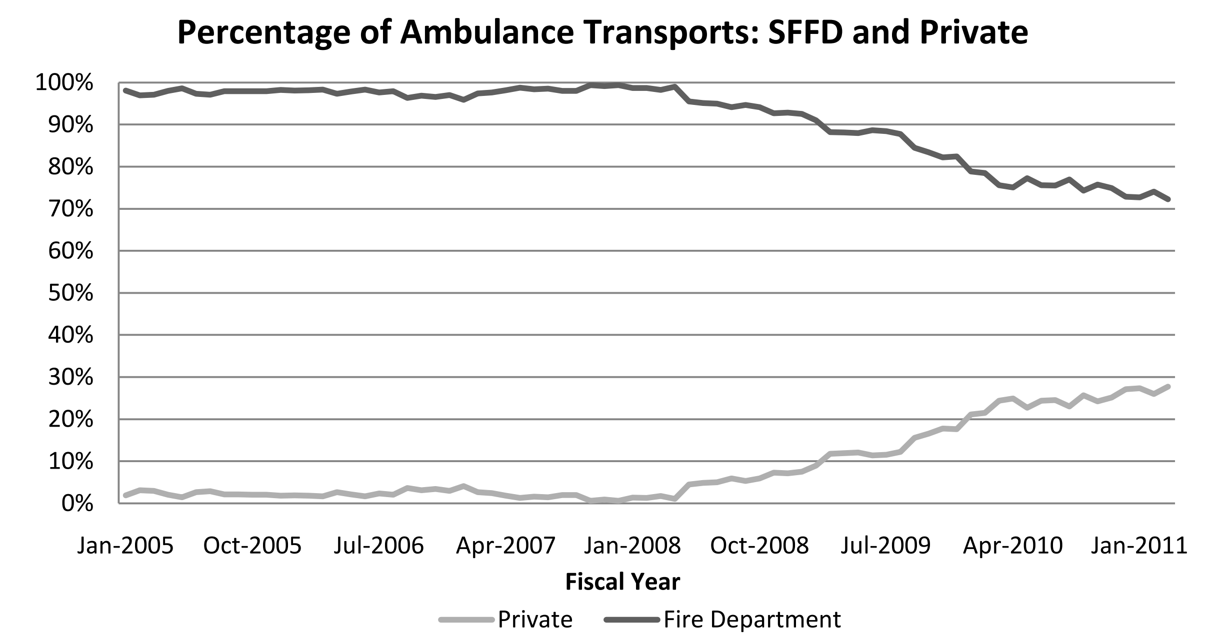
Five-Year Outlook

Formalize roles and responsibilities for public and private ambulance services. In the spring of 2008, a ruling from the State Emergency Medical Services Agency (EMSA) opened up the ambulance system in San Francisco by allowing private ambulance companies to participate in emergency 911 transports. As of April 2011, no formalized operating agreement was in place and the roles and responsibilities for emergency ambulance market participants, both public and private, had yet to be determined. Until there is a plan in place that clearly defines private ambulance providers' participation in 911 transports, the Department must continue to staff appropriately to meet mandated response times as if private ambulance providers were not operating in San Francisco. This is because the Department currently cannot require that private ambulances staff particular locations or shifts in the current system.

20 percent

Decrease in the Fire Department's share of 911 transports since 2008

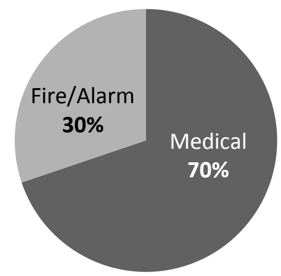
Since the opening up of the ambulance system, the Department has seen its share of emergency 911 ambulance transports drop from approximately 95 percent of all transports in the fall of 2008 to 70-75 percent in the Spring of 2011. With continued ambiguity surrounding the ambulance system, the Department has not had cost savings associated with its decline in transports, since the Department cannot rely on private coverage and must be prepared to provide services throughout the city at all times. The Department has also been exploring options involving a return to a closed system. Restoring a system like the one in place pre-2008 would allow the Department to once again provide a higher percentage of transports with its existing staffing levels, resulting in greater predictability and stronger revenues.



Source: SFFD Bureau of Planning and Research

Meet minimum staffing and apparatus levels in the most cost-effective manner. The Fire Department averages approximately 50-55 retirements during the course of a fiscal year. It has not conducted a Fire Academy class since the Fall of 2005 or otherwise replaced these retirees. This reduction in the number of total uniformed staff leads to a greater use of overtime to meet daily minimum staffing requirements. While this practice has proven to be fiscally efficient to date, there are operational trade-offs due to the lower staff numbers. For example, the lower personnel levels reduce the number of trained members available in an emergency. The Department anticipates conducting its first full academy class since 2005 beginning in May 2011. Its hiring plan is to run one class of roughly 36-48 firefighters per year in the future, in order to backfill a majority of the retirements taking place. In addition to addressing the challenges of retiring staff, the Department also needs to manage the service growth associated with new facilities. This plan assumes that in FY 2011-12 the Department will reopen and re-staff Station 35, which was deactivated in 2009 due to seismic issues. If station repairs are not complete before the beginning of FY 2011-12, the station may be kept inactive for continued savings. Additionally, a new Mission Bay Fire Station is projected to open in FY 2014-15. The Department will need to furnish this station with an engine and truck, as well as fully staff each apparatus, which will cost approximately $5.6 million per year.

Dispatch Calls by Type, Fiscal Year 2009-10



Source: SFFD

Make needed improvements to stations and apparatus. Many of the Department's facilities are quite old, and some require seismic work, as well as health and safety upgrades to ensure they remain safe work environments. In June of 2010, voters passed the Earthquake Safety & Emergency Response Bond, which allocated $65 million in funding to address pressing seismic and health and safety issues for the Department. The Department will schedule these repairs to minimize the operational and financial impact of station closures. In addition to making facility improvements, the Department must also upgrade its relatively aged fleet of vehicles—some of which have life spans beyond those suggested by national standards. The Department's fleet includes a variety of different types of fire engines, fire ladder trucks, ambulances, and specialty units. In May of 2007, the San Francisco Fire Commission passed a resolution outlining a replacement plan for apparatus. The Department has annually requested apparatus and vehicles consistent with the replacement plan, but the Department has not been able to secure funding to bring the entire fleet up to replacement plan levels. Fire Department vehicles are included in the City's lease-financing of equipment with funding allocated on a year to year basis. In FY 2010-11, the Department was approved for $7.5 million in lease-financed equipment, sufficient funds to replace eight engines and four trucks.

Identify a new training facility to replace the Treasure Island facility. With the cooperation of the Treasure Island Development Authority, the Department occupies an area of land on the eastern portion of the Island that serves as the in-service training site. If the anticipated full-scale development of Treasure Island progresses over the next few years, the Department will be forced to vacate the space and find another site to provide the same level of advanced training to its members.

Fire Department	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	95.4	95.4	95.4	95.4	95.4	95.4
General Fund Support	193.8	193.8	193.8	193.8	193.8	193.8
Total Base Revenues	**289.1**	**289.1**	**289.1**	**289.1**	**289.1**	**289.1**
Adjustments to Base Revenues						
Hunters Point Turned Over to the City		(0.1)	(0.4)	(1.1)	(1.1)	(1.1)
One-Time Sale of Property in FY11		(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Charges for Services		0.2	0.5	0.8	1.2	1.5
State Revenue		3.1	3.5	4.4	5.1	5.8
Airport Recoveries		1.6	2.6	4.0	5.1	5.8
Port Recoveries		0.1	0.2	0.3	0.5	0.6
Treasure Island Expenditure Recovery		(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
General Fund Capital Adjustment		(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Sources Total	**289.1**	**290.8**	**292.3**	**294.2**	**296.7**	**298.5**
USES						
Base Expenditures	**289.1**	**289.1**	**289.1**	**289.1**	**289.1**	**289.1**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		12.0	18.9	25.6	32.5	40.1
Benefit Cost Increases		11.1	18.8	30.8	39.6	40.9
Non-Salary Inflation		0.2	1.5	2.3	3.1	4.2
Departmental Adjustments to Base Expenditures						
Reactivation Station 35		2.4	2.6	2.6	2.7	2.8
Open Mission Bay Fire Station		0.0	0.0	0.0	5.6	5.7
Department Hiring Plan		0.3	0.4	0.4	0.5	0.5
General Fund Capital Adjustment		(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Uses Total	**289.1**	**314.5**	**330.7**	**350.2**	**372.5**	**382.7**
Projected Surplus/(Shortfall)	**0.0**	**(23.7)**	**(38.4)**	**(56.0)**	**(75.8)**	**(84.2)**
Percent Shortfall of Total Uses		**-7.5%**	**-11.6%**	**-16.0%**	**-20.4%**	**-22.0%**
Change from Prior Year		**(23.7)**	**(14.6)**	**(17.6)**	**(19.8)**	**(8.3)**
FTE						
Total Projected FTE	**1,498**	**1,498**	**1,498**	**1,498**	**1,498**	**1,498**

Human Services Agency

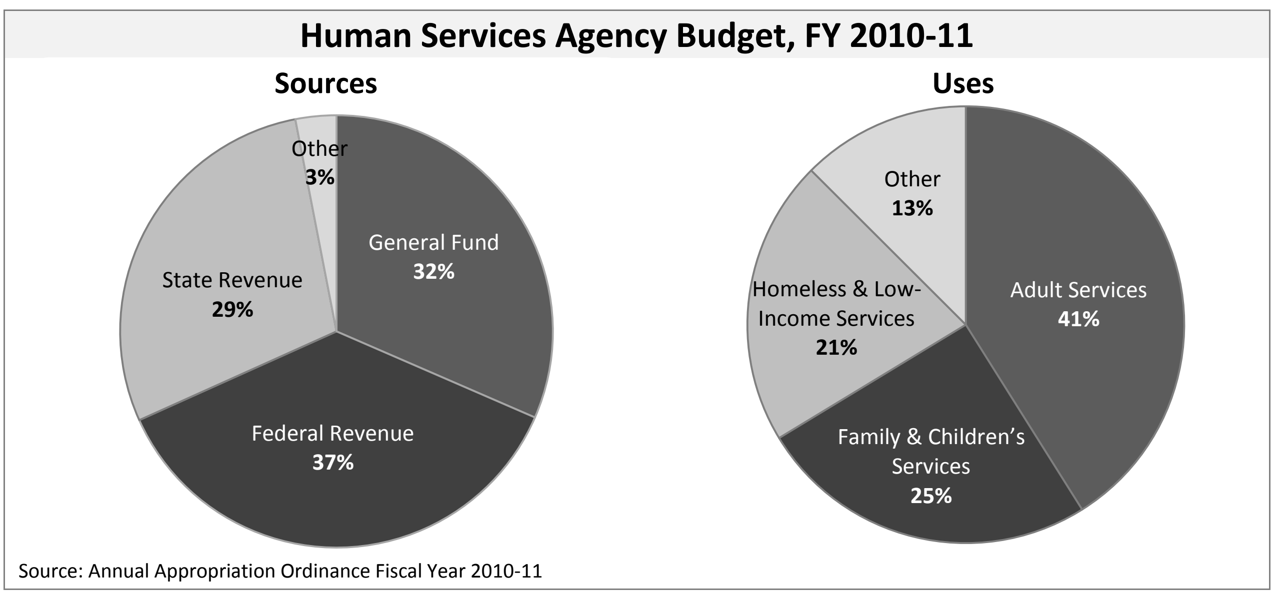
Organizational Overview

The Human Services Agency (HSA) includes two departments, the Department of Human Services (DHS) and Department of Aging and Adult Services (DAAS). In 2004, the two departments combined into a single agency. Together they have a significant impact on the City and County of San Francisco's vulnerable populations, with programs designed to mitigate poverty, promote self-sufficiency, and prevent institutionalization. HSA serves over 120,000 individuals annually, which is approximately 15 percent of the City's population. Programs administered through HSA include:

Department of Human Services
- Family and Children's Services
- CalWorks
- County Adult Assistance Program (CAAP)
- Food Stamps
- Medi-Cal
- Employment Services & Job Referral
- Housing & Homeless services
- Childcare

Department of Aging and Adult Services
- Adult Protective Services (APS)
- In-Home-Home Supportive Services (IHSS)
- Public Administrator, Guardian & Conservator
- Representative Payee Programs
- Integrated Intake Unit
- Long-Term Care Operations
- County Veterans Services Office

The Agency relies on local, state and federal funding to administer its multiple mandated programs.



In the next five years, HSA will tackle several strategic initiatives:

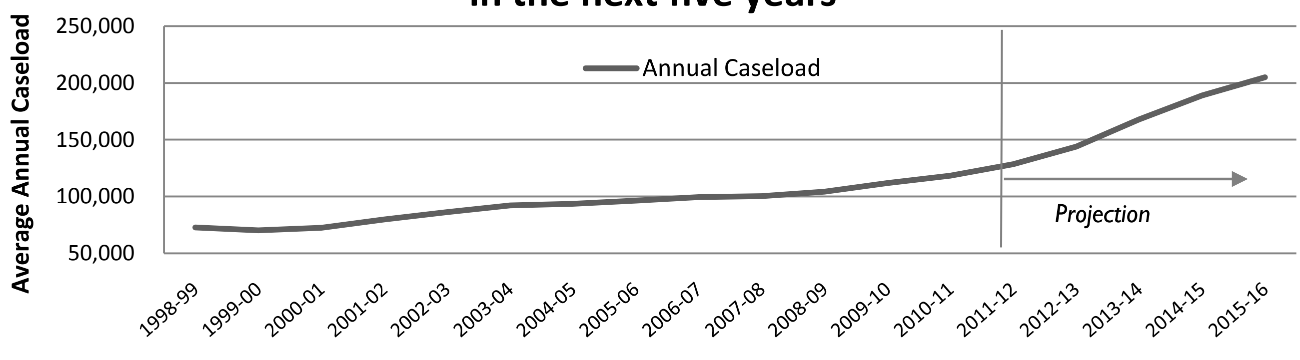
1. Manage projected caseload increases in major program areas.
2. Provide necessary support services to an aging population.
3. Continue to develop supportive housing opportunities for vulnerable populations.
4. Manage operational cost issues.

Five-Year Outlook

HSA receives funding from multiple sources, but the Department projects a growing proportion of General Fund support in the coming years as a result of several major policy changes at the State and Federal level, including national healthcare reform and the expansion of the foster care age to 21. In addition, demographic projections—such as the aging population—indicate an increased demand for services. Even with some signs of economic recovery, unemployment rates are still high and many of San Francisco's residents will continue to face the kinds of economic hardship that cause them to rely on HSA-provided services and aid. The Agency anticipates that over the next five years the amount of aid provided to vulnerable populations will increase by $60 million. For the purposes of this financial plan, HSA generally anticipates the continued availability of all current State and Federal revenues. However, it is very possible, particularly with regard to the FY 2011-12 State budget, that HSA will see diminished revenue for a number of programs.

> $60 million
>
> Projected increase in aid provided to HSA clients over the next five years

Total HSA caseload will increase by 60 percent in the next five years



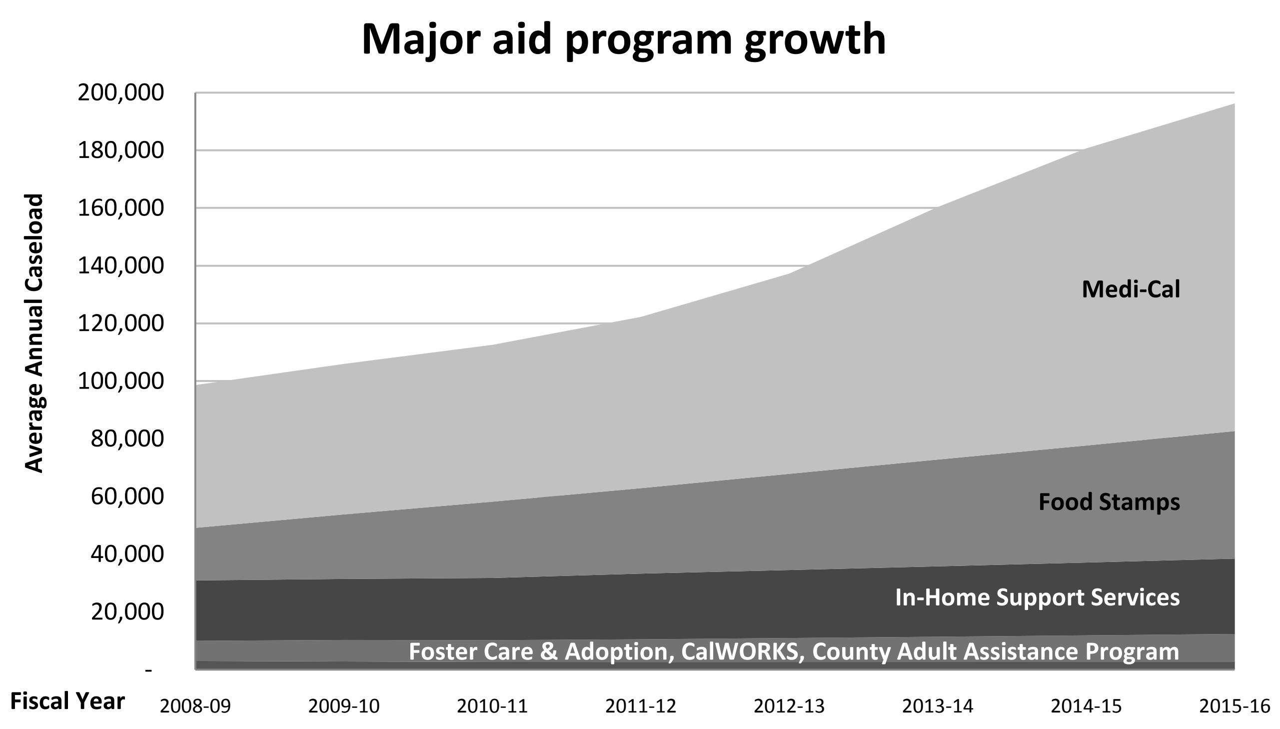
Source: Human Services Agency caseload data and projections.

Manage projected caseload increases in major program areas. Over time, this growth will also necessitate new facilities and other expenses related to expansion. HSA leadership is currently exploring or implementing large-scale system process re-engineering (through–the use of document imaging, on-line public benefit assistance, and call center service delivery models) in an effort to limit staffing increases while enabling its programs to absorb a growing number of clients. In particular, the following programmatic areas will experience significant caseload increases or increases in aid costs:

- **Services for Adults and Families:** In-Home Support Services (IHSS) caseloads are projected to grow by four percent, and local spending will increase by 33 percent by FY 2011-12. HSA will also shoulder a bigger share of the total program cost due to the discontinuance of Federal stimulus funds. The Agency projects that Adult Protective Services and County Adult Assistance program caseloads and associated aid payments to clients will grow by seven percent annually over the next five years. The Food Stamps caseload may increase by up to 15 percent, although at least some of the costs related to this increase will be offset by increased State and Federal revenue. If the economy continues its recent history of a slow and jobless recovery, it will be important for HSA to continue focusing on support services and employment opportunities for low-income youth and families.

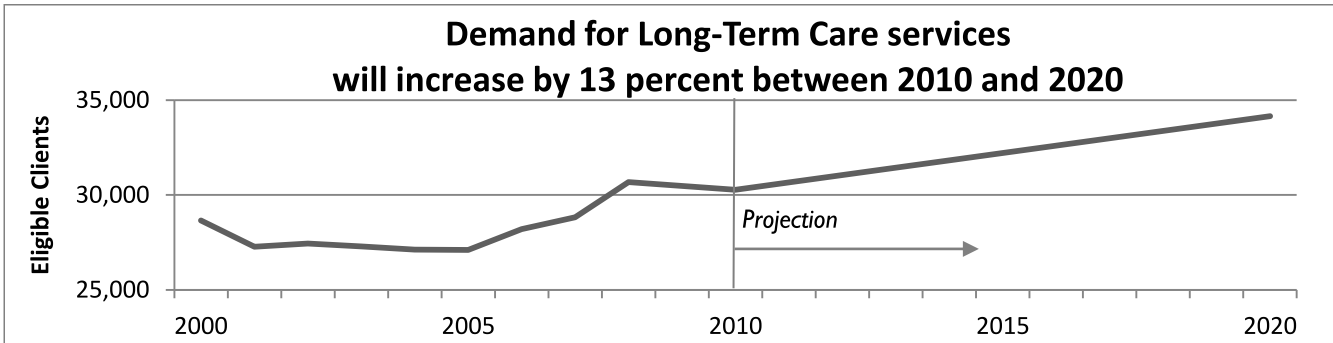
- **Children's Services:** National legislation will extend foster care assistance for some youth up to the age of 21 by 2014, incrementally increasing HSA's foster care caseload and associated costs**.** Additional state legislation will also require HSA's foster care assistance to expand to include transportation to and from school for youth recently removed from their homes. As a result of both of these factors, HSA anticipates a five percent growth in aid spending by FY 2015-16. Finally, the Agency is now federally mandated to visit 90 percent of all foster children in out-of-home placements on a monthly basis. Although costly, these changes will improve outcomes for youth exiting out of foster care.

- **Medi-Cal Program:** HSA processes Medi-Cal applications and determines initial and ongoing eligibility for clients. Under Federal healthcare reform, approximately 36,000 San Francisco residents will become newly eligible for Medi-Cal beginning in 2014, potentially increasing HSA's caseload by 50 percent or more. Although the Federal legislation specifies full reimbursement for the care of new clients in the first year, it is not yet clear whether this funding will pay for all of the increased costs of Medi-Cal administration, including the eligibility determination performed at HSA.



Source: Human Services Agency caseload data and projections.

Provide necessary support services to an aging population and adults with disabilities. Due to ongoing demographic changes the City's population is aging, and more seniors and persons with disabilities are living at home in greater isolation and with more risk. Current estimates suggest that the senior population may increase by almost 14 percent by 2015. Adult Protective Services is already feeling this impact through an increase in elder abuse and elder neglect caseloads. To address this, the Agency will continue delivering essential services through the Department of Aging and Adult Services. Specifically, it will prioritize management of its In-Home Support Services caseload and program, which provides assistance that is essential to helping the aging population remaining living independently in the community. It will also address an increased demand for the services offered through the Community Living Fund (CLF), which provides assistance for seniors aging at home or in a community placement alternative to an institution. In recent years, the CLF has seen growing numbers of eligible clients deferred to its wait list, and projections indicate that the need will only continue to increase.



Source: 2000 Census, 2001-2008 American Community Survey (2007 and 2008 are 1-year estimates). 2010 and 2010 figures are from CA Dept of Finance. 2009, 2011-2019 are calculated estimates that assume rates of growth between years are linear.

Continue to develop supportive housing opportunities for adults and families who have been homeless or are at risk of becoming homeless. HSA will continue pioneering programs to develop supportive housing opportunities for adults and families who have been homeless or are at risk of becoming homeless. Since the passage of the Care Not Cash legislation in 2004, San Francisco has placed thousands of homeless individuals and families in housing. Today, HSA's budget supports more than 3,000 units of supportive housing, many in master-leased Single Room Occupancy hotels. The Agency will continue to increase the number of units available to clients, with a scheduled increase of 32 units a year over the next five years.

Manage operational cost issues. In the next five years, HSA will see the expiration of the agency's long-term occupancy agreement for the building at 1235 Mission Street, which houses part of its County Adult Assistance program and Food Stamps programs. When this lease reverts to the school district, the Agency may need to find an alternative site or be prepared for increased lease costs. No increase is budgeted yet, as various factors, including possible areas of negotiation with the school district, still need to be considered. Another expense facing HSA is the cost of complying with the Mayor's climate control plan, which requires that Departments replace all vehicles older than 12 years by 2014. HSA's estimates project a need of $1.8 million over the next three years for new fleet cars.

Human Services Agency	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	460.6	460.6	460.6	460.6	460.6	460.6
General Fund Support	208.9	208.9	208.9	208.9	208.9	208.9
Total Base Revenues	**669.5**	**669.5**	**669.5**	**669.5**	**669.5**	**669.5**
Adjustments to Base Revenues						
Impact from Aging Population		0.3	0.8	1.3	2.2	2.7
Federal Health Care Reform		0.0	0.0	1.9	2.7	2.8
Children's Services		0.0	0.7	0.9	0.6	0.5
Aid Caseload Changes		(12.4)	(5.6)	1.0	6.8	12.4
Housing and Homeless Services		2.7	2.8	2.8	2.8	2.8
Non-Aid Growth Due to Caseload Changes		0.0	0.2	0.9	1.6	2.5
State Revenue Allocations & Closeouts		(4.7)	(4.7)	(4.7)	(4.7)	(4.7)
General Fund Capital Adjustment		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Sources Total	**669.5**	**654.8**	**663.2**	**673.1**	**680.9**	**688.0**
USES						
Base Expenditures	**669.5**	**669.5**	**669.5**	**669.5**	**669.5**	**669.5**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		4.8	10.8	15.1	19.2	23.2
Benefit Cost Increases		(0.2)	2.6	6.7	13.0	16.9
Non-Salary Inflation		0.0	8.9	14.4	19.6	28.2
Departmental Adjustments to Base Expenditures						
Impact from Aging Population		0.3	1.1	2.2	4.3	5.3
Federal Health Care Reform		0.0	0.0	4.0	5.5	5.7
Children's Services		0.0	0.4	0.5	0.2	0.1
Aid Caseload Changes		10.9	23.7	36.7	49.0	61.4
Housing and Homeless Services		2.6	3.3	5.6	6.3	6.4
Non-Aid Growth Due to Caseload Changes		0.0	0.5	2.5	4.5	6.9
General Fund Capital Adjustment		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Uses Total	**669.5**	**687.4**	**720.1**	**756.8**	**790.5**	**823.1**
Projected Surplus/(Shortfall)	**0.0**	**(32.5)**	**(57.0)**	**(83.6)**	**(109.6)**	**(135.1)**
Percent Shortfall of Total Uses		**-4.7%**	**-7.9%**	**-11.1%**	**-13.9%**	**-16.4%**
Change from Prior Year		**(32.5)**	**(24.4)**	**(26.7)**	**(25.9)**	**(25.5)**
FTE						
Total FTE	**1,701.1**	**1,701.1**	**1,701.1**	**1,701.1**	**1,701.1**	**1,701.1**
Departmental Adjustments to FTE		7.0	9.3	67.0	104.0	127.3
Total Projected FTE		**1,708.1**	**1,710.4**	**1,768.1**	**1,805.1**	**1,828.4**

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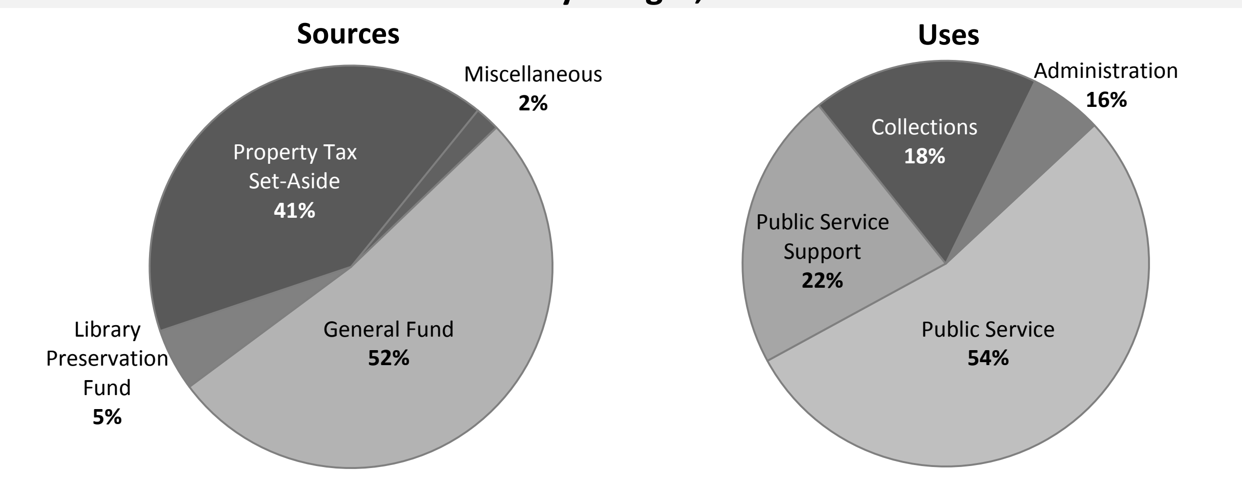
Library

Organizational Overview

Through its Main Library, twenty-seven Branch Libraries, bookmobiles, and website, the Public Library offers an array of services and programs that provide free and equal access to information and promote the joy of reading. In addition to providing the public with access to its digital collection, the Library provides direct public service through its website—which received 36 million visits in Fiscal Year (FY) 2009-10. It also maintains 740 public computers and runs a public laptop lending program. Through its Media Services Unit, the Library provides meeting rooms and technical audio/visual support for community meetings, events, seminars, and training sessions.

In FY 2010-11 the Public Library received $43.5 million in General Fund support, which represents 52 percent of the Department's budget. It also received a property tax set-aside equivalent to 2.5 cents for every $100 of assessed valuation, which totaled $34 million—or 41 percent of the its total budget—in FY 2010-11. The Library spends 54 percent of its budget providing direct public service to its 27 branch libraries, the Main Library and programming for adults, teens, and children. Public service support costs, which includes Information Technology and Facilities Maintenance programs, constitutes 22 percent of its budget.

Public Library Budget, FY 2010-11



Source: Annual Appropriation Ordinance Fiscal Year 2010-11

In the next five years the Public Library will address several strategic initiatives:

1. Manage increased service demands at branch libraries renovated through the Department's Capital Program.
2. Maintain and expand public service hours.
3. Leverage information technology investments to improve user experience and reduce costs.

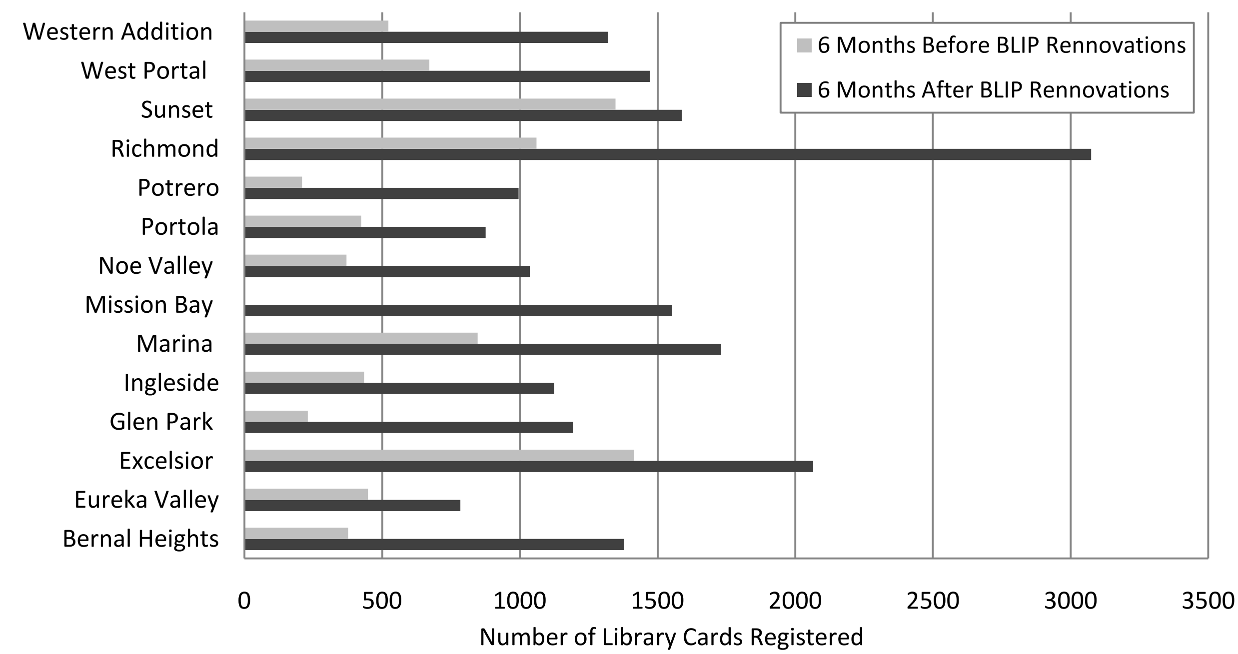
Five-Year Outlook

Manage increased service demands at branch libraries renovated through the Department's Capital Program. The Branch Library Improvement Program, which voters approved and funded through a November 2000 General Obligation bond measure and expanded in November 2007 with Proposition D, ensures that every neighborhood has a seismically safe, accessible, technologically updated, and code compliant City-owned branch library. The Library will have opened six new and 16 renovated libraries by September 2011, with two additional neighborhood branches, Bayview and North Beach, scheduled for completion in 2014.

> 2.3 million
>
> Annual Visitors to Main Library
>
> 4.7 million
>
> Annual Visitors to Branch Libraries

With the opening of each new or renovated branch library, there is more physical space that requires maintenance and support. Additionally, the public demand for library services has grown, which may create a demand for access enhancement, including expanded hours and more robust technology via the Library website's digital collections portal. Any further renovations or service enhancements will require additional operating funding.

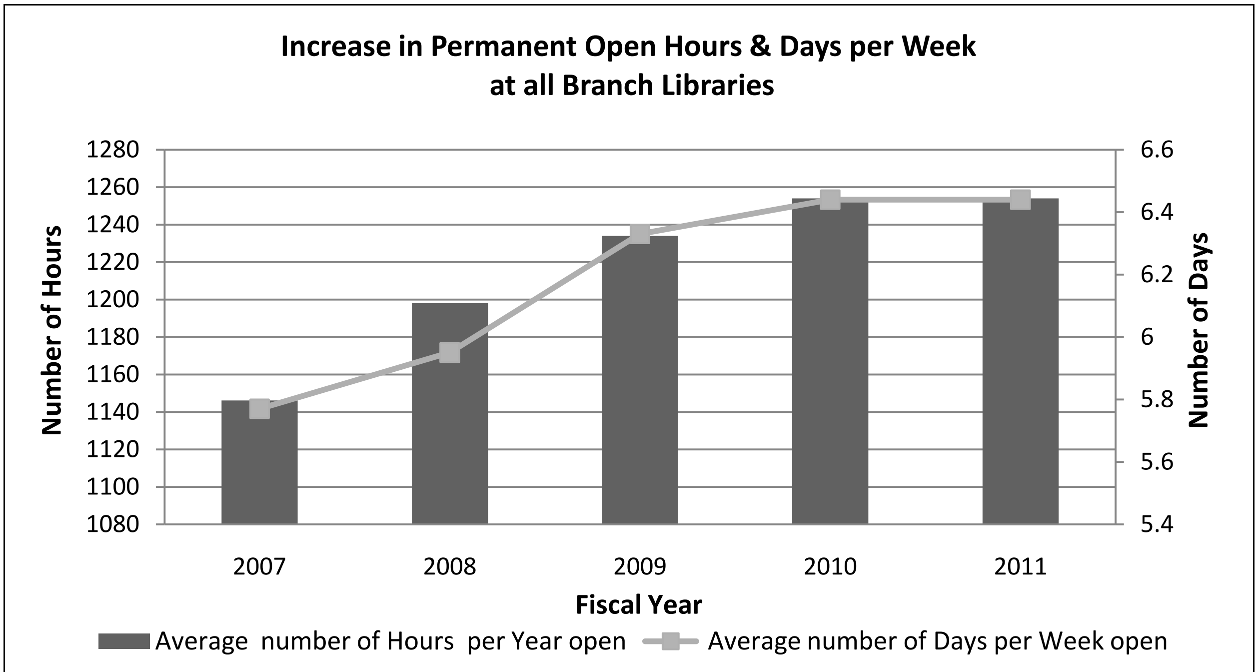
Number of Library Cards Registered before and after Branch Library Improvement Program (BLIP) completion



Source: Trends in Library Use; report to the Library Commission

Maintain and expand public service hours. According to the San Francisco City Charter Section 16.109—The Library Preservation Fund—the number one spending priority for the Library is to: "… maintain at least 1,211 permanent service hours per week system wide and the permanent hours at any neighborhood branch Library until July 1, 2013." In 2011, the Library will be open 1,314 hours per week which exceeds the open hour requirement by 103 hours. The Main Library will be open 60 hours a week and branch libraries will be open for a combined 1,254 a week.

The Library continues to prioritize expanding and maintaining public service hours. In 2007, 2008 and 2009, it expanded permanent public service hours by a total of 108 additional hours at 17 branch locations. Due to reduced revenues in 2010, the Library reallocated existing staff and resources to maintain system-wide open hours, and every branch remained open either six or seven days a week. As the Library Commission continues to prioritize an expansion of service hours, the Library will further expand open hours if funding remains available.



Source: Public Library; Library Hours

Leverage information technology investments to improve user experience and reduce costs. The composition of the Library's collection and manner in which the collection is accessed is changing at a rapid pace, driven by changes in technology, publisher's choices and user preferences. For example, many books are now published simultaneously in hard copy and digital formats, and some periodicals have completely discontinued hard copy editions and adopted digital-only formats. In addition, the popularity of hand held reading devices continues to grow and will impact future reading trends. These trends will necessitate a shift in spending on the Library's collection, its information technology infrastructure and customer service practices. Spending priorities over the next five years will reflect technologically relevant services and support for library patrons, such as developing the infrastructure required to support increases in electronic and online reading, access and use.

500,000

Hours of Computer Usage by Library Patrons Annually

740

Number of Computers Currently Available for Public Use

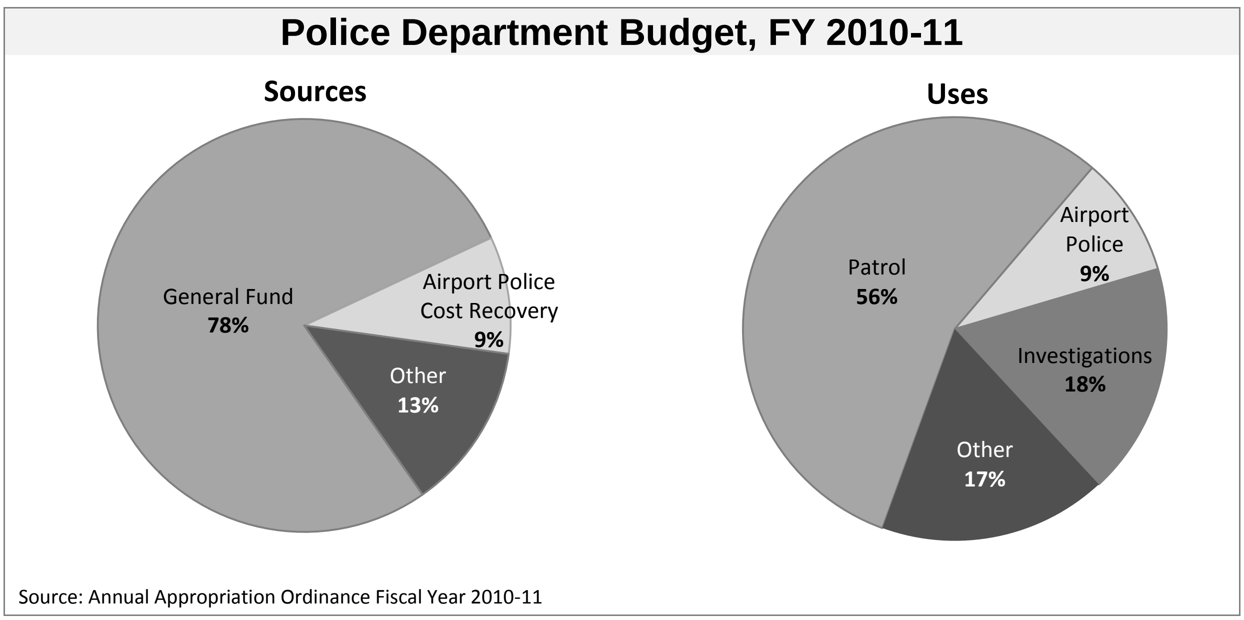
Public Library	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	39.9	39.9	39.9	39.9	39.9	39.9
General Fund Baseline	43.5	43.5	43.5	43.5	43.5	43.5
Total Base Revenues	**83.4**	**83.4**	**83.4**	**83.4**	**83.4**	**83.4**
Adjustments to Base Revenues						
Property Tax Set Aside		1.2	2.2	3.3	4.5	5.9
General Fund Baseline Transfer		3.0	4.9	6.7	8.5	10.2
Intergovernmental Revenues- Federal/State		(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Revenues		0.2	0.2	0.2	0.2	0.2
Unappropriated Fund Balance		(3.7)	(3.7)	(3.7)	(3.7)	(3.7)
Sources Total	**83.4**	**83.7**	**86.6**	**89.6**	**92.5**	**95.7**
USES						
Base Expenditures	**83.4**	**83.4**	**83.4**	**83.4**	**83.4**	**83.4**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		1.6	4.0	5.2	6.6	8.0
Benefit Cost Increases		(0.1)	2.2	5.4	7.7	8.3
Non-Salary Inflation		1.4	2.6	3.7	5.0	6.4
Departmental Adjustments to Base Expenditures						
Collections: Based on Population Increase		(0.5)	(0.4)	(0.3)	(0.3)	(0.2)
Information Technology - Infrastructure		0.9	0.9	1.1	0.8	1.0
Facilities Maintenance		0.6	0.6	0.6	0.6	0.6
Labor Savings		(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Non-Labor Savings		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Uses Total	**83.4**	**86.1**	**92.1**	**98.0**	**102.6**	**106.4**
Projected Surplus/(Shortfall)	**0.0**	**(2.4)**	**(5.5)**	**(8.4)**	**(10.1)**	**(10.6)**
Percent Shortfall of Total Uses		**-2.8%**	**-6.0%**	**-8.5%**	**-9.8%**	**-10.0%**
Change from Prior Year		**(2.4)**	**(3.1)**	**(2.8)**	**(1.7)**	**(0.5)**
FTE						
Total FTE	**645.4**	**645.4**	**645.4**	**645.4**	**645.4**	**645.4**
Departmental Adjustments to FTE						
Facilities Staff		8.5	8.5	8.5	8.5	8.5
Staff to support Expanded Hours		3.5	9.3	16.1	19.5	23.5
Optimum Level Staff		7.5	7.5	7.5	7.5	7.5
Total Projected FTE		**664.8**	**670.7**	**677.5**	**680.9**	**684.9**

Police Department

Organizational Overview

The San Francisco Police Department (SFPD) strives to provide a safe community for San Francisco's residents and visitors by maintaining a knowledgeable, well-trained staff that works to prevent and investigate crime. A commitment to community policing—which focuses on crime and social disorder through the delivery of traditional law enforcement services, as well as prevention, problem-solving, and community engagement and partnerships—is central to the Department's work.

The San Francisco Police Department relies almost entirely on the General Fund, which accounted for 78 percent of its operating budget in FY 2010-11. Given the nature of police work, the Department's major expense is labor, roughly 83 percent of the Department's budget is spent on patrol and investigation activities (including service to the Airport).

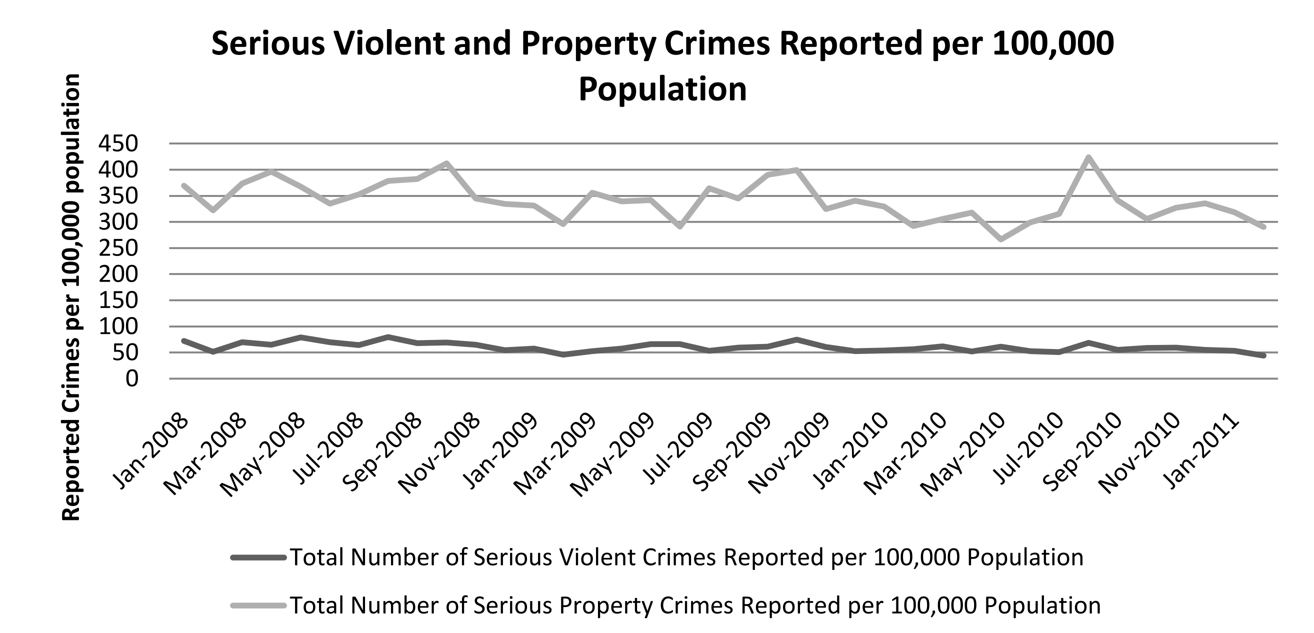


In the next five years, the San Francisco Police Department will tackle several strategic initiatives:

1. Reduce crime and disorder with improvements in deployment, strategy and use of technology.
2. Maintain public safety through strategic management of staffing resources.
3. Improve data collection and reporting efforts through technology upgrades.
4. Manage costs associated with required public safety facility upgrades and moves.

Five-Year Outlook

Reduce crime and disorder with improvements in deployment, strategy and use of technology. In recent years the City has experienced declines in reported serious violent and property crimes; these categories of crime have decreased by 39 percent and 21 percent respectively from January 2008 to February 2011. While many factors affect crime rates, the general downward (positive) trend can be attributed, in part, to the Department's increased focus on community policing and crime data analysis. Community policing involves a valuable focus on prevention, problem-solving, and community engagement and partnerships. In addition, the SFPD has effectively used new deployment strategies including creating violence suppression teams and moving some traffic personnel to district stations. The Department is also currently realigning its investigations functions to drive more efficient case processing and closure and has moved some investigators to district stations.



Source: Police Department

Maintain officer staffing levels needed to promote and maintain public safety. The SFPD's budget is driven primarily by personnel, and the City projects a consistently rising cost of salaries and benefits during the period. Pension and benefit costs are rapidly growing, and officers are scheduled to receive a three to five percent raise on July 1, 2011 (based on a salary survey), and a two percent raise on January 7, 2012. The current MOU expires on June 30, 2013. In this context of significant cost growth, Police leadership is actively considering ways to maintain an adequate number of officers in the field performing traditional police work, while allocating non-sworn personnel to perform administrative functions and public service work that does not require sworn staff.

The SFPD has not run a General Fund-supported police academy class over the past two fiscal years. The Department anticipates that 723 full duty officers will become eligible for retirement over the next five years. While numerous factors will influence individual retirement decisions, the Department projects that over 100 officers will retire each year over the next five years and anticipates the need to run three academy classes in order to maintain current officer staffing levels. This plan assumes the costs of three General Fund-supported classes per year, although the Department will need to consider the possibility of fewer classes as a way to achieve cost savings.

Three

Academy classes needed to maintain current officer staffing levels

The Department is currently using Community Orienting Policing Services (COPS) grant funding from Federal stimulus legislation to cover the cost of 50 officer positions for three years. As of April 2011, 44 of the 50 have been hired, and the remaining officers will be hired in FY 2011-12. When the grant expires, the costs for these officers will become a General Fund obligation.

Continue long-term effort to re-deploy sworn personnel to functions that require peace officer status. The Department can use civilians—or non-sworn duty personnel—to respond to low-risk calls for service, conduct initial reviews of cases, write reports, and prepare case files. In doing this the Department can redeploy sworn personnel to work that requires peace officer status. In 2010 the Controller's Office identified 251 positions that do not require sworn personnel and the Department agreed to fill those positions with civilian staff members where possible. To the extent that the required funding is available, the Department proposes to phase in civilian hiring over the next five years.

Upgrade technology to improve upon data reporting and revenue collection efforts. By upgrading its outdated—or in some cases entirely paper-based—system for data collection, the Department can improve upon reporting and revenue-collection efforts. The Department's Four Point Plan for Technology Improvements is designed to move the Department to a more stable and robust technology platform by: creating a Robust Data Mart, equipping officers with proper tools, creating a Technology Help Desk and implementing a proper technology team.

Manage costs associated with required public safety facility upgrades and moves. The Department has many significant facility needs, from ensuring adequate funding for the maintenance and repair of its district stations to locating new sites for required moves. The primary facility issues to be addressed over the next five years include: managing the move to the Mission Bay Public Safety Facility, relocating the Crime Lab, and relocating and replacing other public safety functions at the Hall of Justice.

Police Department	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	99.0	99.0	99.0	99.0	99.0	99.0
General Fund Support	346.5	346.5	346.5	346.5	346.5	346.5
Total Base Revenues	**445.5**	**445.5**	**445.5**	**445.5**	**445.5**	**445.5**
Adjustments to Base Revenues						
State Revenue		3.1	3.5	4.4	5.1	5.8
Charges for Services		0.1	0.1	0.2	0.3	0.4
Treasure Island Expenditure Recovery		(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Airport Recoveries		5.0	8.6	11.9	14.6	16.3
General Fund Capital Adjustment		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Sources Total	**445.5**	**453.2**	**457.2**	**461.4**	**465.0**	**467.5**
USES						
Base Expenditures	**445.5**	**445.5**	**445.5**	**445.5**	**445.5**	**445.5**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases						
Uniformed Wage Rate Increases		13.8	18.5	27.1	36.2	46.1
Non-uniformed Wage Rate Increases		1.5	3.3	4.4	5.4	6.6
Benefit Cost Increases						
Uniformed Benefit Cost Increases		16.2	26.7	44.4	57.3	59.1
Non-uniformed Benefit Cost Increases		0.5	2.3	4.7	6.6	7.0
Non-Salary Inflation		0.3	2.9	4.6	6.5	8.8
Departmental Adjustments to Base Expenditures						
Expiration of COPS Grant Funding for 50 officers		0.0	2.8	5.8	8.8	9.1
MOU Change to Night Differential Premium Pay		0.0	0.8	0.8	0.8	0.8
Three Academy Classes per Year		5.4	5.5	5.4	5.6	5.8
Crime Lab Relocation		0.0	0.0	0.0	0.5	3.5
Move-in Costs for Public Safety Building		0.0	0.0	2.3	0.0	0.0
General Fund Capital Adjustment		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Uses Total	**445.5**	**483.1**	**508.2**	**544.9**	**573.0**	**592.2**
Projected Surplus/(Shortfall)	**0.0**	**(29.9)**	**(51.0)**	**(83.5)**	**(108.0)**	**(124.7)**
Percent Shortfall of Total Uses		**-6.2%**	**-10.0%**	**-15.3%**	**-18.9%**	**-21.1%**
Change from Prior Year		**(29.9)**	**(21.1)**	**(32.5)**	**(24.5)**	**(16.7)**
FTE						
Total Projected FTE	**2,681**	**2,681**	**2,681**	**2,681**	**2,681**	**2,681**

Department of Public Health

Organizational Overview

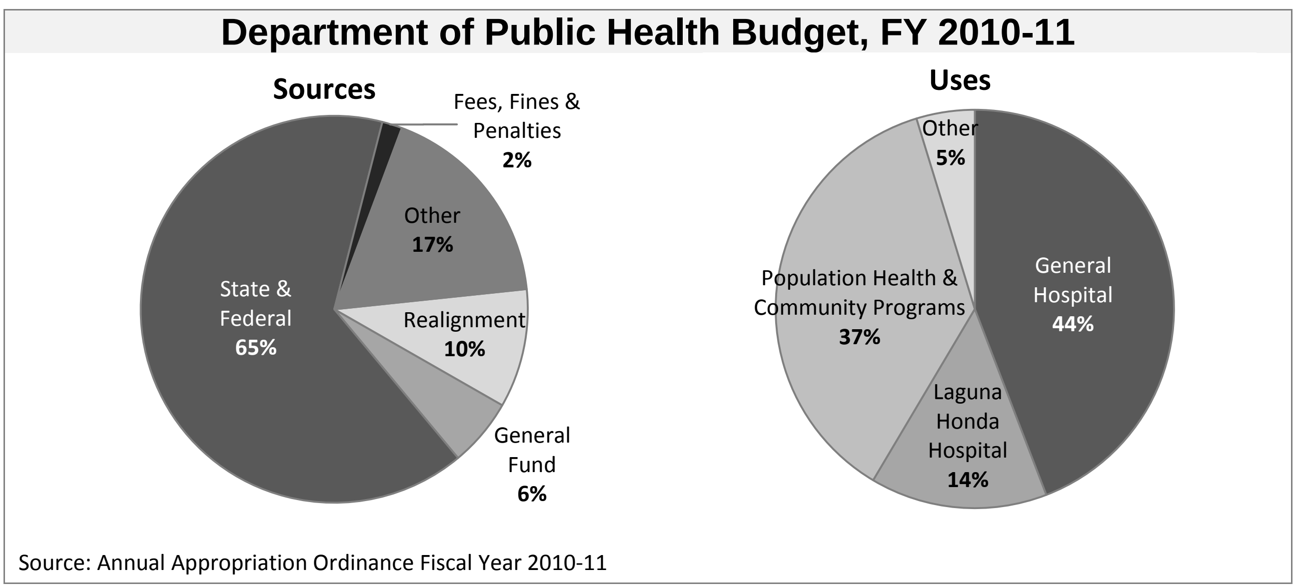
The mission of the San Francisco Department of Public Health (DPH) is to protect and promote the health of all San Franciscans. It oversees population-based health activities and provides comprehensive preventative, primary and behavioral health services to individuals through community-based programs and clinics, hospitals, and the County's jails. DPH is comprised of the following:

Population Health & Prevention
- Community Health & Epidemiology
- STD Prevention
- Emergency Medical Services
- Tuberculosis Control
- Public Health Lab
- Environmental Health & Services

Community Programs
- HIV Services
- Community Health Care
- Housing & Urban Health
- Placement Services
- Maternal & Child Health
- Health Promotion & Prevention

Community Health Network
- SF General Hospital & Trauma Center (SFGH)
- Laguna Honda Hospital (LHH)
- Jail Health Services

DPH relies on State and Federal funding to support its multiple safety-net programs, however 16 percent of its budget comes from the General Fund and Realignment.



In the next five years the Department of Public Health will tackle several strategic initiatives:

1. Prepare for Federal healthcare reform.
2. Incentivize use of electronic medical records.
3. Rebuild General Hospital & continue transition at Laguna Honda Hospital and Rehabilitation Center.
4. Expand Supportive Housing in the community.

Five-Year Outlook

Prepare for Federal healthcare reform. In March of 2010, President Obama signed two bills, H.R. 3590 and H.R. 4872, commonly known as "health reform." When fully enacted in 2016, health reform is projected to provide health insurance coverage for 92 percent of the US population. This reform will include multiple mandates and stipulations. Most noteable for health departments is the mandatory expansion of Medicaid—known as Medi-Cal in California—to all individuals up to 133 percent of the Federal Poverty Level (FPL), which is approximately $14,400 for an individual. The Department projects that for every one percent shift in their client base from uninsured to Medi-Cal, DPH hospitals and clinics will receive $800,000 in additional reimbursement. DPH's Community Health Care program, specifically, is estimated to receive an additional $19.8 million annually as a result of increased Medi-Cal eligibility. Other health reform-related initiatives include:

> 36,000
>
> New residents eligible for Medi-Cal as a result of health care reform

- **Transitioning residents from locally-funded programs to Federal and State programs:** Many of San Francisco's low-income residents rely on local health care access and coverage programs to meet their primary health care needs. The Department will provide a transition process for individuals moving off of these local programs and onto new State exchanges or Medi-Cal. For example, many participants in Healthy San Francisco—the Department's universal health care access program that provides health access to residents age 18 through 64 who fall under 500 percent of the federal poverty level (FPL) and are ineligible for other public programs—will transition to Medi-Cal or insurance exchanges under health reform. San Francisco residents not able to transition to Medi-Cal or the insurance exchanges will continue to be eligible for Healthy San Francisco.

- **Adjusting to new revenue sources and reaching performance-based milestones:** Beginning in FY 2011-12, the Delivery System Reform Incentive Pool (DSRIP), also known as "Bridge to [Healthcare] Reform" will support California's public hospitals as they strive to meet performance enhancements mandated by healthcare reform. Through DSRIP, the Federal government will provide incentive payments to public hospitals that succeed in reducing wait times, increasing access to specialty care and improving overall patient satisfaction, among other measurable outcomes. To meet these performance milestones and to receive these incentive payments, the Department of Public Health must incur additional expenditures such as increasing clinic and physician hours at San Francisco General Hospital and at community-based clinics across San Francisco. While healthcare reform will provide new revenue sources over the next five years such as DSRIP, the transition to this new model of care will also mean the sunsetting of older revenue sources for the Department. For example, the Disproportionate Share Hospital (DSH) program provides funding to hospitals that treat indigent populations. Starting in 2014, the Department estimates annual reductions of DSH revenue, with an aggregate reduction of $104 million over seven years.

- **Incentivizing use of electronic medical records:** The American Recovery and Reinvestment Act (ARRA) is funding hospitals and clinicians in the form of incentive payments to providers who achieve "meaningful use" of electronic medical records systems and related quality reporting mandates. The Department is projected to qualify for these payments beginning in FY 2011-12 and continuing through FY 2016-17.

$20 Billion

Total Federal incentives available to providers to use electronic medical records

Continue services at San Francisco General Hospital and prepare for a new facility. San Francisco General Hospital is the only trauma center serving San Francisco and northern San Mateo counties. It serves 1,500 patients each day and provides 20 percent of the City's in-patient care and nearly 80 percent of the City's care to the uninsured and underinsured. Over the next five years, DPH anticipates continued growth in patient revenues and associated hospital costs. In FY 2011-12 the loss of one-time hospital fee stimulus dollars received in FY 2010-11, leaves the hospital with a challenging revenue picture. However, the hospital will use DSRIP dollars and other State and Federal sources to partially offset this problem. In addition to implementing healthcare reform measures, the hospital will also move to a new facility. State law requires that the hospital meet seismic standards by 2015, allowing it to remain operational after a major earthquake. While construction is fully funded with proceeds of a General Obligation bond, the Department currently projects an additional $130 million will be needed for furniture and equipment. Up to half of this may be funded by the SF General Hospital Foundation via donations, and the hospital is actively working to develop a plan for the remaing half.

100,000

Patients treated annually at SF General Hospital

Continue services at Laguna Honda Hospital and Rehabilitation Center. Laguna Honda Hospital and Rehabilitation Center is a therapeutic community providing skilled nursing and rehabilitation services to 780 seniors and adults with disabilities in San Francisco. The Department recently built a new facility—which opened in December of 2010—moving one of the nation's largest single-site skilled nursing and rehabilitation facilities toward a model of care that emphasizes community-building. Continued debt service costs and depreciation expenses will be covered in part by increases in Federal funding from two amendments to the Medi-Cal program.

Expand supportive housing and continue provision of behavioral health services. Creating housing opportunities—as mandated through the 2006 Chambers Case settlement, which stipulates that San Francisco subsidize housing for disabled individuals—will require continued investment and operating funds in the coming years. In addition to investing in supportive housing, DPH will continue to fund community behavioral health services. As mentioned in the health reform section, the Department anticipates increasing clinic hours and physician availability to serve an increased Medi-Cal population. The Department will continue to run community clinics across the City as well as support community-based organizations working in substance abuse and mental health care.

Department of Public Health	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
ALL FUNDS						
SOURCES						
Base Revenues (incl. Exp Recoveries)	1,205.8	1,205.8	1,205.8	1,205.8	1,205.8	1,205.8
General Fund Support	255.0	255.0	255.0	255.0	255.0	255.0
Total Base Revenues	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**
Adjustments to Base Revenues						
State Health & Wellness Realignment		4.6	7.6	10.8	14.7	18.6
Federal Healthcare Reform		39.5	42.5	41.5	50.0	60.9
San Francisco General Hospital		(76.1)	(72.1)	(65.0)	(57.8)	(37.1)
Laguna Honda		1.1	6.6	12.6	15.5	18.4
Other General Fund Revenues		(24.6)	(24.6)	(24.6)	(24.6)	(24.6)
General Fund Capital Adjustment		(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Sources Total	**1,460.9**	**1,401.3**	**1,416.8**	**1,432.1**	**1,454.6**	**1,493.1**
USES						
Base Expenditures	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**	**1,460.9**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		14.4	34.3	49.9	69.7	84.1
Benefit Cost Increases		11.8	29.2	69.6	95.5	101.5
Non-Salary Inflation		14.7	37.8	61.4	86.7	114.7
Departmental Adjustments to Base Expenditures						
Federal Healthcare Reform		20.4	26.1	26.1	18.5	10.3
Supportive Housing		3.5	7.7	11.2	12.4	12.5
San Francisco General Hospital		18.5	23.9	24.9	91.2	105.8
Laguna Honda		0.8	1.0	1.2	1.4	1.6
Other General Fund Costs		4.6	6.3	7.2	8.1	9.0
General Fund Capital Adjustment		(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Uses Total	**1,460.9**	**1,545.7**	**1,623.2**	**1,708.5**	**1,840.5**	**1,896.4**
Projected Surplus/(Shortfall)	**0.0**	**(144.4)**	**(206.4)**	**(276.3)**	**(385.8)**	**(403.3)**
Percent Shortfall of Total Uses		**-9.3%**	**-12.7%**	**-16.2%**	**-21.0%**	**-21.3%**
Change from Prior Year		**(144.4)**	**(62.1)**	**(69.9)**	**(109.5)**	**(17.5)**
FTE						
Total FTE	**5,761.2**	**5,761.2**	**5,761.2**	**5,761.2**	**5,761.2**	**5,761.2**
Departmental Adjustments to FTE						
Federal Healthcare Reform		49.2	98.3	98.3	98.3	98.3
Electronic Medical Records		14.0	18.1	18.1	18.1	18.1
Annualization of FY 10-11 Position Changes		19.0	19.0	19.0	19.0	19.0
Total Projected FTE		**5,843.4**	**5,896.6**	**5,896.6**	**5,896.6**	**5,896.6**

Department of Public Health	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
San Francisco General Hospital (5H)						
SOURCES						
Total Base Revenues	**625.7**	**625.7**	**625.7**	**625.7**	**625.7**	**625.7**
Adjustments to Base Revenues						
Patient Revenues		15.7	23.7	31.7	39.7	47.7
Loss of Hospital Fee		(88.0)	(88.0)	(88.0)	(88.0)	(88.0)
Loss of Federal Medical Assistance Program		(13.7)	(13.7)	(13.7)	(13.7)	(13.7)
Federal Healthcare Reform		79.0	82.0	81.0	79.1	79.6
Electronic Medical Records		9.9	5.9	5.0	4.2	3.3
New Facility Revenue		0.0	0.0	0.0	0.0	13.6
General Fund Capital Adjustment		(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Sources Total	**625.7**	**626.8**	**633.8**	**639.9**	**645.2**	**666.4**
USES						
Base Expenditures	**625.7**	**625.7**	**625.7**	**625.7**	**625.7**	**625.7**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		6.8	14.1	21.5	29.2	37.6
Benefit Cost Increases		5.3	11.2	27.0	38.8	41.5
Non-Salary Inflation		6.8	17.3	27.6	39.0	51.3
Departmental Adjustments to Base Expenditures						
Federal Healthcare Reform		56.7	59.6	59.6	55.9	52.3
Electronic Medical Records		8.8	9.2	5.2	4.5	4.1
Regulatory Compliance Inflation Costs		9.7	14.7	19.7	24.7	29.7
SFGH Rebuild - FF&E, Transition Budget		0.0	0.0	0.0	62.0	72.0
General Fund Capital Adjustment		(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Uses Total	**625.7**	**718.2**	**750.1**	**784.5**	**878.0**	**912.4**
Projected Surplus/(Shortfall)	**0.0**	**(91.3)**	**(116.3)**	**(144.5)**	**(232.9)**	**(246.0)**
Percent Shortfall of Total Uses		**-12.7%**	**-15.5%**	**-18.4%**	**-26.5%**	**-27.0%**
Change from Prior Year		**(91.3)**	**(25.0)**	**(28.3)**	**(88.3)**	**(13.1)**
FTE						
Total FTE	**2,616.6**	**2,616.6**	**2,616.6**	**2,616.6**	**2,616.6**	**2,616.6**
Departmental Adjustments to FTE						
Federal Healthcare Reform		24.2	48.3	48.3	48.3	48.3
Electronic Medical Records		14.0	18.1	18.1	18.1	18.1
Annualization of FY 10-11 Position Changes		15.6	15.6	15.6	15.6	15.6
Total Projected FTE		**2,670.3**	**2,698.6**	**2,698.6**	**2,698.6**	**2,698.6**

Department of Public Health	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
Laguna Honda (5L)						
SOURCES						
Total Base Revenues	**180.1**	**180.1**	**180.1**	**180.1**	**180.1**	**180.1**
Adjustments to Base Revenues						
Patient Revenues		8.1	11.1	14.1	17.1	20.1
Distinct Part Nursing Revenues		0.0	2.5	5.5	5.4	5.3
Loss of Federal Medical Assistance Program		(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Reversal of Medi-Cal Rate Increase		(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
General Fund Capital Adjustment		(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Sources Total	**180.1**	**180.2**	**185.6**	**191.6**	**194.6**	**197.5**
USES						
Base Expenditures	**180.1**	**180.1**	**180.1**	**180.1**	**180.1**	**180.1**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		3.7	9.1	12.1	15.2	18.7
Benefit Cost Increases		1.9	6.1	12.7	17.7	18.9
Non-Salary Inflation		0.7	2.3	4.1	5.6	7.9
Departmental Adjustments to Base Expenditures						
Regulatory Compliance Inflation Costs		0.8	1.0	1.2	1.4	1.6
General Fund Capital Adjustment		(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Uses Total	**180.1**	**186.2**	**197.5**	**209.2**	**219.0**	**226.2**
Projected Surplus/(Shortfall)	**0.0**	**(6.0)**	**(11.9)**	**(17.5)**	**(24.4)**	**(28.7)**
Percent Shortfall of Total Uses		**-3.2%**	**-6.0%**	**-8.4%**	**-11.2%**	**-12.7%**
Change from Prior Year		**(6.0)**	**(5.9)**	**(5.6)**	**(6.9)**	**(4.2)**
FTE						
Total FTE	**1,232.1**	**1,232.1**	**1,232.1**	**1,232.1**	**1,232.1**	**1,232.1**
Departmental Adjustments to FTE						
Annualization of FY 10-11 Position Changes		6.5	6.5	6.5	6.5	6.5
Total Projected FTE		**1,238.7**	**1,238.7**	**1,238.7**	**1,238.7**	**1,238.7**

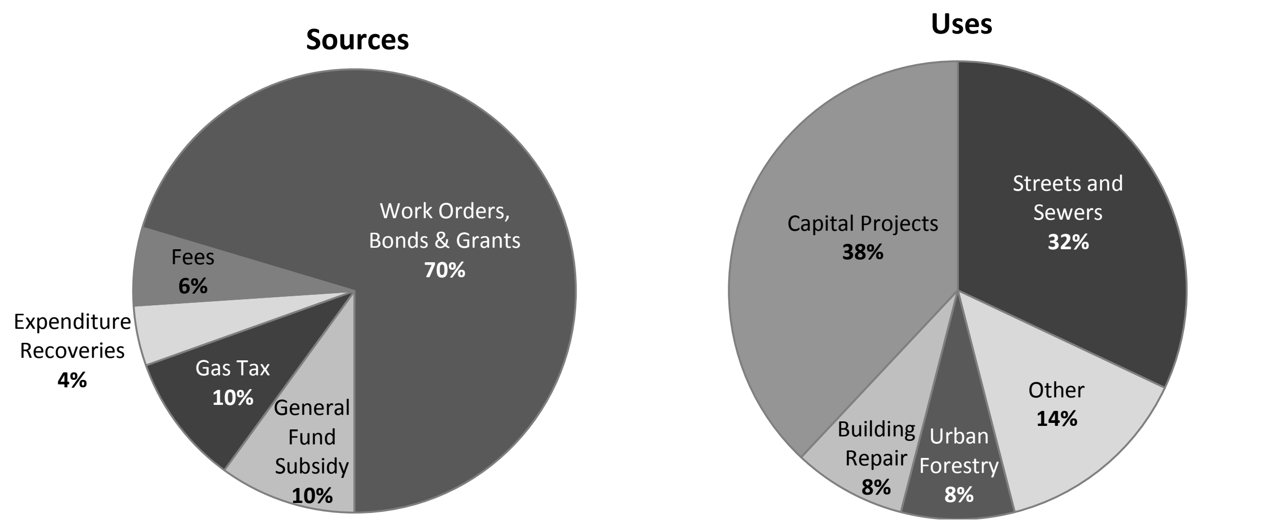
Department of Public Works

Organizational Overview

The Department of Public Works (DPW) maintains San Francisco's streets and much of its infrastructure through eight bureaus that design, build, operate, maintain, green, and improve the City's infrastructure, public right-of-way, and facilities. DPW serves San Francisco residents, merchants and visitors 24 hours a day and seven days a week with a workforce of approximately 1,200 employees.

In Fiscal Year (FY) 2010-11 DPW received a General Fund subsidy of $16 million, or 10 percent of the Department's budget. DPW's largest revenue source is work orders, bonds and grants, making up 70 percent of DPW's total budget, while gas tax revenue apportioned by the State accounts for another 10 percent. The Department's two largest expenses, maintaining the City's streets and sewers and managing City capital projects, account for 70 percent of spending.

Department of Public Works' Budget, FY 2010-11



Source: Annual Appropriation Ordinance Fiscal Year 2010-11

In the next five years the Department of Public Works will undertake several strategic initiatives:

1. Secure funding and implement street resurfacing and right-of-way improvement projects.
2. Identify cost reductions for field operations.
3. Manage capital projects for client departments including the SFGH rebuild, city parks, libraries and public safety buildings.

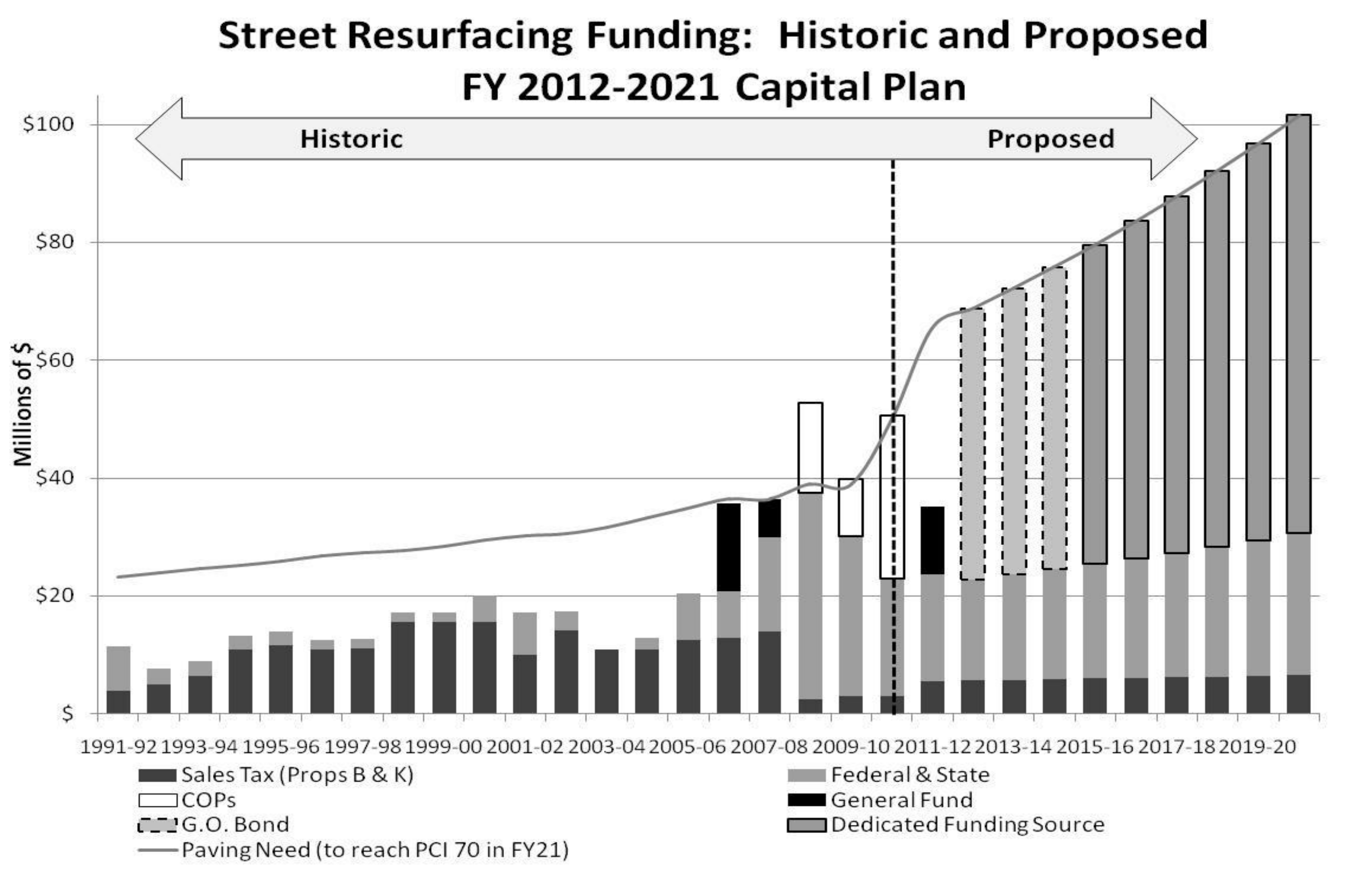
Five-Year Outlook

12,517

City Blocks Maintained by DPW

Secure funding and implement street resurfacing and right-of-way improvement projects. The annual and long-term capital needs for street resurfacing and right-of-way assets such as sidewalks, bridges, curb ramps and other street structures, outstrip the anticipated available Federal, State and local funding. The City's current average pavement condition index (PCI) score is 64, which is in the "fair" condition range. To maintain this PCI, the City must appropriate $50 million annually from Federal, State and local sources towards street resurfacing and maintenance. If this level of funding is not provided, the condition of streets and other right-of-way assets will decline, and the City could fall out of compliance with the Americans with Disabilities Act regulations that require accessible paths of travel in the public right-of-way.

Between FY 2009-10 and FY 2010-11, the City budgeted approximately $65 million in Certificates of Participation (COPs) to help address the funding gap for street resurfacing and right-of-way asset capital needs. The debt service associated with the sale of those COPs is over $5 million annually and is funded from both the City's gas tax revenue and the General Fund. The FY 2012-21 Capital Plan recommends a $170 Million Safe Streets and Road Repair General Obligation bond for November 2011 to address street resurfacing and public right-of-way capital asset needs.



Source: FY 2012-2021 Capital Plan

In FY 2009-10, the Capital Planning program convened a Street Resurfacing Finance Working Group to identify funding strategies for streets and right-of-way capital investments. This working group found that in absence of increased General Fund appropriations, the City should identify a stable, long-term revenue source, such as a dedicated tax or fee, for street resurfacing in order to avoid more expensive capital needs in the future.

Identify cost reductions for field operations. As the City continues to face budget shortfalls, DPW may need to identify cost reductions to help bridge the funding gap for its street and sidewalk cleaning, graffiti abatement, tree and landscape maintenance, street repair and building maintenance. Cost reductions may result in a slower response time for service requests such as debris removal, illegal dumping pick-up or street cleaning. The reduction of services could also lead to departmental changes such as the relinquishment of street tree maintenance to private property owners. DPW maintains 40,000 trees within the City. The available funding for maintaining street trees on a three year maintenance cycle is not anticipated to keep pace with the rising costs.

850

Miles of road maintained by the Department of Public Works

$1 Billion

Spent managing active public infrastructure projects

Manage capital projects for client departments. Over the next five years, DPW will continue to work on a collection of City capital projects, such as the Earthquake Safety and Emergency Response Bond program, the Branch Library Improvement program, the Laguna Honda Hospital Replacement program and the San Francisco General Hospital Rebuild program. The Department will provide project management services for the client departments which include architectural, design and engineering services as well as construction management.

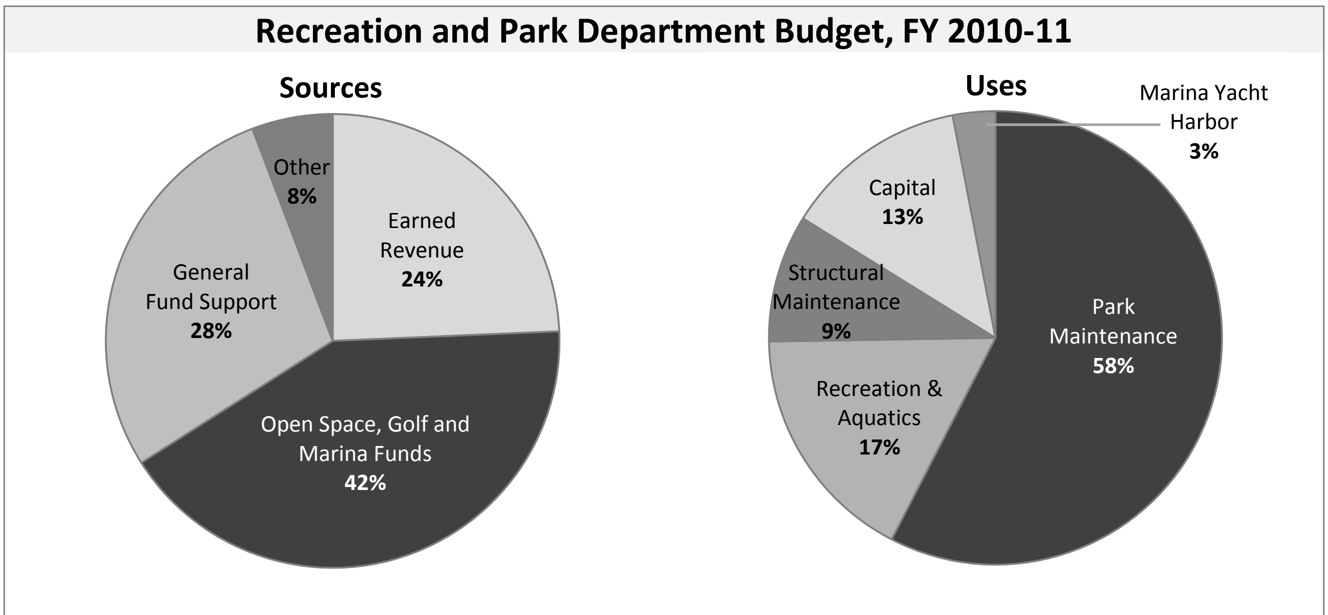
Department of Public Works	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	140.2	140.2	140.2	140.2	140.2	140.2
General Fund Support	22.2	22.2	22.2	22.2	22.2	22.2
Total Base Revenues	**162.5**	**162.5**	**162.5**	**162.5**	**162.5**	**162.5**
Adjustments to Base Revenues						
Permit and Fee Adjustments		(0.0)	0.1	0.3	0.5	0.7
Loss of Fund Balance		(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Increased Expenditure Recoveries		1.3	7.1	12.3	16.8	20.4
General Fund Capital Adjustment		(6.3)	(6.3)	(6.3)	(6.3)	(6.3)
Sources Total	**162.5**	**157.1**	**163.0**	**168.4**	**173.0**	**176.9**
USES						
Base Expenditures	**162.5**	**162.5**	**162.5**	**162.5**	**162.5**	**162.5**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		0.2	3.3	5.2	7.1	9.2
Benefit Cost Increases		2.6	5.6	9.8	12.9	13.6
Non-Salary Inflation		1.3	3.6	5.8	8.2	10.9
Departmental Adjustments to Base						
Debt Service		3.1	4.6	4.5	4.3	4.2
Overhead Inflation		0.3	1.7	2.9	4.1	5.0
General Fund Capital Adjustment		(6.3)	(6.3)	(6.3)	(6.3)	(6.3)
Uses Total	**162.5**	**163.7**	**175.0**	**184.4**	**192.8**	**199.1**
Projected Surplus/(Shortfall)	**0.0**	**(6.6)**	**(11.9)**	**(16.1)**	**(19.7)**	**(22.2)**
Percent Shortfall of Total Uses		**-4.0%**	**-6.8%**	**-8.7%**	**-10.2%**	**-11.2%**
Change from Prior Year		**(6.6)**	**(5.3)**	**(4.1)**	**(3.7)**	**(2.5)**
FTE						
Total Projected FTE	**791.4**	**791.4**	**791.4**	**791.4**	**791.4**	**791.4**

Recreation & Park Department

Organizational Overview

The Recreation and Park Department (RPD) maintains the City's parks, preserves the environment and provides recreational activities for the enjoyment and benefit of residents and visitors. In Fiscal Year (FY) 2010-11 the Department received 28 percent of its budget ($35 million) in the form of General Fund support and anticipated to generate an additional $31 million in revenue from its programs, facility rentals and concessions. The Department's goal is to increase its earned income to $36.7 million by 2015 by increasing the number of revenue-generating recreation programs, concessions and rental activities.

The Department's largest expense is park maintenance, which is $81 million and accounts for 58 percent of the Department's spending. Capital projects and structural maintenance together represent less than 25 percent of the Department's operating budget.



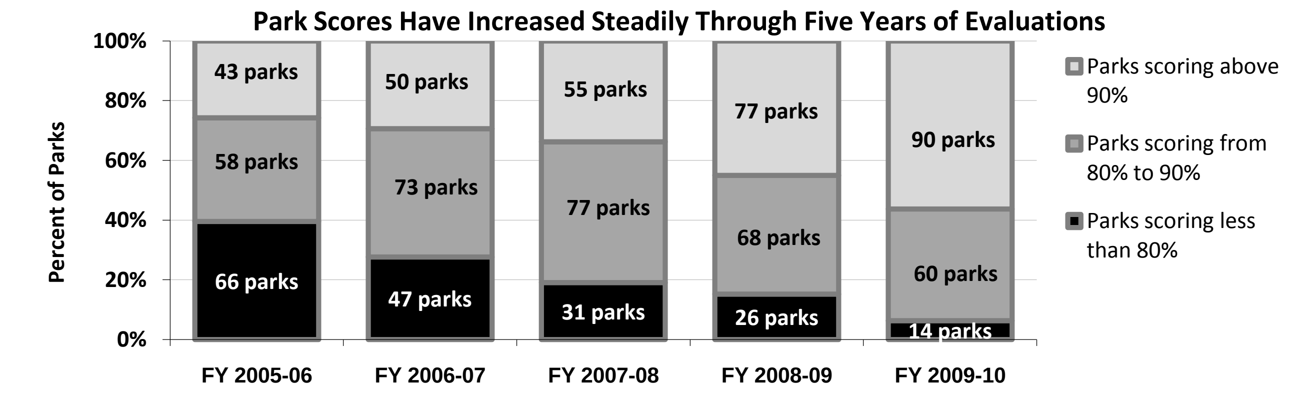
Source: Annual Appropriation Ordinance Fiscal Year 2010-11

In the next five years the Recreation and Park Department will undertake the following strategic initiatives:

1. Meet high standards in park maintenance.
2. Improve recreation services quantity and quality.
3. Develop revenue generating capabilities.
4. Improve the capital condition of parks.
5. Address Open Space Fund, Golf Fund and Marina Fund shortfalls.

Five-Year Outlook

Continue to meet high standards in park maintenance. Park maintenance is one of the Recreation and Park Department's core functions. In 2003, voters passed Proposition C, which requires the Department to maintain parks to defined standards. In the past five years, the Department has steadily improved the maintenance of its parks and credits this improvement to increased staffing levels. The Department's ability to continue to properly take care of its parks and open spaces depends upon maintaining adequate staffing levels, and if possible, adding staff to its park maintenance and structural maintenance divisions.



Source: Park Maintenance Standards FY 2009-10 Annual Report

The Department has identified several creative solutions to the problem of maintaining park maintenance staffing, including taking advantage of the Human Services Agency's job training programs to add staff and implementing a gardener apprentice training program. Even with these solutions, the Department faces difficult budget balancing decisions.

> 16%
>
> Increase in number of hours for recreation programming from FY 2009-10 to FY 2010-11

Improve recreation services quantity and quality. In September of 2010 the Recreation and Park Department implemented a new model for recreation service delivery based on national best practices. The Department expects that it will take several years to completely implement the model. A key component of the new recreation model that will be developed over the next five years is an as-needed staffing pool of program instructors. The viability of creating a pool of available staff, in particular the Department's ability to attract talented programmers at current wage levels, is still uncertain. To the extent that the Department must increase wages to attract a broader or more skilled pool of program delivery staff, the budget will be affected. In addition, as the Department generates additional revenue from enhanced recreation programming, it plans to invest in additional staff and materials and supplies, further strengthening program delivery and increasing program net income in the long-term.

Reduce reliance on General Fund support by developing the Department's revenue generating capabilities. In the past three years, the Department has increased fees for a variety of programs, implemented non-resident entry fees for certain attractions and sought new concessionaires to improve visitors' park experience and generate additional revenue for the Department. In the last fiscal year, specifically, it increased program revenue by 43 percent. Moving forward, the Department's revenue strategies include reviewing existing fees, maximizing the value of the Department's property and concession revenues through new leases and enhanced park amenities, identifying sponsorships and development opportunities and pursuing philanthropy to support operations. As the Department improves its recreation program quality and increases program options, it will review the program fees and develop a more coherent fee structure.

Improve the capital condition of parks and anticipate the need for new open space. The Department faces a deferred maintenance backlog of approximately $1.7 billion. Irrigation systems, swimming pools, neighborhood recreation buildings, Kezar Pavilion and McLaren Lodge are among a host of facilities that need to be repaired or replaced. To address this need, the ten-year Capital Plan recommends the development of a General Obligation Bond proposal for the 2012 ballot. Passage of this bond will help to significantly address the Department's substantial deferred maintenance backlog; however, the Department will also continue to work to identify other revenue sources. As the Department improves the condition of its existing parks and facilities, it is also determined to anticipate and meet the need for new open space, particularly in the eastern part of the city. Among other opportunities, the Department is pursuing development of a park at 17th and Folsom Streets and acquisition of additional open space in the India Basin area.

225

Number of parks, playgrounds and open spaces maintained by RPD

Address Open Space Fund, Golf Fund and Marina Fund shortfalls. Over the next five years, absent change, the Department's three non-General Fund sources are projected to face combined multi-million dollar shortfalls due to increasing costs that outpace projected revenue growth.

- **Open Space Fund:** Over the next five years, this fund—which supports afterschool programming, maintenance of parks and open space, natural areas maintenance, community gardens, volunteer programs, acquisitions and capital programs—will experience deficits due to the elimination of fund balance and increasing personnel costs, and must address this shortfall by cutting or shifting costs.

- **Golf Fund:** In FY 2010-11 the Golf Fund received a General Fund subsidy of $0.8 million, which is projected to grow to over $1.5 million in FY 2011-12 and to continue increasing due primarily to rising salary and benefit costs. The Department assumes that the Professional Golfers' Association (PGA) will increase greens fee and concession revenue at Harding Park Golf course, reducing the overall deficit.

- **Marina Fund:** The Marina Fund accounts for revenue and expenses for the East and West Harbors. The Department recently began a renovation of the West Harbor and under the terms of a loan from the California Department of Boating and Waterways, all revenue generated in the West Harbor is pledged to repay its loan. The East Harbor is projected to experience growing deficits over the next five years due to increasing personnel and maintenance costs. To address these shortfalls, the Department will have to reduce costs or increase East Harbor revenues.

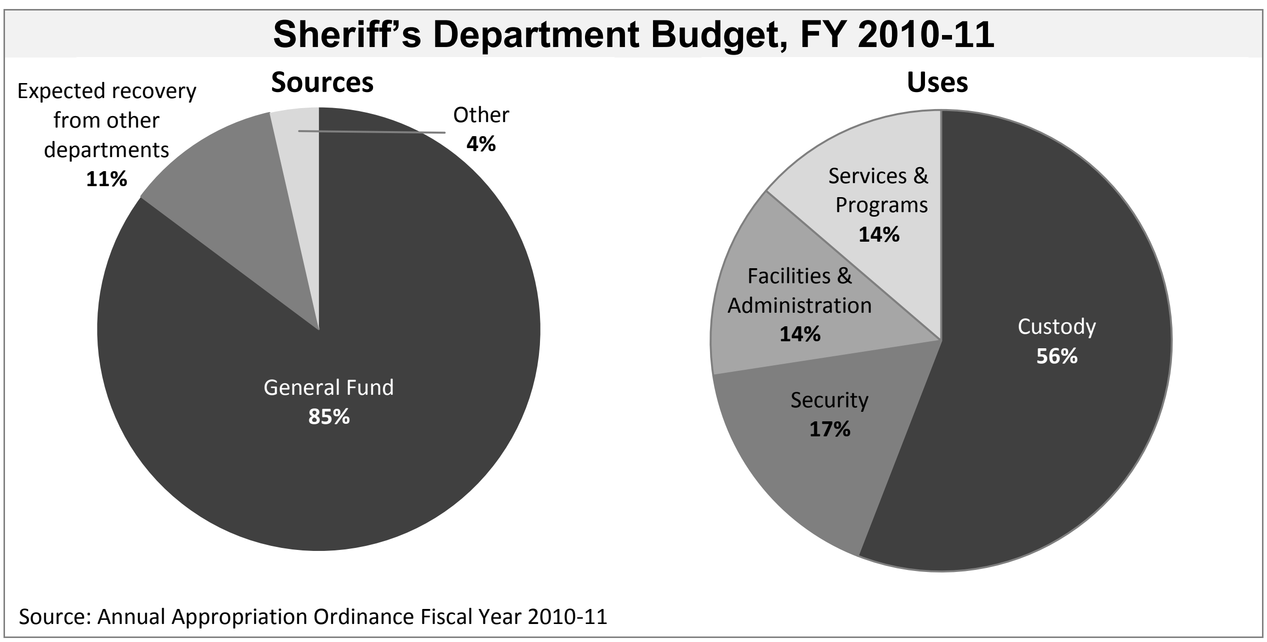
Recreation and Park Department	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	92.4	92.4	92.4	92.4	92.4	92.4
General Fund Support	34.7	34.7	34.7	34.7	34.7	34.7
Total Base Revenues	**127.0**	**127.0**	**127.0**	**127.0**	**127.0**	**127.0**
Adjustments to Base Revenues						
Rents & Concession Revenue		(0.1)	0.9	2.0	3.1	4.3
Charges for Services		1.0	2.7	3.8	4.6	5.5
Property Tax		1.2	2.2	3.3	4.5	5.9
Reserves, Fund Balance, and Other revenues		1.4	(3.7)	(3.8)	(3.5)	(3.1)
General Fund Capital Adjustment		(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Sources Total	**127.0**	**127.5**	**126.1**	**129.3**	**132.7**	**136.6**
USES						
Base Expenditures	**127.0**	**127.0**	**127.0**	**127.0**	**127.0**	**127.0**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		0.7	3.4	4.9	6.6	8.4
Benefit Cost Increases		1.4	4.3	7.9	10.7	11.5
Non-Salary Inflation		2.4	3.7	4.9	6.3	9.4
Departmental Adjustments to Base Expenditures						
West Harbor Debt Service		(0.2)	0.1	1.0	1.0	1.0
General Fund Capital Adjustment		(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Uses Total	**127.0**	**128.3**	**135.4**	**142.7**	**148.5**	**154.2**
Projected Surplus/(Shortfall)	**0.0**	**(0.8)**	**(9.3)**	**(13.4)**	**(15.8)**	**(17.6)**
Percent Shortfall of Total Uses		**-0.6%**	**-6.9%**	**-9.4%**	**-10.6%**	**-11.4%**
Change from Prior Year		**(0.8)**	**(8.6)**	**(4.0)**	**(2.4)**	**(1.8)**
FTE						
Total Projected FTE	**850.6**	**850.6**	**850.6**	**850.6**	**850.6**	**850.6**

Sheriff's Department

Organizational Overview

The Sheriff's Department provides for the safe and secure detention of persons arrested or under court order—operating six county jail facilities and alternative sentencing programs. The Department also provides security for City facilities, staffing the 79 courtrooms at the Civic Center Courthouse, Hall of Justice and Family Courts at the Youth Guidance Center. Additionally, the Sheriff carries out criminal and civil warrants and court orders.

Roughly 70 percent of the Department's budget is driven by the average daily jail population, which includes all inmates sentenced to less than a year on misdemeanor charges (roughly 20 percent of the total jail population) or those awaiting trial (roughly 80 percent of the total jail population). While incarcerated, inmates are provided services and programs administered through jail facilities, such as education, drug treatment, and anti-violence programs. The goals of these programs are to reduce costs through lower recidivism rates, and to enable prisoners to better transition back into society after leaving the County jail system.



In the next five years the Sheriff's Department will tackle several strategic initiatives:

1. Manage the impact of several State and Federal initiatives which are projected to increase the County jail population.
2. Prioritize alternative sentencing programs to manage jail counts and prevent overflow.
3. Prepare for the growth of Court programs that require Sheriff participation and services.

Five-Year Outlook

The Sheriff's Department is preparing for a significant growth in the jail population, with an anticipated increase of as many as 543 inmates, or 31 percent, by the end of FY 2015-16. This estimate is based partially on historical trends and the projected growth of the population. More significantly, this projection is based on the impact of several major policy changes at the State level, including public safety realignment and the California Department of Corrections and Rehabilitation (CDCR) effort to reduce the State prison population. This effort will indirectly shift a portion of the State prison population to county jails. Considering that it costs $130 per day to house an inmate in a San Francisco County jail, any increase to the jail population will significantly impact the Sheriff's budget.

> $130
>
> Average daily cost of housing an inmate in San Francisco County Jail

Manage the gradual increase to the average daily jail population by reopening County Jail #6 in San Bruno. At the beginning of FY 2010-11 the jail population was at a historic low due to the reduction of local arrests and closure of the City's crime lab. However, the jail population is expected to grow significantly over the next two years, requiring the Sheriff to reopen County Jail #6 in San Bruno. Reopening this facility will have a significant impact on the Sheriff's Department budget, with additional funding potentially becoming necessary as soon as FY 2011-12. This projected five-year growth of the County's jail population is driven primarily by State realignment and the CDCR's prison population reduction plan, which will be implemented over the next five to seven years. Funding by the State to support this substantial growth in inmates is uncertain at the time of this report, and the projections discussed below are estimates based on best available data.

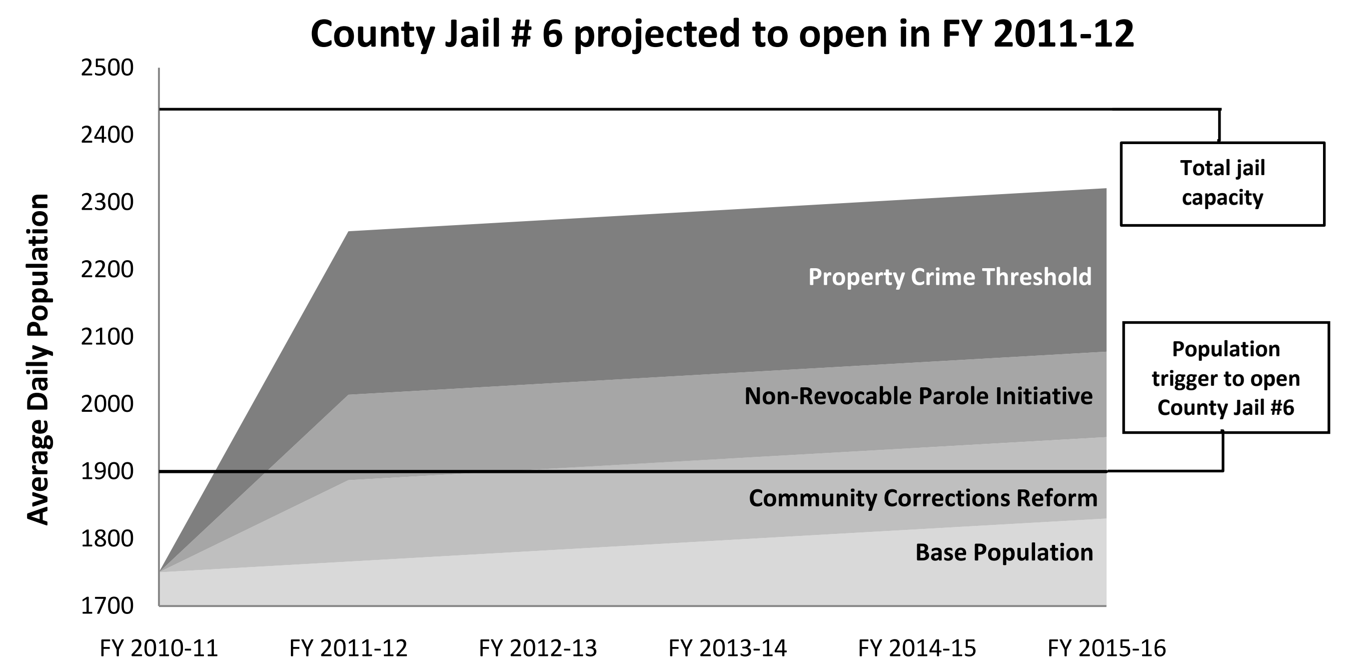
> 31%
>
> Projected increase in jail population over the next five years

- **The California Community Corrections Performance Incentives Act of 2009:** This act funds county probation departments to absorb the responsibility to track and monitor State probationers. However, if probationers do not adhere to probation requirements, they will be sentenced to county jail rather than return to State prison—which was the traditional consequence for a State probation violation. There is currently no funding available to county jails for the potential increase in State probationer inmates. The Sheriff's Department anticipates an additional 121 inmates each year as a result of this reform.

> 474
>
> Potential increase in average daily jail population associated with state reforms

- **The Non-Revocable Parole initiative:** This initiative stipulates that a State parolee is not returned to State prison for a parole violation, but is instead permitted a new trial. County jails currently house offenders awaiting trial and will absorb State parolees awaiting a new trial. As of FY 2010-11, the State released 172 offenders on non-revocable parole in San Francisco and the Sheriff anticipates that annually 127 will reoffend and return to County jail, based on a historical recidivism rate of 70 percent. Depending on the crime committed and the length of court proceedings, this initiative may have a profound impact on the County jail population.

- **Property Crime Threshold:** Many property crimes are punishable alternatively as a misdemeanor or a felony, depending on the dollar amount of the stolen property. Proposed State legislation would increase the number of crimes charged as a misdemeanor instead of a felony, thereby increasing the number of offenders found guilty that are sent to county jail instead of State prison. The Sheriff's Department anticipates an additional 243 inmates each year as result of this reform.



Source: Sheriff Department

Expand Communtiy Based Alternative Programs. Including County Jail #6, the total maximum jail capacity in San Francisco is 2,432; however, a population of 2,200 is the trigger point for the Sheriff to identify alternative solutions to incarceration in order to avoid jail-overcrowding. In addition to opening County Jail #6, the Sheriff plans to expand alternative community programs to deal with the projected increase in inmates. One example of a community-based alternative is electronic monitoring. An additional cosideration includes prioritzing the early release of prisoners awaiting trial—or the non-sentenced population—which accounts for approximately 80 percent of total jail population. Most early release options would require collaboration with other public safety departments and the Superior Court of California. The Sheriff is constitutionally mandated not to exceed the total jail capacity of 2,432 inmates.

Prepare for the growth of Court programs that require Sheriff's office participation and services. The Sheriff's Department provides mandated security at the Hall of Justice, Civic Center Courthouse and Youth Guidance Center, which is paid by the State Administrative Office of the Courts (AOC). AOC funding has not provided adequate support for the entirety of services provided, and the Department estimates a continuing shortfall of $0.3 million annually. The Superior Court is considering new alternative court programs for specific target populations, which could require additional Sheriff-provided security in the future.

Sheriff	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
SOURCES						
Base Revenues (incl. Exp Recoveries)	23.0	23.0	23.0	23.0	23.0	23.0
General Fund Support	132.4	132.4	132.4	132.4	132.4	132.4
Total Base Revenues	**155.5**	**155.5**	**155.5**	**155.5**	**155.5**	**155.5**
Adjustments to Base Revenues						
General Fund capital adjustment		(7.5)	(7.5)	(7.5)	(7.5)	(7.5)
Sources Total	**155.5**	**148.0**	**148.0**	**148.0**	**148.0**	**148.0**
USES						
Base Expenditures	**155.5**	**155.5**	**155.5**	**155.5**	**155.5**	**155.5**
Citywide Adjustments to Base Expenditures						
Wage Rate Increases		1.5	5.3	8.1	10.9	14.1
Benefit Cost Increases		3.6	8.5	15.6	20.9	21.7
Non-Salary Inflation		1.2	2.4	3.8	5.2	6.8
Departmental Adjustments to Base Expenditures						
Salary budget shortfall in FY 2010-11		7.7	8.1	8.5	8.9	9.4
Reopen County Jail #6		3.2	6.4	6.7	7.1	7.4
Court security shortfall		0.3	0.3	0.3	0.3	0.3
Academy class		0.0	2.0	0.0	0.0	0.0
General Fund capital adjustment		(7.5)	(7.5)	(7.5)	(7.5)	(7.5)
Uses Total	**155.5**	**165.4**	**180.9**	**190.9**	**201.2**	**207.6**
Projected Surplus/(Shortfall)	**0.0**	**(17.5)**	**(33.0)**	**(43.0)**	**(53.3)**	**(59.6)**
Percent Shortfall of Total Uses		**-10.6%**	**-18.2%**	**-22.5%**	**-26.5%**	**-28.7%**
Change from Prior Year		**(17.5)**	**(15.5)**	**(10.0)**	**(10.3)**	**(6.4)**
FTE						
Total FTE	**952.7**	**952.7**	**952.7**	**952.7**	**952.7**	**952.7**
Departmental Adjustments to FTE		0.0	30.0	30.0	30.0	30.0
Total Projected FTE		**952.7**	**982.7**	**982.7**	**982.7**	**982.7**