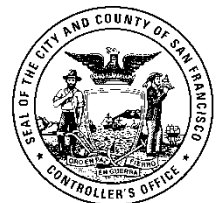


FY 2012-13 and FY 2013-14 Revenue Letter:

Controller's Discussion of the Mayor's FY 2012-13 and FY 2013-14 Proposed Budget



June 14, 2012



City and County of San Francisco

Office of the Controller

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Charter Section 9.102 requires that the Controller provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates in the Mayor's Proposed Budget and the reasonableness of such estimates. On May 31, 2012, Mayor Edwin Lee submitted his FY 2012-13 and FY 2013-14 Proposed Budget to the Board of Supervisors. An overview of the revenues is provided in Table 1.

Overall, the proposed two-year budget appears to be reasonable given the information currently available. The proposed budget reduces the City's recent reliance on one-time revenues and includes a gradual rebuilding of reserves, reducing prospective budgetary shortfalls, provided that the current economic recovery is sustained and potential future reductions in State revenues remain manageable.

Overview

As shown in Table 1, the Proposed Budget for FY 2012-13 of \$3.5 billion General Fund and \$7.3 billion All Funds represents a 7% increase from the FY 2011-12 original budget. The Proposed Budget for FY 2013-14 represents a further 3% increase in both General Fund and All Funds. Highlights include:

- **Local tax revenue estimates are reasonable given current economic assumptions but will continue to be monitored.** The proposed budget reflects the prevailing economic consensus in assuming a steady economic recovery through FY 2012-13 and FY 2013-14, with regular revenues increasing by \$220 million over the FY 2011-12 budget (representing \$92 million above the revised FY 2011-12 revenue outlook in the Controller's Nine Month Budget Status Report), and FY 2013-14 revenues increasing by a further \$109 million. However, San Francisco's economy is vulnerable to national and international economic developments that could cause changes to the currently favorable trends in job growth, property values and tourism. Any significant economic slowdown would require the Mayor's Office and Board to adjust the budget to reflect reduced revenues. The Controller's Office will monitor local tax receipts and the overall economic outlook carefully and provide revenue projection updates throughout the budget years.

Table 1. Overview of Budget Sources (\$ millions)

General Fund

	FY 2011-12 Budget	FY 2012-13 Proposed	FY 2013-14 Proposed
Fund Balance - Prior Year Operating Surplus	\$ 159	\$ 92	\$ 92
Fund Balance - Project Savings	incl above	4	1
Use of Reserves	13	16	16
Regular Revenues	2,933	3,213	3,326
Transfers, net	157	156	156
Total GF Sources	\$ 3,262	\$ 3,481	\$ 3,591
Change from Prior Year	\$ -	\$ 219	\$ 109
Percentage Change	\$ -	7%	3%

All Funds

	FY 2011-12 Budget	FY 2012-13 Proposed	FY 2013-14 Proposed
Fund Balance	\$ 254	\$ 217	\$ 195
Use of Reserves	13	20	21
Regular Revenues	6,568	7,110	7,338
Total All-Funds Sources	\$ 6,835	\$ 7,347	\$ 7,554
Change from Prior Year	\$ -	\$ 512	\$ 207
Percentage Change	\$ -	7%	3%

- **The proposed General Fund budget reduces reliance on prior year fund balance and other one-time sources:** As discussed in Appendix 2, use of fund balance and other one-time sources comprise just \$113 million and \$119 million of the proposed FY 2012-13 and FY 2013-14 General Fund operating budgets, respectively. This is a substantial reduction from the \$181 million of such sources used to support the FY 2011-12 General Fund budget. This reduced reliance upon one-time sources will make it easier for the City to balance future budgets.
- **The proposed budget implements new financial policies that rebuild reserves:** The City's Budget Stabilization reserve policy adopted in April 2010 provides that 75% of the amount of Real Property Transfer Tax above the prior five-year average be deposited into a Budget Stabilization Reserve, which complements the City's previously existing Rainy Day Reserve. These two reserves provide an economic cushion for the City during economic downturns when revenues decline. The proposed budget estimates that continued strength in the commercial real estate market will lead to \$25 million in deposits to the Budget Stabilization Reserve over the two-year budget period. The two-year budget also proposes \$11 million for the maximum allowable withdrawals from the Rainy Day Reserve to benefit the San Francisco Unified School District. Assuming no other deposits over this time horizon, this would result in a net increase to the City's economic stabilization reserves of \$14 million, raising their combined balance to \$66 million from the current level of \$52 million. In addition, the budget also complies with the Board's new General Reserve policy, also adopted in April 2010, which calls for increasing the General Fund Reserve to 1% of

budgeted regular revenues (\$32.2 million) in FY 2012-13 and 1.25% of budgeted regular revenues (\$41.6 million) in FY 2013-14. The General Reserve is available to be appropriated by the Board for any purpose to accommodate shortfalls or new requirements during the course of the budget year.

- **The budget contains a \$15 million FY 2012-13 allowance for future State funding cuts and realigned program responsibilities.** As of this writing, the California State budget has not been passed. The State's budget is premised upon voter approval of new income and sales tax measure on the November 2012 ballot, with significant trigger cuts to public education if the ballot measures fail. Should the measures fail, it is possible that the State Legislature could make alternative reductions to local government programs in order to reduce the impact to public education. There is no allowance for additional State funding cuts in the FY 2013-14 proposed budget. Future budget adjustments are likely to be necessary should the Mayor and Board wish to backfill potential State service reductions in FY 2013-14 or that exceed the \$15 million allowed for in the FY 2012-13 budget.
- **Budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** Appendix 3 provides details on voter-approved mandates that determine some minimum levels of revenues, expenditures or service levels for various programs. Items of interest include:
 - o **Children's Baseline:** The Children's baseline is funded at \$128.9 million in FY 2012-13 and \$129.8 million in FY 2013-14, which is above required levels by \$13.6 million and \$10.1 million respectively.
 - o **Police Staffing:** Police Baseline staffing requires 1,971 officers. Based on the Proposed FY 2012-13 and FY 2013-14 Budgets it appears that this staffing requirement has not been met.
 - o **Treatment on Demand:** Section 19.23A of the Administrative Code, approved by voters in December 2008, requires the Department of Public Health to meet overall demand for free and low-cost medical substance abuse services and residential treatment slots. The Department's recent reports indicate that as of December 2011 the target is not being met. The budget does not include additional funding intended to meet this target.

Conclusions

The proposed two-year budget appears to be reasonable given the information currently available, and with cautionary notes regarding its reliance on continued revenue growth and uncertainty in the State budget. The budget also sets the City to have reduced shortfalls in future years, due to the reduced reliance on prior year fund balance and the anticipated rebuilding of economic stabilization reserves. The Controller's Office will continue to work closely with the Mayor and the Board of Supervisors to share information provide estimates that will be necessary to ensure that the City's budget remains balanced.

Appendices

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Appendix 1. General Fund and Hospital Fund Sources

Table 1-1 provides a summary of the Mayor's FY 2012-13 and FY 2013-14 Proposed Budget's assumptions regarding General Fund sources and the change compared to the FY 2011-12 budget. Table 1-2 provides projected growth rates for major local tax revenues. Notes are provided below.

Table 1-1. General Fund Sources (\$ millions)

Sources of Funds	FY 2011-12 Budget	FY 2012-13 Proposed Budget	FY 2013-14 Proposed Budget	Notes
Prior Year Fund Balance - Operating Surplus	\$ 159.4	\$ 92.4	\$ 92.4	1
Prior Year Fund Balance - Project Close-outs	incl. above	4.2	0.8	1
Use of Reserves	12.8	16.4	16.5	2
Regular Revenues				
Property Taxes	1,028.7	1,078.1	1,109.7	3
Business Taxes	389.9	454.3	491.3	4
Sales Tax	106.6	121.7	130.0	5
Hotel Room Tax	165.9	194.0	216.1	6
Utility Users Tax	95.6	91.9	93.7	7
Parking Tax	72.0	76.5	78.8	8
Real Property Transfer Tax	118.8	203.5	183.1	9
Stadium Admissions Tax	2.3	2.7	2.8	
Access Line Tax	41.1	43.0	44.3	10
Licenses, Permits & Franchises	24.3	25.3	25.7	
Fines and Forfeitures	7.7	7.1	7.1	
Interest & Investment Income	6.1	6.8	5.8	11
Rents & Concessions	22.9	21.4	21.0	
Intergovernmental - Federal	208.8	198.8	210.3	12
State - Public Safety Sales Tax	69.1	79.0	81.7	13
State - Health & Welfare Realignment	143.7	150.9	155.2	14
State - Public Safety Realignment	-	17.3	17.3	15
Allowance for State Revenue Loss	(15.0)	(15.0)	-	16
State - Other	271.8	269.2	256.8	17
Charges for Services	143.2	155.5	160.5	18
Recovery of Gen. Govt. Costs	10.4	12.1	12.1	
Other Revenues	18.8	18.6	22.3	
Subtotal Regular Revenues	2,932.6	3,212.8	3,325.5	
Net Transfers	157.0	156.0	155.8	
Total Sources	3,261.7	3,481.8	3,591.0	

Table 1-2. General Fund Major Local Tax Revenues: Projected Growth Rates

Local Tax Revenues	FY 2012-13 Growth Estimate from FY 2011-12 Nine-Month Projection	FY 2013-14 Growth Estimate from FY 2012-13 Proposed Budget
Property Taxes	3.9%	2.9%
Business Taxes	6.1%	8.2%
Sales Tax	6.5%	5.0%
Hotel Room Tax	7.1%	11.4%
Utility Users Tax	3.0%	2.0%
Parking Tax	3.0%	3.0%
Real Property Transfer Tax	10.0%	-10.0%
Stadium Admissions Tax	2.0%	2.0%
Access Line Tax	3.0%	3.0%
Total	5.2%	3.7%

1. Prior Year Fund Balance. The proposed budget anticipates a \$189.8 million General Fund surplus to be available at the end of FY 2011-12, comprised of \$184.9 million from FY 2011-12 operating surplus (split equally between FY 2012-13 and FY 2013-14 budgets) and \$4.9 million from reductions in project-specific budgets, including \$4 million of surplus appropriation in the Public Campaign Finance Fund and \$0.9 million savings in the Controller's City Services Auditor project. The operating surplus projection is \$12.4 million more than the \$172.4 million ending fund balance projection in the Controller's FY 2011-12 Nine Month Budget Status Report. The updated projection reflects \$8 million that has been identified as available to release from litigation reserves after a reevaluation of outstanding liabilities and \$4.4 million in additional revenue surplus and expenditure savings identified since publication of the Nine Month Report.

2. Use of Reserves. As shown in Table 1-3, the Mayor's Proposed Budget includes using \$16.4 million from reserves established in prior years during FY 2012-13 and \$16.5 million during FY 2013-14.

Table 1-3. General Fund Use of Reserves (\$ millions)

	Actual FY 2011-12	Proposed FY 2012-13	Proposed FY 2013-14
Rainy Day Reserve Allocated to the School District	\$ 8.4	\$ 6.3	\$ 4.7
Recreation and Park's Budget Savings Incentive Reserve	4.4	1.7	1.9
Budget Savings Incentive Fund	-	8.4	9.9
Total Use of Reserves	\$ 12.8	\$ 16.4	\$ 16.5

a. Rainy Day Reserve. Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve (Rainy Day Reserve) funded by excess revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline. The FY 2011-12 year-end balance of the

Rainy Day Reserve's Economic Stabilization Account is projected to be \$25.1 million. The Mayor's Proposed Budget assumes no use of the Reserve by the City in FY 2012-13 or FY 2013-14. The budget assumes that the maximum 25% allowance for the San Francisco Unified School District will be withdrawn in each budget year, representing \$6.3 million in FY 2012-13 and \$4.7 million in FY 2013-14, leaving a remaining balance in the Reserve of \$14.1 million.

b. Recreation & Park's Savings Reserve. The Recreation and Parks Saving Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end net expenditure savings by the Recreation and Park Department and must be dedicated to one-time expenditures. The Mayor's Proposed Budget assumes the use of \$1.7 million from this reserve in FY 2012-13 and \$1.9 million in FY 2013-14.

c. Budget Savings Incentive Fund (BSIF). The Citywide Budget Savings Incentive Fund (BSIF) is authorized by Administrative Code Section 10.20. The Fund receives 25% of year-end departmental expenditure savings to support one-time expenditures. The Fiscal Year 2011-12 Nine Month Report anticipated that the year-end balance in the BSIF would be \$18.3 million. The proposed budget appropriates \$8.4 million of the reserve for projects in FY 2012-13 and a further \$9.9 million for FY 2013-14. Proposed uses of the Reserve are outlined in separate legislation submitted by the Mayor's Office.

3. Property Taxes. The FY 2012-13 General Fund share of property tax revenue is estimated at \$1,078.1 million, which is 4.8% (\$49.4 million) more than the FY 2011-12 budget and 3.9% (\$40.1 million) more than the FY 2011-12 Nine Month Report projection.

The FY 2013-14 General Fund share of property tax revenue is estimated at \$1,109.7 million, which is 2.9% (\$31.6 million) more than the proposed FY2012-13 budget.

FY 2012-13 Estimated Property Tax Revenues

Preliminary working roll estimates from the Assessor's Office indicate FY 2012-13 secured Proposition 13 base property roll value growth of 2.7% from the FY 2011-12 certificate value. This growth in the secured base property roll primarily reflects a 2.0% calculated inflation increase based upon the California Department of Industrial Relation's California Consumer Price Index (CCPI) and increases in Proposition 13 base property value assessments where there have been changes in ownership.

Offsetting the expected increase in the secured Proposition 13 base property roll value are the estimated temporary Proposition 8 reductions in secured taxable assessed values in FY 2012-13 for about 7% of the total number of San Francisco's taxable and non-segregated (timeshare) properties by the Assessor-Recorder. Those temporary reductions are estimated to reduce the secured taxable property value by about \$3.1 billion or -2% of the secured property roll in FY 2012-13 (compared to a reduction of about \$2.3 billion or -1.5% in FY 2011-12). Temporary Proposition 8 reductions have most commonly been applied to the recently constructed buildings and condominiums in the eastern South of Market District and Mission Bay areas where many dwellings were purchased between 2005 and 2009. The temporary reductions in secured taxable property value may adjust back up to the Proposition 13 base property roll value, stay the same, or decline in future years.

The estimated net increase in secured taxable property values should provide \$18.8 million more in General Fund share revenues in FY 2012-13 compared to the FY 2011-12 budget.

The reserve amount anticipated for Assessment Appeals Board (AAB) decisions for FY 2012-13 appeals is expected to decline, helping to increase the estimated General Fund revenues by \$11.4 million compared to the amount originally budgeted in FY 2011-12. The reserve carries forward balances from the prior year to allow for potential refunds based on appeals that continue to be pending from prior years.

FY 2013-14 Estimated Property Tax Revenues

The Controller's estimate for FY 2013-14 indicates secured Proposition 13 base property roll growth of 4.4% from the FY 2012-13 preliminary working roll estimates. This growth in the secured base property roll primarily reflects a 2.0% forecasted increase in the California Department of Industrial Relation's California Consumer Price Index (CCPI) and \$750 million in increased Proposition 13 base property values where there have been changes in ownership during calendar year 2012 or new construction completed and assessed by the Assessor-Recorder by December 31, 2012.

Proposition 8 reductions in taxable assessed values are estimated to decline to \$2.2 billion or about -1.5% in FY 2013-14, a level similar to FY 2011-12. This amount is challenging to estimate because unlike Proposition 13, which limits increases in secured base property roll values to a maximum of 2.0%, Proposition 8 temporary reductions may vary with no limitation other than the Proposition 13 base property roll value.

The estimated net increase in the secured taxable value would translate into approximately \$37.1 million in higher General Fund share revenues in FY 2013-14 compared to the proposed FY 2012-13 budget amount.

For the AAB reserve deposit in FY 2013-14, it is currently estimated that the amount will decrease by about 15% compared to the estimate for FY 2012-13. This would help to add \$5.3 million to General Fund revenues in FY 2013-14 compared to the estimated revenues for FY 2012-13.

Other factors affecting property tax revenues in FY 2012-13 and FY 2013-14 include:

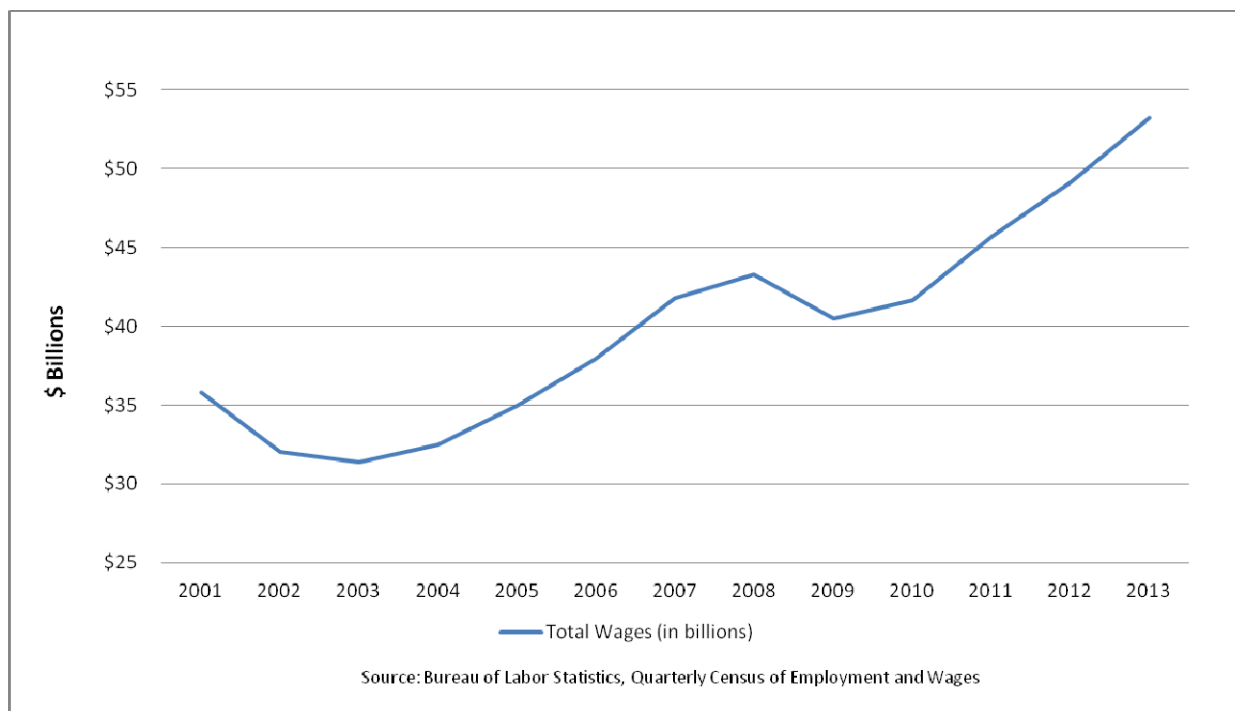
- \$51.0 million General Fund share is budgeted for supplemental and escape property tax assessments that the Assessor expects to process in FY 2012-13. This is an increase of about \$10.5 million compared to the \$40.5 million originally budgeted for FY 2011-12. As the Assessor-Recorder works through most of the prior year outstanding reassessments due to new construction and changes in ownership, \$29.7 million General Fund share is budgeted for supplemental and escape property tax assessments in FY 2013-14.
- \$14.0 million budgeted for penalties and interest revenue from payments of delinquent property taxes in FY 2012-13 and FY 2013-14, representing a slight decline compared to the \$14.2 million budgeted for FY 2011-12.
- \$124.1 million budgeted in FY 2012-13 and \$134.8 million budgeted in FY 2013-14 in gross property tax increment from properties within redevelopment project areas formed prior to the dissolution of the San Francisco Redevelopment Agency (SFRA) on February 1, 2012 to be paid to other affected taxing entities as AB 1290-required pass-through payments or to the Successor Agency to the San Francisco Redevelopment Agency. In FY 2011-12, \$119.0 million was used for the same purposes. The increases represent updated assessments,

corrected tax rate area assignments, and new construction anticipated in the Mission Bay North, Mission Bay South, and Transbay redevelopment project areas.

4. Business Taxes. Business taxes are budgeted at \$454.3 million in FY 2012-13 and 491.3 million in FY 2013-14, which are increases of \$64.4 million (16.5%) and \$37.0 million (8.1%) respectively. Business tax revenues include \$445.6 million and \$483.1 million in payroll taxes during FY 2012-13 and FY 2013-14, respectively, and \$8.7 million in business license registration fees during both years. The projection for FY 2013-14 payroll tax includes \$5.6 million in additional one time revenue resulting from the America's Cup yachting event.

As seen in Table 1-4, strong wage growth is expected in both 2012 and 2013, with projected increases of 5.2% in FY 2012-13 and 4.4% in FY 2013-14. Private employment, a key lagging indicator, which reached a trough in 2010, is expected to grow at a rate of approximately 2.3% in FY 2012-13 and 2.9% in FY 2013-14

Table 1-4. Total San Francisco County Wages, Calendar Years 2001 to 2013



San Francisco entered the recession late 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. In 2011, internet, publishing and computer systems design payrolls improved markedly in San Francisco, while finance and insurance industry payrolls have bottomed out but not yet recovered. Overall, employment growth appears to have finally reached levels indicating a sustainable jobs recovery.

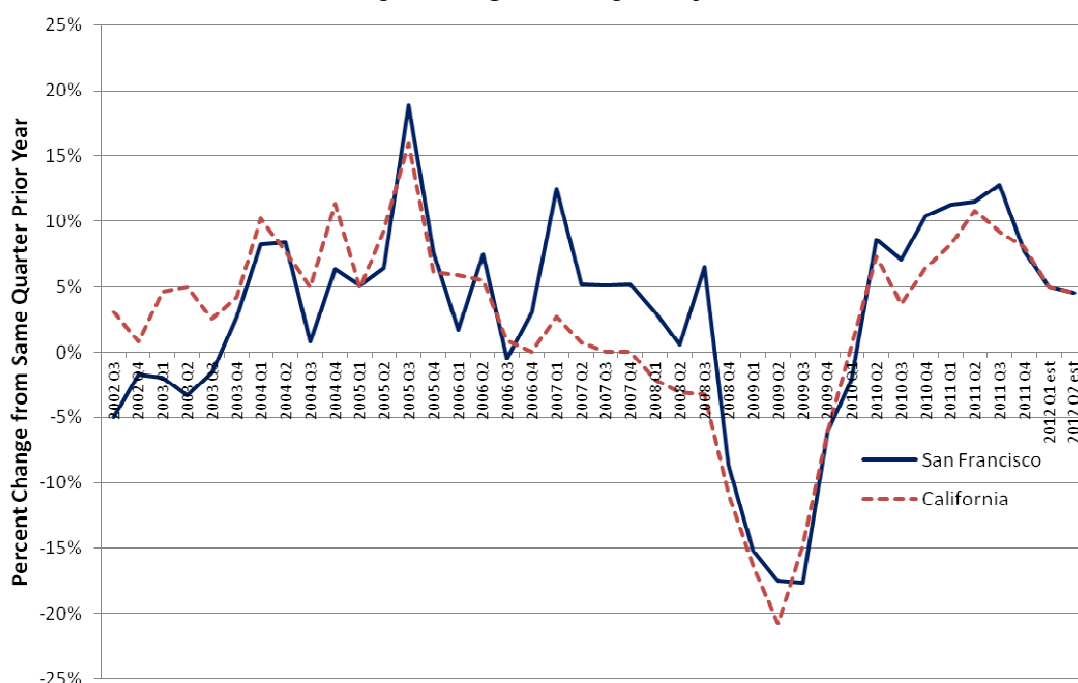
Not all employers are subject to San Francisco's business tax: the California Constitution prohibits taxation of certain financial corporations, while nonprofits, government employers and small businesses (firms with less than \$250,000 in taxable payroll, including sole proprietorships

with no payroll) are exempt. As a result, only about ten percent of registered businesses in the City pay payroll tax, and within that group the City relies on a single sector—business and professional services—for more than 40% of revenue. This concentration means that tax receipts can change more quickly and at different rates than data on total employment and wages may indicate.

5. Sales Tax. Local sales tax in FY 2012-13 is projected to generate \$121.7 million in revenue in FY 2012-13, an increase of \$15.2 million (14.2%) from the FY 2011-12 original budget and \$7.4 million (6.5%) more than the FY 2011-12 9 Month Report projections. Continued growth is expected during FY 2013-14 as revenues are expected to reach \$130.0 million, 6.8% more than FY 2012-13. The FY 2013-14 projection includes \$2.2 million in additional one-time revenue from the America's Cup yacht racing event.

Table 1-5 shows historical changes in quarterly sales tax receipts for both the City and State.

**Table 1-5. Historical Changes in Local and State Sales Tax Receipts
2002 Q3 through 2012 Q2 Projection**



The rate of recovery plateaued in FY 2010-11 and slowed while continuing to grow in an absolute sense during FY 2011-12. New multifamily construction and household formation will support continued revenue growth in the later projection years.

6. Hotel Room Tax. Total hotel tax revenue is projected to be \$253.5 million in FY 2012-13, a 15.2% increase from FY 2011-12 original budget a 7.7% increase from the Nine Month Report projection. Continued revenue growth is projected for in FY 2013-14 with total revenue projected at \$275.6 million, an increase of 8.7%.

Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Through March FY 2011-12, monthly occupancy rates averaged 80.7%,

showing steady growth over last year's peak of 80.1% for the same time-period. Strong demand from all segments of the market (tourist, convention, and business) combined with no additions to inventory, have exerted upward pressure on room rates, with ADR increasing to \$197 in the first three quarters of FY 2011-12, a 14% increase over the same period last year and nearly 5% above the prior peak in FY 2007-08. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, reached a record high of nearly \$160 in FY 2011-12 (year-to-date), a 9% increase from the previous peak in FY 2007-08. Double-digit increases in RevPAR during the first calendar quarter of 2012 are expected to slow through the second quarter ending June 30, 2012. The Proposed Budget assumes an annual increase in RevPAR of approximately 6.0% in both FY 2012-13 and FY 2013-14, due to anticipated continued strong demand. Table 1-6 provides a recent history of RevPAR levels.

Table 1-6. Revenue Per Available Room (RevPAR): Fiscal Year 2007-08 to 2011-12

	2007-08	2008-09	2009-10	2010-11	2011-12	Change - \$	Change - %
July	\$156	\$167	\$131	\$141	\$171	\$30	22%
August	162	167	134	154	176	22	14%
September	175	178	152	166	189	23	14%
October	184	171	174	174	204	30	17%
November	146	122	107	111	151	40	36%
December	100	112	85	106	108	2	2%
January	117	102	96	123	135	12	10%
February	142	91	102	136	156	21	15%
March	141	110	117	136	147	11	8%
April	139	116	118	130			
May	146	114	133	164			
June	169	121	129	157			
Average YTD	\$148	\$131	\$123	\$141	\$160	\$21	15.4%
\$ Change from PY	\$13	(\$17)	(\$8)	\$18	\$18		
% Change from PY	9.3%	-11.6%	-5.9%	14.8%	15.4%		

General Fund hotel tax totals \$194.0 million in FY 2012-13, of which \$170.2 million is unallocated. This is a General Fund increase of \$28.1 million or 17.4% from the FY 2011-12 budget and 7.1% from the Nine Month Report projection. Similar growth is expected during FY 2013-14 with the General Fund hotel tax totals are projected to grow by \$22.1 million (11.4%) to \$216.1 million in FY 2013-14, of which \$192.3 million is unallocated.

The completion of Moscone Convention Center renovations and opening of all facility space available is expected by July 1, 2012, enabling growth from convention-related business. Additionally, these projections include \$8.4 million in additional one-time revenue in FY 2013-14 from the America's Cup yacht racing event and adjustments to defer revenue related to ongoing litigation.

Table 1-7 illustrates how hotel room tax revenues would be allocated pursuant to the Municipal Code and how they are allocated in the FY 2012-13 and FY 2013-14 Proposed Budgets.

Table 1-7. FY 2011-12 Hotel Room Tax Revenue Allocation (\$ millions)

	FY 2011-12		FY 2012-13		FY 2013-14	
	9-Month Estimate	Municipal Code Allocation	Proposed Allocation	Municipal Code Allocation	Proposed Allocation	
General Fund Unallocated (discretionary)	\$ 157.4	\$ 122.1	\$ 170.2	\$ 136.6	\$ 192.3	
Grants for the Arts - Recurring	11.2	23.3	11.2	24.7	11.2	
Grants for the Arts - Non-Recurring	0.2	0.4	0.2	0.4	0.2	
Fine Arts Museum	5.6	7.4	5.6	7.8	5.6	
Asian Art Museum	2.2	2.9	2.2	3.1	2.2	
Academy of Sciences - Steinhart Aquarium	1.2	-	1.2	-	1.2	
Administration (Tax Collector)	0.1	0.2	0.1	0.2	0.1	
Cultural Centers	1.5	2.8	1.5	3.0	1.5	
Cultural Equity Endowment	1.7	3.2	1.7	3.4	1.7	
War Memorial & Performing Arts	8.7	14.0	9.2	14.8	9.1	
Moscone / Convention Facilities	34.1	52.8	34.1	56.0	34.1	
Convention & Visitors Bureau	7.6	12.2	7.6	12.9	7.6	
Low-Income Housing - Capital Projects	-	8.3	-	8.8	-	
Low-Income Housing - Rental Assistance	0.5	0.7	5.5	0.7	5.6	
Yerba Buena Gardens (Redevelopment Agency)	3.3	3.2	3.2	3.1	3.1	
Total	\$ 235.4	\$ 253.5	\$ 253.5	\$ 275.6	\$ 275.6	
Budgeted in General Fund	\$ 181.2	\$ 162.4	\$ 194.0	\$ 179.2	\$ 216.1	
Budgeted in Non-General Fund	50.9	88.0	56.4	93.3	56.4	
Budgeted in SF Redevelopment Agency	3.3	3.2	3.2	3.1	3.1	
Total, All Entities	\$ 235.4	\$ 253.5	\$ 253.5	\$ 275.6	\$ 275.6	

7. Utility Users Tax. Utility user tax revenue is budgeted at \$91.9 million in FY 2012-13, \$3.7 million (3.9%) less than the FY 2011-12 Original Budget, but \$2.7 million (3%) over the FY 2011-12 9-Month Report projection. Telephone user taxes, water user tax revenues, and gas and electric user taxes are budgeted to grow by 3% over FY 2011-12 projected actual revenues, reflecting growth in private employment and CPI anticipated during FY 2012-13. In FY 2013-14, Utility user tax is budgeted at \$93.73 million, which is \$1.8 million, or 2%, over the FY 2012-13 budgeted amount.

8. Parking Tax. Parking tax is budgeted at \$76.5 million in FY 2012-13, an increase of \$4.6 million (6.3%) compared to the FY 2011-12 budget, and a \$2.2 million increase from the 9-Month Report FY 2011-12 projection. Parking tax revenues are correlated with business activity, employment, and rate increases. The recovery in business activity and employment have largely driven this increase. Additionally, much of the increases from the FY 2011-12 original budget to the FY 2011-12 9 Month projection are attributable to increased enforcement efforts beginning in December 2010, to collect parking tax from parking lot operators who do not hold Certificates of Authority. In FY 2013-14, parking tax is projected at \$78.8 million, a 3.0% increase (\$2.3 million) from FY 2012-13. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit as mandated by Charter Section 16.110.

9. Real Property Transfer Tax. Real property transfer tax is budgeted at \$203.5 million in FY 2012-13, and \$183.1 in FY 2013-14. The FY 2012-13 budget represents an \$84.7 million (71%) increase over the FY 2011-12 budget of \$118.8 million, and an \$18.5 million (10%) increase compared to the FY 2011-12 9-Month Projection of \$185.0 million, primarily due to the anticipated continued strengthening of market fundamentals across all property sectors, resulting in increased demand from institutional investors, as well as owner-users. The FY 2013-14 budget is 10% lower (\$20.3 million) than the FY 2012-13 budget, reflecting projected strong market conditions, but reduced from the expected peak of sales activity in the coming year.

Table 1-8 summarizes recent history for this revenue by transaction size and illustrates the high levels of revenue generated in FY 2005-06 and FY 2006-07 from sales of high value (largely commercial) properties. The transfer taxes generated by these transactions fell by over 50% in FY 2008-09 due to severe downturn, rebounded in FY 2009-10, and are projected to surpass prior peak levels in FY 2011-12, due in part to tax rate increases in November 2008 and 2010, as well as an increase in transaction volume, particularly at the higher tax brackets from commercial investment activity.

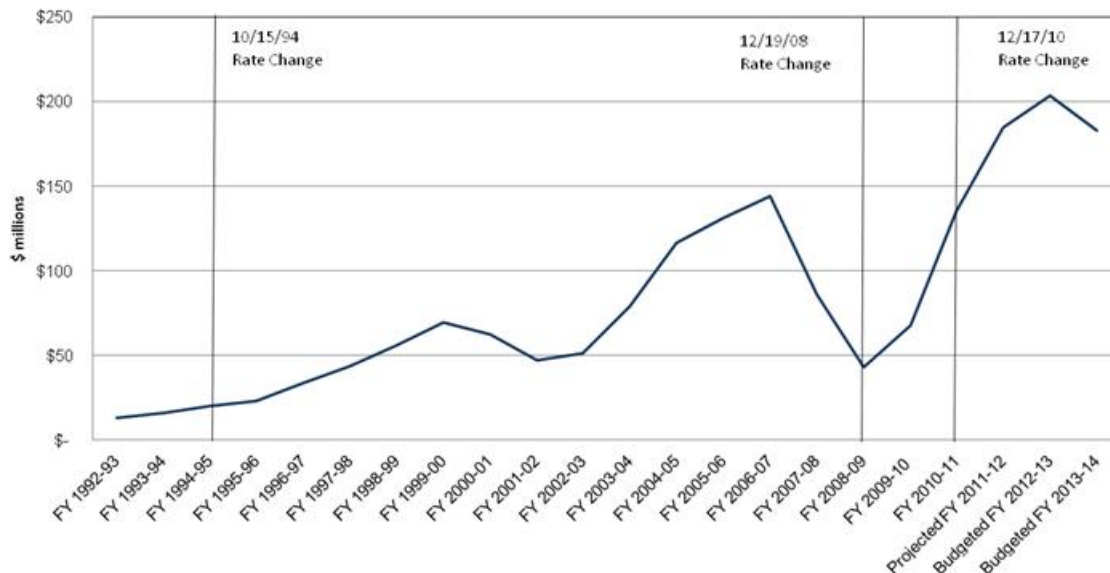
Table 1-8. Real Property Transfer Tax Revenues by Transaction Size (\$ millions)

Real Property Transfer Tax Revenue (\$ millions)*						
Tax Rate	@ 0.50%	@ 0.68%	@ 0.75%	@ 1.5%	@ 2.5%	Total
	<\$250K	>\$250K	>\$1 M	>\$5 M	>\$10 M	Revenue
FY 2005-06	\$ 0.5	\$ 31.4	\$ 98.3	N/A	N/A	\$ 130.2
FY 2006-07	0.4	29.3	114.3	N/A	N/A	144.0
FY 2007-08	0.5	24.8	61.0	N/A	N/A	86.2
FY 2008-09	0.8	19.8	27.1	1.2	N/A	48.9
FY 2009-10	1.8	24.8	26.5	30.7	N/A	83.7
FY 2010-11	1.0	21.7	31.1	53.1	32.0	138.8
FY 2011-12 Projection	1.0	22.2	28.2	18.7	114.8	185.0
FY 2012-13 Budget	1.1	24.4	31.0	20.6	126.3	203.5
FY 2013-14 Budget	1.0	22.0	27.9	18.5	113.7	183.1

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

Proposition N, passed by the voters in November 2010, increased the property transfer tax rate on transactions valued at \$5 million to \$10 million from 1.5% to 2.0%, and from 1.5% to 2.5% for transactions values at over \$10 million. In FY 2011-12, the total value of all transactions is anticipated to top \$13.1 billion, generating \$185 million in transfer taxes. The Proposed Budget assumes continued strong market demand with total sales volume increasing to \$14.4 billion in FY 2012-13, approximately 25% less than the transaction volume in the prior peak FY 2006-07, yet generating higher taxes due to the change in the tax rate. The Proposed Budget assumes revenues revert toward the long term trend line in FY 2013-14, as illustrated in Table 1-9.

Table 1-9. Real Property Transfer Tax Revenues (\$ millions)



In April 2010, the Board of Supervisors and Mayor approved the Controller's proposed financial policies, submitted in accordance with the provisions of Proposition A, passed in November 2009. These policies included the creation of a Budget Stabilization Reserve to be funded with a portion of volatile revenues, beginning in FY 2011-12, including 75% of transfer tax revenue in excess of the prior five-year average, adjusted for any rate increases during the period. Transfer Tax revenue is projected to exceed the prior five-year average in both FY 2012-13 and FY 2013-14 by \$23.7 million and \$9.7 million respectively, triggering Budget Stabilization Reserve deposits of \$17.8 million in FY 2012-13 and \$7.3 million in FY 2013-14. See Appendix 4 for more detail on the Budget Stabilization Reserve.

10. Access Line Tax. Access Line Tax revenues are budgeted at \$43.0 million in FY 2012-13, an increase of \$1.9 million (4.6%) from the FY 2011-12 budget and an increase of \$1.3 million (3.0%) from the FY 2011-12 Nine Month Report projection. The budget reflects a proposed inflationary increase to the Access Line Tax rate of 2.9% as required under Business and Tax Regulations Code Section 784. Access Line Tax revenues are budgeted at \$44.3 million in FY 2013-14, a 3.0% (\$1.3 million) increase from FY 2012-13.

11. Interest & Investment Income. General Fund interest and investment income for FY 2012-13 is projected to increase by \$0.7 million (12.0%) to \$6.8 million from the FY 2011-12 budget and a decrease of \$1.1 million (13.5%) from the FY 2011-12 Nine Month Report projection. This assumes average net monthly interest rates will decrease by 25.5%, from 1.1% in FY 2011-12 to 0.8% in FY 2012-13, and that average cash levels of unallocated General Fund revenue will remain flat. In FY 2013-14, interest and investment income is expected to decrease 14.4% (\$1 million) compared with FY 2012-13 budget, and assumes interest rates decline 12.2% from FY 2012-13 to approximately 0.7% in FY 2013-14.

12. Intergovernmental – Federal. Federal support for the General Fund is projected to decrease by \$9.9 million (4.8%) to \$198.8 million in FY 2012-13 due primarily to the loss of federal aid for foster care and adoptions due to a projected decrease in expenditures. Federal support is projected to rebound in FY 2013-14 and increase \$11.4 million (5.4%) to \$210.3 million due

primarily to \$10 million in expected Federal participation in final payments related to the Fourth Street bridge project.

13. State - Public Safety Sales Tax. Public Safety (Proposition 172) sales tax revenue is budgeted at \$79.0 million in FY 2012-13, and \$81.7 in FY 2013-14. In FY 2012-13 revenue from this subvention is expected to increase \$9.9 million (14.3%) from the FY 2011-12 budget and \$4.1 million (5.4%) from Nine Month Report projections; FY 2013-14 revenue is projected to increase 3.5% (\$2.7 million) from the FY 2012-13 budget. These revenues are allocated to counties by the State separately from the local one percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the County Ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The Proposed Budget for FY 2012-13 assumes a 1.4% increase in the County Ratio and a 3.5% increase in state sales taxes over projected FY 2011-12 actual revenues, reflecting San Francisco's relatively stronger recovery in taxable sales compared to the state. The FY 2013-14 budget assumes no change in the County Ratio and state sales taxes increasing 3.5%, consistent with projected continued economic recovery statewide and resultant increases in taxable spending.

14. State – Health & Welfare Realignment. Realignment allocations from the State for Health and Welfare are comprised of three components: statewide sales tax, motor vehicle license fee (VLF) receipts, and CalWORKS Maintenance of Effort (MOE), budgeted as follows:

Health & Welfare Realignment – Sales Tax. In FY 2012-13 and FY 2013-14, General Fund realignment revenue from sales taxes are anticipated to increase 3.5% each year, consistent with statewide sales tax growth projections discussed above. This results in a \$10.3 million increase in Health and Welfare sales tax allocation from the FY 2011-12 budget, and a \$3.8 million increase (3.5%) over Nine Month Report projections; FY 2013-14 revenue from this source is projected to increase \$3.9 million from the FY 2012-13 budget, or 3.5%.

Health & Welfare Realignment – Vehicle License Fee (VLF). General Fund realignment revenues from VLF receipts in FY 2012-13 are expected to decrease \$3.1 million from FY 2011-12 budgeted levels, and increase \$0.6 million (1.5%) over Nine Month Report projections; FY 2013-14 revenue from this source is projected to increase \$0.4 million (1.0%) from the FY 2012-13 budget. Although new vehicle sales continue to increase from prior years (16.6% in the first three quarters of FY 2011-12 compared to the same period in FY 2010-11), new car sales generate only 20% of VLF revenue. The erosion in the amortized value of existing vehicles, which declined dramatically during the recession, temper revenue projections: the budget assumes modest growth in the value of vehicles upon which the VLF is assessed (1.5% in FY 2012-13 and 1.0% in FY 2013-14).

Health & Welfare Realignment – CalWORKs Maintenance of Effort (MOE). San Francisco's CalWORKs MOE allocations are tied to what the county would have received under the 1991 realignment formula for distribution of funding for mental health services. In FY 2012-13, realignment revenues from this subvention are projected to increase \$1.5 million from FY 2011-12 budgeted levels and \$0.8 million over Nine Month Report projections, based on projected growth in state sales taxes and VLF revenue. In FY 2013-14 revenue from this source is projected to increase \$0.8 million (2.8%) from the FY 2012-13 budget.

15. State - Public Safety Realignment. Public Safety Realignment (AB 109, enacted in early 2011), transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and state parole agents to county jails and probation officers. Based on revised allocation formulas, Public Safety Realignment revenue is budgeted at \$17.3 million in FY 2012-13, an \$11.5 million increase over FY 2011-12 projected actual revenues. The allocation methodology used for 2012-13 projections is not permanent, as more time and programmatic experience is required before the State settles on a final allocation formula. In light of this uncertainty, the budget for FY 2013-14 remains at \$17.3 million, unchanged from the FY 2012-13 budgeted amount.

16. Allowance for State Revenue Loss. The budget contains a \$15 million FY 2012-13 allowance for future State funding cuts and realigned program responsibilities. This is equal to the amount included in the FY 2011-12 original budget. There is no allowance for additional State funding cuts in the FY 2013-14 proposed budget.

17. State – Other. Other State funding is projected to decrease in FY 2012-13 by \$2.6 million (1.0%) to \$269.2 million and decrease in FY 2013-14 by \$12.5 million (4.6%) to \$256.8. Decreases in both years are primarily a result of reductions to federal Short-Doyle Medi-Cal funds drawn down through the State of \$8.5 million and \$14.2 million in FY 2012-13 and FY 2013-14 respectively.

18. Charges for Services. The FY 2012-13 Proposed Budget assumes approval of a small number of fee increases, resulting in increased fee revenue of approximately \$900,000 compared to FY 2011-12, summarized in Table 1-10.

**Table 1-10. Key General Fund Fee Changes Assumed in the FY 2012-13 Budget
(\$ millions)**

Department	Fee Description	Value
Fire	Increase fees in Section 113.10 and 113.21 for certain Fire Department services, and making environmental findings.	0.35
City Administrator	Revise fees in Section 2A.22.1 charged for plan and site review for compliance with federal disability access laws and to make environmental findings.	0.11
Police	Car Park Solicitation(Commercial Parking Garage or Lot). Car Park Garage Permit Fee.	0.24
Public Health	Business & Tax Regulations and Health Codes- Food Product and Marketing Establishment License Fees.	-
Recreation and Parks	Adjust Fees at Harding, Fleming, Lincoln, Sharp, and Golden Gate Golf Courses.	0.20
Recreation and Parks	Increase rates for professional tennis lessons on park property, and set two-tier pricing based on instructor certification level.	-
Total		\$ 0.90

The table excludes the effect of automatic CPI adjustments and increased patient rates at the Department of Public Health. Legislation to automatically adjust City Planning's CEQA fees for inflation is not expected to result in increased revenue.

In addition to the above fees, the FY 2012-13 budget assumes Fire Department ambulance billing recoveries increase by \$7.7 million over FY 2011-12 actual revenues and increase \$5.9 million in FY 2013-14 above FY 2012-13 budget, due to AB 678 - Medi-Cal: Ground Emergency Medical Transport, passed by the State legislature in 2011.

San Francisco General Hospital and Laguna Honda Hospital Revenues and General Fund Support

San Francisco General Hospital and Laguna Honda Hospital operations are included in the Department of Public Health. These hospital operations are budgeted in Enterprise funds outside the General Fund, but receive substantial transfers in from the General Fund and are considered "General Fund Supported" enterprises. As a result, any surpluses or shortfalls in the hospitals are ultimately felt by the General Fund as reductions or increases in transfer in requirements.

As shown in Table 1-11, San Francisco General Hospital and Laguna Honda Hospital regular revenues are budgeted to decrease by \$61.1 million (8%) in FY 2012-13 from the FY 2011-12 revised budget, primarily because the FY 2011-12 revised budget included the accumulated federal reimbursement of \$67.6 million for a share of multiple years' worth of Laguna Honda Hospital construction debt service costs. Revenues are projected to increase by \$18.5 million (2.2%) in FY 2013-14. This increase includes the loss of some major revenue streams, offset by new ones, as discussed in the notes below.

Table 1-11. San Francisco General and Laguna Honda Hospital Revenues (\$ millions)

Sources of Funds	FY 2011-12 Revised Budget	FY 2012-13 Proposed Budget	FY 2013-14 Proposed Budget	Notes
Rents & Concessions	0.6	0.6	0.6	
Intergovernmental - Federal	11.3	4.1	5.1	19
State - Health & Welfare Realignment	49.6	48.8	49.8	20
State - Other	30.2	27.0	28.5	21
Charges for Services	717.2	731.9	745.6	22
Recoveries from City Departments	1.4	1.7	1.7	
Other Revenues	88.5	23.3	24.7	23
Regular Revenues	898.7	837.6	856.1	
Net Transfer In from General Fund		101.0	146.2	
Total Sources	898.7	938.6	1,002.3	

19. Intergovernmental-Federal. The \$5.8 million reduction in FY 2012-13 reflects the loss of one-time federal stimulus incentive funds in the prior year tied to the implementation of electronic medical records.

20. Hospital State – Health & Welfare Realignment. The \$0.8 million reduction in FY 2012-13 is due to reductions from state Vehicle License Fee collections offset by improved State Sales Tax collections. See State Health and Welfare Realignment discussion in the General Fund regular revenues section.

21. Hospital State-Other. This category includes insurance reimbursements, including Federal and State Medi-Cal reimbursements for hospital services. The \$3.2 million reduction in FY 2012-13 is a result of loss of State Health Care Initiative revenue, which is projected to increase by \$1.5 million in FY 2013-14.

22. Charges for Services. This category includes insurance reimbursements, including Federal and State Medi-Cal reimbursements for hospital services. The \$14.1 million increase from FY 2011-12 to FY 2013-14 includes the net effects of:

- \$9.1 million increase due to funding allocations under the State Section 1115 Medicaid Waiver, including revised funding from the Safety Net Care Pool and Delivery System Reform Incentive Pool
- A reduction of \$6.2 million in patient revenues at Laguna Honda Hospital resulting from a State action to reduce Medi-Cal reimbursement rates at skilled nursing facilities, partially offset by supplemental federal payments and other patient revenues.
- \$11.8 million net increase in other charges for services based current trends and rates.

23. Hospital Other Revenues. This includes federal reimbursement for a share of the City's debt service costs associated with the construction of Laguna Honda Hospital, authorized by State legislation known as SB1128. In FY 2011-12, the City received its first distribution of \$67.6 million in these revenues covering multiple prior years.

Appendix 2. Selected Nonrecurring Revenue Policy Compliance

When one-time or nonrecurring sources are used to support ongoing operations, this creates a budget gap for future years, requiring either that expenditures be reduced or replacement resources be identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, that requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General fund prior year-end unassigned fund balance above the prior five-year average, and when replacement resources will be required in future years, be unavailable in future years to support future budgets;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and,
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance budgeted at \$96.6 million for FY 2012-13 and \$93.2 million for FY 2013-14 falls substantially below the prior five year averages for each year of \$141.3 million and \$138.3 million (estimated), respectively.

The only nonrecurring revenues that appear to fall within the policy is the Department of Public Health's anticipated \$1.8 million sale of property located at 35-45 Onondaga Avenue. The Mayor's Office has identified nonrecurring expenditures in the Department of Public Health's budget that will be funded with the proceeds of this sale. Therefore, the Controller's Office is certifying compliance with the policy.

Other Nonrecurring Sources

Table 2-1 shows other General Fund and Hospital Fund nonrecurring revenues in operating funds that do not fall under the policy, \$112.6 million in FY 2012-13 and \$119.4 million in FY 2013-14. This is a substantial reduction from the \$181.0 million in such sources in the FY 2011-12 budget.

Table 2-1. General Fund and Hospital Fund Nonrecurring Sources
operating funds only, excludes sources dedicated to specific projects, \$ millions

	FY 2012-13	FY 2013-14
General Fund Prior Year Fund Balance - Operating Surplus	\$ 92.4	\$ 92.4
General Fund Prior Year Fund Balance - Project close-outs	4.2	0.8
America's Cup Extra Local Taxes (Sales, Hotel, Payroll)	-	16.2
Retroactive reimbursement of 4th Street Bridge construction costs	-	10.0
Expected extra 49ers contribution to exit Candlestick Park lease early	1.0	-
Public Health Retroactive State Plan Amendment Revenues	15.0	-
Total Nonrecurring General Fund Revenues	\$ 112.6	\$ 119.4

Appendix 3. Baselines & Mandated Funding Requirements

The Charter includes requirements for baseline levels of funding or staffing for a number of City Services. Table A3-1 below summarizes such required baselines and minimum staffing levels. The amounts listed as "Proposed Budget" include technical adjustments to be submitted to the Board of Supervisors Budget and Finance Committee as an amendment to the May 31, 2012 Proposed Budget.

Table 3-1. Key Baseline & Mandated Funding Requirements (\$ millions)

	FY 2011-12 Original Budget	FY 2012-13 Proposed Budget	FY 2013-14 Proposed Budget
General Fund Aggregate Discretionary Revenue (ADR)	\$ 2,074.0	\$ 2,317.9	\$ 2,405.9
Financial Baselines			
Municipal Transportation Agency (MTA)			
MTA - Municipal Railway Baseline 6.686% ADR	\$ 138.7	155.0	160.9
MTA - Parking & Traffic Baseline 2.507% ADR	52.0	58.1	60.3
MTA - 80% Parking Tax In-Lieu	57.6	61.2	63.1
Subtotal Municipal Transportation Authority	\$ 248.2	\$ 274.3	\$ 284.2
Library Preservation Fund			
Library - Baseline 2.286S% ADR	47.3	53.0	55.0
Library - Property Tax Set-aside \$0.025 per \$100 Net Assessed Valuation (NAV)	35.6	37.3	38.4
Subtotal Library	82.8	90.3	93.4
Children's Services			
<i>Children's Services Baseline Requirement 4.973% ADR</i>	<i>103.2</i>	<i>115.3</i>	<i>119.6</i>
Children's Services Baseline-Eligible Items Budgeted	123.8	127.1	126.6
Public Education Services Baseline	6.0	6.7	7.0
Children's Fund Property Tax Set-Aside \$0.03 per \$100 NAV	42.7	44.7	46.0
Public Education Enrichment Fund (prior to 25% deferral) - 3.057% ADR			
1/3 Annual Contribution to Children and Families Commission- Preschool for All after 25% deferral	15.9	17.7	18.4
2/3 Annual Contribution to SFUSD after deferral:			
Share of SFUSD Contribution provided as In-Kind Services	2.5	2.8	2.9
Balance of SFUSD Contribution direct funding	29.2	32.7	33.9
Subtotal Childrens Services	220.0	231.7	234.8
Open Space Property Tax Set-Aside \$0.025 per \$100 NAV	35.6	37.2	38.4
Human Services Homeless Care Fund - amount based on aid savings	13.7	13.7	13.7
Municipal Symphony Baseline \$0.00125 per \$100 NAV	2.0	2.0	2.1
City Services Auditor 0.2% Citywide Budget	12.1	12.4	31.2
Total Financial Baselines	\$ 614.5	\$ 661.6	\$ 697.7
Staffing and Service-Driven Baselines			
Police Minimum Staffing		Requirement likely not met	
Fire Neighborhood Firehouse Funding		Requirement met	
Treatment on Demand		Requirement likely not met	
Office of Economic Analysis Staffing		Requirement met	

Municipal Transportation Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the Municipal Transportation Agency (MTA). Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in aggregate City discretionary revenues. Beginning in FY 2002-03, this Charter section also established a level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations.

The Mayor's Proposed Budget includes funding for the Municipal Railway (MUNI) baseline at the required levels.

Children's Baseline. Charter Section 16.108 establishes a fund for children's services. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. The required baselines for FY 2012-13 and FY 2013-14 are \$115.3 million and \$119.7 million respectively. Mayor's Proposed Budget has includes Children's Baseline appropriations of \$128.9 million and \$129.8 million, representing surplus funding of \$13.6 million for FY 2012-13 and \$10.1 million for FY 2013-14.

Library Baseline. Charter Section 16.109 establishes a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. Based on revenue in the Mayor's Proposed Budget the required Library Baseline appropriation is \$53.0 million for FY 2012-13 and \$55.0 million for FY 2013-14.

Public Education Services Baseline. Charter Section 16.123-2 establishes a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted by the percent increase or decrease in aggregate City discretionary revenues. Proposition H, passed by voters in March 2003, required not only enhancement funding for public education but also baseline funding established pursuant to FY 2002-03 appropriation levels, which were to be adjusted in subsequent years according to changes in aggregate discretionary revenues. The Mayor's Proposed Budget for the Department of Children, Youth & Their Families includes \$6.7 million and \$6.9 million for FY 2012-13 and FY 2013-14 for the Public Education Services baseline. The source of the funding is split equally between the General Fund and the Children's Fund.

Municipal Symphony Baseline. Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of \$0.01 of each \$100 in assessed valuation of property tax for the symphony orchestra. Based on the current property tax assessed valuation projections, the required funding for the Municipal Symphony Baseline should be \$2.0 million for FY 2012-13 and \$2.1 million for FY 2013-14.

Other Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate three property tax-related set-asides, including amounts equivalent to 3.0% of property tax revenues for Children's Services, 2.5% for Library Preservation and 2.5% for Open Space. The Mayor's FY 2011-12 Proposed Budget includes required funding of \$44.7 million and \$46.0 million for Children's Services in FY 2012-13 and FY 2013-14 respectively, and \$37.3 million

and \$38.4 million in FY 2012-13 and FY 2013-14 respectively for both Library Preservation and Open Space.

Public Education Enrichment Funding. The Mayor's FY 2012-13 and FY 2013-14 Proposed Budget includes \$50.4 million and \$52.3 million respectively for the Public Education Enrichment Fund Annual Contribution plus an allowance for \$2.7 million and \$2.9 million respectively in in-kind contribution to the San Francisco Unified School District, for a total contribution of \$53.1 million in FY 2012-13 and \$55.2 million in FY 2013-14. This funding, which was approved by voters in March 2004 through Proposition H and included in Charter Section 16.123-2, requires the City to support education initiatives with \$60 million in FY 2009-10, and with annual contributions in FY 2010-11 through FY 2014-15 equal to the City's total contribution the prior year, adjusted for the change in aggregate discretionary revenue. In any year, if the joint report prepared by the Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget Analyst projects a budgetary shortfall of \$100 million or more, the Mayor and the Board of Supervisors may reduce the City's contribution to the Public Education Enrichment Fund by up to 25%. The FY 2012-13 and FY 2013-14 Proposed Budget includes this reduction in each year. The cumulative deferrals since FY 2008-09 including the budgeted amounts for FY 2012-13 and 2013-14 total \$93 million. The City must pay back the combined deferrals by 2018 unless voters extend the measure or authorize a substantially similar measure.

City Services Auditor Baseline. Charter Section F1.113 establishes the Controller's Audit Fund and a baseline amount. This baseline was approved by voters in November 2003 and mandates that 0.2% of the budget be used to fund audits of City services. The Mayor's FY 2012-13 and FY 2013-14 Proposed Budgets appropriates \$12.1 and \$12.4 million respectively for the City Services Auditor Baseline.

Human Services Homeless Care Fund. Also known as Care not Cash, the Human Services Homeless Care Fund established in Administrative Code Section 10.100-7 was passed by voters in November 2002. The Administrative Code defines a formula for calculating the annual required contribution to the fund based on the number of homeless people expected to participate in County Adult Assistance Programs (CAAP) during each upcoming fiscal year as compared to a base year. The City is required to credit the fund with the difference between the average annual maximum cash grant for each program and the average annual special allowance or other residual cash payment provided by the City for each participant to whom the City expects to provide in-kind benefits in lieu of the full cash grant during the year. These funds are to be used on homeless outreach and service programs. In FY 2012-13 and FY 2013-14, new funding is budgeted at \$13.7 million, unchanged from the FY 2011-12 budget. Since this requirement is not contained in the Charter, the Board may approve an Annual Appropriation Ordinance that does not meet the requirement.

Police Staffing Baseline. San Francisco Charter Section 4.127 mandates a minimum staffing baseline of not less than 1,971 full-duty officers. It appears that this requirement is not met in the proposed budget.

The Mayor's FY 2012-13 Proposed Budget includes net funding authority for 2,109 full-time equivalent (FTE) officers outside the Airport (including 68 positions funded in the form of overtime). The Department's current statistics from mid-June 2012 indicate that after taking into account officers on modified duty and medical and other leave, the Department will have 1,816 active full duty officers outside the Airport. Including planned retirements in FY 2012-13 and

adding 48 new positions from new Officers completing the Academy by the end of the year brings this total to 1,758, or 213 positions below the baseline requirement.

The Mayor's FY 2013-14 Proposed Budget includes net funding authority for 2,090 full-time equivalent (FTE) officers outside the Airport (including 67 positions funded in the form of overtime). The Department's current statistics indicate that after taking into account officers on modified duty and medical and other leave, there will be 1,758 active full duty officers outside the Airport. Including retirements in FY 2013-14 and adding 120 new positions from new Officers completing the Academy by the end of the year, brings this total to 1,794, or 177 positions below the baseline requirement.

The Charter-mandated minimum staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work, pursuant to Charter Section 16.123 (Proposition C). This voter-approved proposition provides that the Mayor and Board may convert a position from a sworn officer to a civilian through the budget process. A number of civilian positions have been added since the Charter Amendment. However, no formal certification has been approved by the Police Department. The Controller's Office is preparing an analysis of this issue for the Budget Committee's consideration in the coming weeks.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act (Proposition F), which established new baseline service level requirements for San Francisco firehouse operations as detailed in Administrative Code Section 2A.97. The Act included minimum baseline requirements for 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than 4 ambulances, and 4 Rescue Captains (medical supervisors). The Neighborhood Firehouse baseline requirements of \$235.5 million for Fiscal Year 2012-13 and \$241.5 million for Fiscal Year 2013-2014 have been met. Since this requirement is not contained in the Charter, the Board may approve an Annual Appropriation Ordinance that does not meet the requirement.

Treatment on Demand Baseline. In November 2008, voter-approved Proposition T created Section 19.23A of the Administrative Code, which required the Department of Public Health (DPH) to maintain an "adequate level of free and low cost medical substance abuse services and residential treatment slots" to meet the overall demand for these services. The measure requires the Department to report to the Board of Supervisors by February 1st of each year with an assessment of the demand for substance abuse treatment, and a plan to meet this demand. At the end of December 2011 (the most recently reported data), service providers reported that 97 slots were available and 167 clients were waiting, indicating that there were not sufficient treatment slots to meet overall demand, and this baseline requirement was not met. The budget does not include additional funding intended to meet this target. Since this requirement is not contained in the Charter, the Board may approve an Annual Appropriation Ordinance that does not meet the requirement.

Appendix 4 General Fund Reserve Withdrawals and Deposits

As discussed in Appendix 1, the Mayor's Proposed Budget includes using \$16.4 million from reserves established in prior years during FY 2012-13 and \$16.5 million during FY 2013-14.

As shown in Table 4-1 below, the Mayor's Proposed Budget also includes \$76.6 million and \$75.4 million in deposits to General Fund reserves during FY 2012-13 and FY 2013-14. These appear to be prudent and reasonably reflect anticipated Memoranda of Understanding (MOUs), litigation costs, and general contingency reserves.

Table 4-1. Proposed General Fund Reserve Uses and Deposits (\$ millions)

	FY 2011-12 Original Budget	FY 2012-13 Proposed Budget	FY 2013-14 Proposed Budget	Note
General Fund - Use of Prior Year Reserves				
Rainy Day Reserve Allocated to the School District	\$ 8.4	\$ 6.3	\$ 4.7	1
Recreation and Park's Budget Savings Incentive Reserve	4.4	1.7	1.9	1
Budget Savings Incentive Fund		8.4	9.9	1
Total - Use of Prior Year Reserves	\$ 12.8	\$ 16.4	\$ 16.5	
General Fund - Deposits to Reserves				
General Reserve Anticipated Carryforward from Prior Year	\$ -	\$ 22.3	\$ 32.2	2
Additional Budgeted General Reserve	25.0	9.9	9.3	2
Subtotal Deposits to General Reserve	\$ 25.0	\$ 32.2	\$ 41.5	
Budget Stabilization Reserve	-	17.8	7.3	3
Salaries & Benefits Reserve	13.5	13.1	13.1	4
Litigation Reserve	11.0	11.0	11.0	5
Reserve for Technical Adjustments	-	2.5	2.5	6
Total General Fund Deposits to Reserves	\$ 49.5	\$ 76.6	\$ 75.4	

Notes to Table 4-1.

1. Use of Prior Year Reserves: Rainy Day Reserve, Recreation and Park's Budget Savings Incentive Reserve and Budget Savings Incentive Fund. See discussion in Appendix 1, pages 5-6.

2. General Fund – General Reserve. Each year, the City sets aside funding to provide for revenue and expenditure uncertainties including funding for supplemental appropriations in the event that additional appropriation needs arise.

In April, 2010, the Board of Supervisors approved the Controller's proposed financial policies on reserves, codified in Administrative Code Section 10.60. The policy requires the Reserve to increase to 1% of budgeted general fund regular revenues in FY 2012-13 and 1.25% of budgeted general fund regular revenue in FY 2013-14. The budgeted General Reserve will continue to increase each year until it reaches 2% of budgeted General Fund regular revenues in FY 2016-17. Unused General Reserve is carried forward from the prior year into the new budget year.

The Mayor's Proposed budget anticipates \$3.218 billion in regular General Fund revenues in FY 2012-13 and \$3.325 billion in FY 2013-14, leading to General Reserve requirements (including carry forwards) of \$32.18 million in FY 2012-13 and \$41.57 million in FY 2013-14. Note that a

technical adjustment increasing the FY 2013-14 General Reserve deposit by \$0.1 million is intended by the Mayor's Office to revise the reserve amounts to meet the Policy requirements.

3. Budget Stabilization Reserve. Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by the deposit each year of 75% of Real Property Transfer Taxes above the prior five-year average (adjusted for rate changes) and ending unassigned fund balance above that appropriated as a source in the subsequent year's budget. The first deposit into the Reserve of \$27.2 million was made from FY 2010-11 surplus unassigned fund balance. The Mayor's Proposed Budget assumes that Real Property Transfer Tax receipts will be above the prior five year adjusted average in both FY 2012-13 and FY 2013-14, resulting in deposits to the Budget Stabilization Reserve of \$17.8 million and \$7.3 million respectively. The Controller's office will determine the actual amount to deposit in September of each year based on actual receipts during the prior fiscal year.

4. Salaries and Benefits Reserve. The Mayor's Proposed Budget provides \$13.1 million for FY 2012-13 and FY 2013-14 in the General Fund to cover costs related to adopted Memorandum of Understandings (MOUs) with labor organizations. This represents a decline of \$0.4 million from the \$13.5 million budgeted for FY 2011-12.

5. Litigation Reserve. The \$11.0 million litigation reserve proposed budget is intended to provide funding for potential judgments and claims that will need to be paid out by the City during the budget year, based on historical experience. The City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City. The proposed level of funding is consistent with prior years funding and expenditures.

6. Reserve for Technical Adjustments. \$2.5 million is provided in the FY 2012-13 and FY 2013-14 proposed budgets as an allowance for technical adjustments during the budget review process. The Mayor's Office has stated that they will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

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