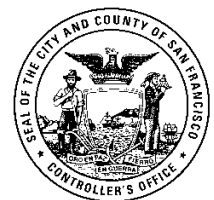


**FY 2013-14 and FY 2014-15
Revenue Letter:**

**Controller's Discussion of the
Mayor's FY 2013-14 and
FY 2014-15 Proposed Budget**



June 11, 2013



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2013-14 and 2014-15 Proposed budget

June 11, 2013

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, 2013, Mayor Edwin Lee submitted his FY 2013-14 and FY 2014-15 proposed budget to the Board of Supervisors. An overview of revenues is provided in Table 1.

Overall, the proposed two-year budget appears to be reasonable given information currently available. The proposed budget assumes continued economic expansion during FY 2013-14 and FY 2014-15, increases the City's use of one-time revenues for non-recurring expenditures, and gradually increases reserves. The proposed budget also assumes that potential reductions in State revenues remain manageable.

Overview

As shown in Table 1, the Mayor's proposed budget for FY 2013-14 includes \$3.9 billion in General Fund sources and \$7.9 billion all funds sources representing increases of 13.1% and 7.7%, respectively, from the FY 2012-13 Original Budget. The Mayor's proposed budget for FY 2014-15 includes \$4.0 billion in General Fund sources and \$7.9 billion in all funds sources representing increases of 2.5% and 0.2%, respectively. Highlights include:

- **Local tax revenue estimates are reasonable given current economic assumptions.** The proposed budget assumes continued local economic expansion, consistent with the Five Year Financial Plan adopted by the Board in April and updated for new data. FY 2013-14 regular revenues are increasing by \$368 million over the FY 2012-13 budget and \$253 million above the revised FY 2012-13 revenue outlook in the Controller's FY 2012-13 Nine-Month Budget Status Report (Nine-Month Report), and by \$122 million in FY 2014-15. Local tax revenues are influenced by national and international economic developments that could cause changes to the currently favorable trends in job growth, property values and tourism, and also by state and federal fiscal policies. Any significant downturn would require the Mayor's Office and the Board to adjust the budget to reflect reduced revenues. The Controller's Office will monitor revenues and provide revenue projection updates throughout the budget years.

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

General Fund						
	FY 2012-13		FY 2013-14		FY 2014-15	
	Budget		Proposed		Proposed	
Fund Balance - Prior Year Operating Surplus	\$	104	\$	113	\$	111
Use of Reserves	\$	16	\$	34	\$	18
Regular Revenues	\$	3,210	\$	3,578	\$	3,701
Net Transfers	\$	156	\$	218	\$	215
Total GF Sources	\$	3,487	\$	3,943	\$	4,044
Change from Prior Year	\$	225	\$	456	\$	101
Percentage Change		6.9%		13.1%		2.5%
All Funds						
	FY 2012-13		FY 2013-14		FY 2014-15	
	Budget		Proposed		Proposed	
Fund Balance	\$	218	\$	277	\$	148
Use of Reserves	\$	18	\$	53	\$	18
Regular Revenues	\$	7,114	\$	7,586	\$	7,764
Total All-Funds Sources	\$	7,350	\$	7,916	\$	7,930
Change from Prior Year	\$	515	\$	566	\$	14
Percentage Change		7.5%		7.7%		0.2%

- **The proposed General Fund budget increases use of prior year fund balance and reserves:** As discussed in Appendix 1, use of fund balance and reserves in the General Fund comprises \$147 million in the FY 2013-14 proposed budget, an increase of \$26 million from FY 2012-13 budget. The majority of this increase is dedicated towards one-time capital expenditures. The proposed FY 2014-15 General Fund operating budget includes \$129 million in fund balance and other reserves, a decrease of \$19 million from the FY 2013-14 proposed budget.
- **The proposed budget increases overall reserves:** The proposed budget includes \$10 million for the maximum allowable withdrawals from the Rainy Day Reserve to benefit the San Francisco Unified School District (SFUSD), and draws down the Rainy Day Reserve One-Time account balance of \$3.0 million. These uses of reserves are more than offset by deposits to the Budget Stabilization Reserve. The proposed budget assumes continued strength in the commercial real estate market will lead to \$30 million in deposits to this reserve over the two-year budget period. Assuming no other deposits, this would result in a net increase to the City's economic stabilization reserves of \$20 million, raising their combined balance to \$146 million from the current projected FY 2012-13 year-end balance of \$126 million.

In addition, the budget complies with the General Reserve policy, adopted in April 2010, which calls for increasing the General Fund Reserve to 1.25% of budgeted regular

revenues, or \$44.7 million, in FY 2013-14, and 1.5% of budgeted regular revenues, or \$55.5 million, in FY 2014-15. 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.

Table 2. Select Reserve Balance (\$ millions)

	FY 2012-13 Projected	FY 2013-14 Proposed	FY 2014-15 Proposed
Rainy Day Reserve - Economic Stabilization	\$ 23.3	\$ 17.5	\$ 13.1
Rainy Day Reserve - One Time	3.0	0.0	0.0
General Reserve	21.8	44.7	55.5
Budget Stabilization Reserve	102.5	118.4	132.8
Total	\$ 150.6	\$ 180.6	\$ 201.4

- **Potential for State funding cuts related to implementation of the Affordable Care Act (ACA).** The Governor’s FY 2013-14 May Revise Budget, submitted on May 14, 2013, estimated State savings of \$300 million and \$900 million in FY 2013-14 and FY 2014-15, respectively, expected to be achieved by requiring counties to assume responsibility for additional health and social services programs currently provided by the State. As of this writing, the California State budget has not been passed and the total impact on the City of the funding shifts is unknown. State savings estimates assume that beginning in January 1, 2014, as more people become insured as a result of the ACA, local costs for treating the uninsured will decrease. The timing and size of any local savings is unknown, however, and future budget adjustments are likely to be necessary should the Mayor and the Board wish to backfill lost revenue and increased costs related to these shifts.
- **Potential for revenue losses related to Federal debt reduction efforts.** The proposed budget does not include potential indirect costs related to federal debt reduction efforts, including sequestration, or ongoing impacts to the City in ensuing years. Much uncertainty remains around the potential implementation and details of these reductions.
- **Budgetary baselines and set-asides are funded at voter-approved levels, with limited exceptions.** Appendix 4 provides details on voter-approved mandates that determine some minimum levels of revenues, expenditures or service for various programs, including:
 - **Children’s Baseline:** The Children’s baseline funding is \$133.0 million in FY 2013-14 and \$134.6 million in FY 2014-15, which is above required levels by \$7.5 million and \$3.5 million respectively.
 - **Police Staffing:** Police baseline staffing requires 1,971 full-duty officers. Based on the Mayor’s proposed budget, it appears that this staffing requirement will not be met in FY 2013-14 but will be met in FY 2014-15.

Conclusions

The Mayor’s proposed budget appears to be reasonable given information currently available, with cautionary notes regarding its reliance on continued revenue growth and uncertainty in the State budget. The proposed budget also improves financial stability in future years by increasing

key reserve balances. The Controller's Office will continue to work closely with the Mayor and the Board to share information as necessary to ensure that the City's budget remains balanced.

Appendices

- | | |
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| 1. General Fund Sources | p. 5 |
| 2. General Fund Reserve Uses and Deposits | p. 17 |
| 3. One-time Sources and Nonrecurring Revenue Policy Compliance | p. 19 |
| 4. Baselines & Mandated Funding Requirements | p. 20 |

Appendix 1. General Fund Sources

Table 1-1 provides a summary of the General Fund sources in the Mayor's FY 2013-14 and FY 2014-15 proposed budget.

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

Sources of Funds	FY 2012-13 Budget	FY 2013-14 Proposed Budget	FY 2014-15 Proposed Budget	Notes
Prior Year Fund Balance - Operating Surplus	\$ 104.3	\$ 113.3	\$ 110.6	1
Use of Reserves	16.4	33.7	17.7	2
Subtotal Fund Balance and Reserves	120.7	147.0	128.3	
Regular Revenues				
Property Tax	1,078.1	1,153.4	1,220.4	3
Business Tax	452.8	533.0	564.2	4
Sales Tax	121.7	125.7	130.1	5
Hotel Room Tax	194.0	273.9	289.1	6
Utility Users Tax	91.9	93.5	95.4	7
Parking Tax	76.5	83.3	85.7	8
Real Property Transfer Tax	203.5	225.2	225.2	9
Stadium Admissions Tax	2.7	2.8	1.3	10
Access Line Tax	43.0	42.6	43.0	11
Licenses, Permits & Franchises	25.3	25.5	25.5	
Fines and Forfeitures	7.2	6.8	6.9	
Interest & Investment Income	6.8	10.9	11.0	12
Rents & Concessions	21.4	23.1	20.6	
Intergovernmental - Federal	198.8	214.5	207.3	13
State - Public Safety Sales Tax	79.0	86.8	89.9	14
State - 1991 Health & Welfare Realignment	150.9	161.2	166.4	15
State - 2011 Health & Welfare Realignment	80.5	89.1	92.4	15
State - Public Safety Realignment	17.3	32.8	30.8	15
Allowance for State Revenue Loss	(15.0)	-	-	
State - Other	188.7	192.6	191.7	16
Charges for Services	154.7	166.8	167.5	17
Recovery of General Government Costs	12.1	10.3	10.3	
Other Revenues	18.3	24.3	25.7	
Subtotal Regular Revenues	3,210.1	3,578.1	3,700.5	
Net Transfers	156.0	218.0	214.8	
Total Sources	3,486.7	3,943.1	4,043.6	

1. Prior Year Fund Balance. The proposed budget anticipates a \$223.9 million General Fund surplus to be available at the end of FY 2012-13, comprised of \$216.8 million from FY 2012-13 operating surplus (split equally between FY 2013-14 and FY 2014-15 budgets) and \$7.1 million from reductions in project-specific budgets. The operating surplus projection is \$6.8 million more than the \$210.0 million ending fund balance projection in the Nine-Month Report and includes \$4.0 million in savings from lower than anticipated expenditures for cost of living increases at community based organizations, \$2.0 million of surplus appropriation in the Public Campaign Finance Fund released by the Board in FY 2011-12, and \$0.8 million savings in the Controller's City Services Auditor project.

2. Use of Reserves. As shown in Table 1-3, the Mayor's proposed budget includes use of \$33.7 million from reserves established in prior years during FY 2013-14 and \$17.7 million during FY 2014-15.

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

General Fund - Use of Prior Year Reserves	FY 2013-14		FY 2014-15	
	FY 2012-13 Budget	Proposed Budget	Proposed Budget	Proposed Budget
Rainy Day Reserve Allocated to SFUSD (1)	\$ 7.8	\$ 5.8	\$ 4.4	
Rainy Day Reserve One-Time Expenditures		1.5	1.5	
Recreation and Park Savings Incentive Reserve	1.7	9.7	5.1	
Budget Savings Incentive Fund	8.4	16.7	6.8	
Total Use of Prior Year Reserves	\$ 17.9	\$ 33.7	\$ 17.7	

(1) Assumes approval of Mayor's proposed transfer of \$1.5 million in additional Rainy Day Reserve funds to SFUSD in FY 2012-13.

a. Rainy Day Reserve. Charter Section 9.113.5 established the Rainy Day Reserve, an economic stabilization reserve funded by excess revenue growth in good years that can be used to support the City General Fund and SFUSD operating budgets in years when revenues decline. The FY 2012-13 year-end balance of the Rainy Day Reserve's Economic Stabilization Account is projected to be \$23.3 million. The Mayor's proposed budget assumes no use of the Reserve by the City in FY 2013-14 or FY 2014-15. The budget assumes that the maximum 25% allowance for SFUSD will be withdrawn in each budget year, representing \$5.8 million in FY 2013-14 and \$4.4 million in FY 2014-15, leaving a remaining balance in the Reserve of \$13.1 million.

b. Recreation & Park Savings Incentive Reserve. The Recreation and Park Savings 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 \$9.7 million from the Reserve in FY 2013-14 and \$5.1 million in FY 2014-15. Of the \$9.7 million used in FY 2013-14, \$7.0 million of one-time revenue is being deposited into a Garage Revenue Stabilization Fund to replace net garage revenues that the Department will lose due to the construction of the Union Square Market Street Central Subway Station.

c. Budget Savings Incentive Fund. The Citywide Budget Savings Incentive Fund is authorized by Administrative Code Section 10.20. The Fund receives 25% of year-end departmental expenditure savings to support one-time expenditures. The FY 2012-13 Nine-Month Budget Status Report projected a year-end balance of \$23.4 million in the Fund. The proposed budget appropriates \$16.7 million of the Fund for projects in FY 2013-14 and \$6.8 million in FY 2014-15. Proposed uses of the Fund are outlined in separate legislation submitted by the Mayor's Office.

Table 1-2 provides projected growth rates for major local tax revenues. Notes are provided below.

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

Local Tax Revenues	FY 2013-14 Growth from FY 2012-13 9-Month Projection	FY 2014-15 Growth from FY 2013-14 Proposed Budget
Property Tax	5.4%	5.8%
Business Taxes	11.3%	5.9%
Sales Tax	3.1%	3.5%
Hotel Room Tax	43.5%	5.5%
Utility Users Tax	2.0%	2.0%
Parking Tax	2.5%	3.0%
Real Property Transfer Tax	-8.4%	0.0%
Stadium Admissions Tax	2.0%	-52.2%
Access Line Tax	1.0%	1.0%
Total Local Tax Revenue Change	7.8%	4.8%

3. Property Tax. The FY 2013-14 General Fund share of property tax revenue is estimated at \$1,153.4 million, which is \$75.3 million (7.0%) more than the FY 2012-13 budget and \$59.4 million (5.4%) more than the Nine-Month Report. The FY 2014-15 General Fund share of property tax revenue is estimated at \$1,220.4 million, which is \$67.0 million (5.8%) more than the proposed FY2013-14 budget. Major changes include:

- **Roll growth:** The proposed FY 2013-14 budget reflects secured roll growth of 4.6%, of which 2% is due to inflationary increases to base property value assessments as allowed under Proposition 13, and 2.6% is the net increase in assessed values due to changes in ownership, new construction, and temporary (Proposition 8) reductions granted by the Assessor. The net effect of this roll growth, reduced prior year revenues, the reduced need to fund assessment appeals, and the increased use of tax increment by the Redevelopment Successor Agency (OCII) described below is a \$58.8 million increase in the General Fund allocation of secured property tax revenue compared to

the FY 2012-13 budget. The roll growth is also estimated to increase state Vehicle License Fee (VLF) backfill by \$12.1 million.

The FY 2014-15 proposed budget reflects secured roll growth of 5.6% in FY 2014-15, comprised of 2% inflation and 3% additional growth from: changes in ownership and new construction of properties assessed at \$20 million and less, \$2.1 billion in roll growth from changes in ownership that occurred in FY 2012-13, and \$1 billion in roll growth from multi-unit residential buildings that began construction in FY 2012-13. The net effect of this roll growth, reduced prior year revenues, the reduced need to fund assessment appeals, and the increased use of tax increment by the Redevelopment Successor Agency (OCII) described below is a \$52.9 million increase in the General Fund allocation of secured property tax revenue compared to the FY 2013-14 budget. The improved secured roll value will also increase the state VLF backfill to San Francisco's General Fund by \$10.8 million.

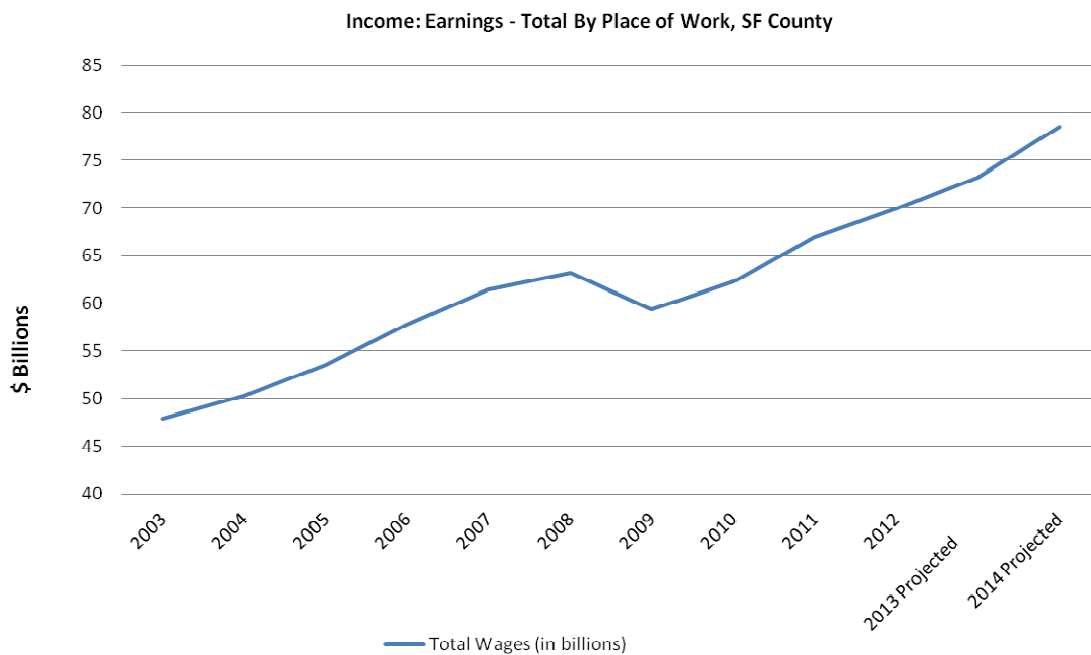
- **Reduced reserve requirements:** Revenue set aside to fund Assessment Appeals Board (AAB) decisions in FY 2013-14 will decline by \$7.8 million compared to the FY 2012-13 budget and by \$4.2 million in FY 2014-15 compared to the FY 2013-14 proposed budget as the significant increase in appeals received immediately after the financial crisis is processed by the AAB.
- **Reduced prior year revenue:** The FY 2013-14 budget includes \$38.3 million in revenue from supplemental and escape property tax assessments that the Assessor expects to process in FY 2013-14. This is a decrease of \$10.3 million from the \$48.6 included in the FY 2012-13 budget, reflecting progress on processing the backlog of prior years' changes in ownership and new construction events. For FY 2014-15, \$34.7 million General Fund share is budgeted for supplemental and escape property tax assessments, a reduction of \$3.6 million from the prior year.
- **Increased Redevelopment use of tax increment:** Total tax increment required by the Redevelopment Successor Agency is \$146.6 million in FY 2013-14 and \$147.6 million in FY 2014-15. In FY 2012-13, approximately \$137.4 million was used for the same purposes. The effect is a \$5.2 million reduction of property tax allocated to the General Fund in FY 2013-14, and a further \$0.6 million reduction in FY 2014-15. Tax Allocation Agreements for Mission Bay North, Mission Bay South, Transbay, and Hunters Point Shipyard (and Zone 1 of the Bayview) dedicate 100% of increases in assessed value for some or all of those particular project area parcels to be distributed as tax increment to the Successor Agency.
- **Increased Sales Tax in-lieu:** Projected growth in local sales tax revenue is expected to increase property tax in lieu of sales tax (triple flip) revenue by \$3.0 million in FY 2013-14 and \$1.5 million in FY 2014-15 over prior year budget, respectively.

4. Business Tax. Business tax revenue is budgeted at \$533.0 million in FY 2013-14 and \$564.2 million in FY 2014-15, which are increases over the prior year budget of \$80.2 million (17.7%) and \$31.2 million (5.8%) respectively. The proposed budget reflects changes in business taxes pursuant to the passage of Proposition E in November 2012, including an increase in business registration fee levels and the start of a five-year phase in of a new gross receipts tax in 2014. FY 2013-14 revenues include \$28.0 million in additional revenue from Proposition E fees, and FY 2014-15 revenues include a shift of \$50.9 million from the payroll tax to the gross receipts

tax category, as the phase in of the gross receipts tax and corresponding phase out of payroll taxes begins.

As shown in Table 1-4, continued strong wage growth is expected in both 2013 and 2014, with projected increases of 4.7% and 7.3% respectively. Private employment, a key lagging indicator that reached a trough in 2010, is expected to grow at a rate of approximately 3.2% in 2013 and 1.8% in 2014.

Table 1-4. Total San Francisco County Wages, Calendar Years 2003 to 2014



Source: U.S. Bureau of Economic Analysis (BEA); Moody's Analytics (ECCA) Forecast

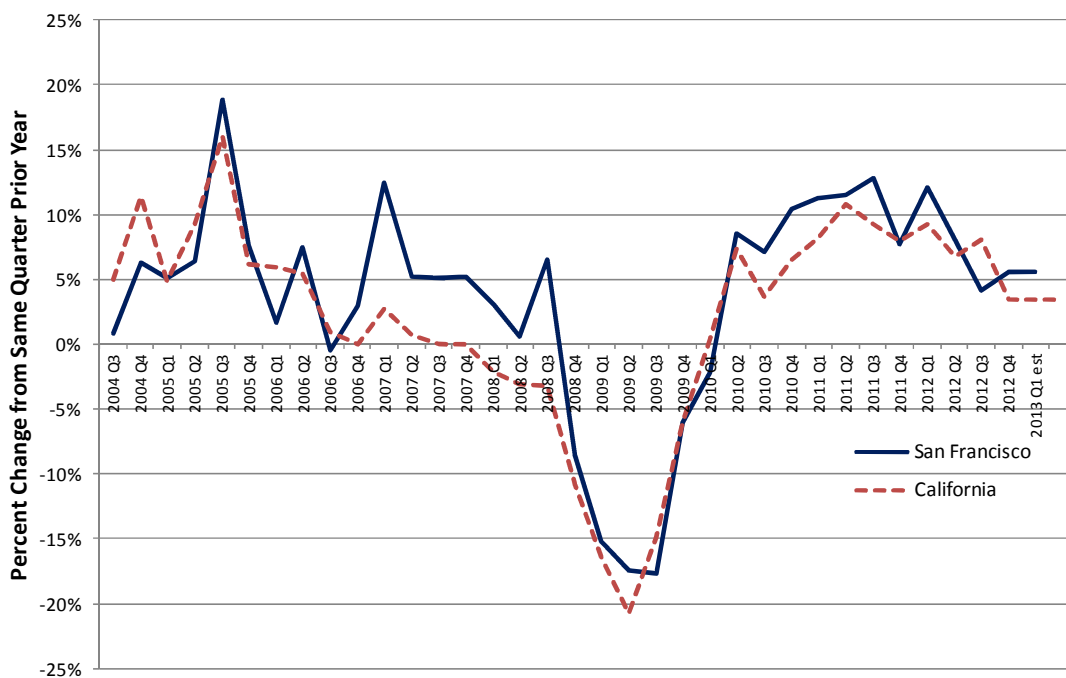
San Francisco entered the most recent recession late and began its recovery early. Throughout, the City's unemployment rate has been below that of the state and other large cities. This was partly because it experienced less of a residential construction-related boom in employment before the recession. Additionally, beginning in 2011, San Francisco business tax revenue has benefitted from a rapid expansion of employment and wages in the technology sector. From 2010 to 2012, construction, information, and manufacturing industry payrolls improved markedly in San Francisco, while finance and insurance industry payrolls have remained flat.

Payroll tax revenue fluctuates more than total local payroll because the tax base excludes many industries that would have a stabilizing effect. The California Constitution prohibits taxation of certain financial corporations, and nonprofits, government employers and firms with less than \$250,000 in taxable payroll, including sole proprietorships with no payroll, are exempt under local tax laws. As a result, only about ten percent of registered businesses in the City are subject to 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

revenues change more quickly and at different rates than total employment and wages. Implementation of the gross receipts tax will broaden the tax base and help reduce this volatility.

5. Sales Tax. Local sales tax is projected to generate \$125.7 million in revenue in FY 2013-14, increases of \$4.0 million (3.3%) from the FY 2012-13 budget and \$3.8 million (3.1%) from the Nine-Month Report projection. Continued growth is expected during FY 2014-15 as revenues are expected to reach \$130.1 million, \$4.4 million (3.5%) more than FY 2013-14. Table 1-5 shows historical changes in quarterly sales tax revenues for both the City and the State.

**Table 1-5. Historical Changes in Local and State Sales Tax Revenues
2004 Q3 through 2013 Q1**



Average quarterly growth rates of over 10% in FY 2010-11 and FY 2011-12 have slowed to approximately 5% in FY 2012-13, and are projected to remain slightly above inflation in the budget years, supported by new multifamily construction.

6. Hotel Tax. Total hotel tax revenue is budgeted at \$273.9 million in FY 2013-14, \$16.0 million (8.0%) more than the FY 2012-13 budget and \$20.4 million (9.4%) more than the Nine-Month Report projection. In FY 2014-15 \$289.1 million is budgeted, \$15.2 million (5.5%) more than FY 2013-14 proposed budget. Hotel tax budgeted in the General Fund in FY 2013-14 will increase by \$56.4 million because revenue previously budgeted in special revenue funds is now deposited to the General Fund.

Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Through March 2013, FY 2012-13 monthly occupancy rates averaged 82.4%, relatively unchanged from the FY 2011-12 average of 82.0%. 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 a new high of \$209 in the first three quarters of FY 2012-13, a 6.0% increase over the same period last year. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, averaged a record high of \$174 in the first three quarters of FY 2012-13, a 7.0% increase from the same period in FY 2011-12. The proposed budget assumes RevPAR growth will continue albeit at a slower pace during FY 2013-14 and FY 2014-15 due to anticipated continued strong demand and pricing power. Table 1-6 provides a recent history of RevPAR levels.

Table 1-6. Revenue Per Available Room (RevPAR): FY 2008-09 to FY 2012-13

	2008-09	2009-10	2010-11	2011-12	FY 2012-13	Change - \$	Change - %
July	\$ 167	\$ 131	\$ 141	\$ 171	\$ 186	\$ 14.54	8.5%
August	\$ 167	\$ 134	\$ 154	\$ 173	\$ 196	\$ 22.98	13.3%
September	\$ 178	\$ 152	\$ 166	\$ 189	\$ 213	\$ 24.21	12.8%
October	\$ 171	\$ 174	\$ 174	\$ 205	\$ 229	\$ 23.83	11.6%
November	\$ 122	\$ 107	\$ 111	\$ 152	\$ 149	\$ (2.06)	-1.4%
December	\$ 112	\$ 85	\$ 106	\$ 109	\$ 125	\$ 16.76	15.4%
January	\$ 102	\$ 96	\$ 123	\$ 135	\$ 147	\$ 12.26	9.1%
February	\$ 91	\$ 102	\$ 136	\$ 156	\$ 154	\$ (2.46)	-1.6%
March	\$ 110	\$ 117	\$ 136	\$ 148	\$ 165	\$ 16.71	11.3%
April	\$ 116	\$ 118	\$ 130	\$ 147			
May	\$ 114	\$ 133	\$ 165	\$ 169			
June	\$ 121	\$ 129	\$ 157	\$ 195			
Average YTD	\$130.91	\$123.16	\$141.50	\$162.33	\$173.77	\$14.09	8.8%
\$ Change from PY	\$ (17.22)	\$ (7.75)	\$ 18.34	\$ 20.83	\$ 11.43		
% Change from PY	-11.6%	-5.9%	14.9%	14.7%	7.0%		

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. Budgeted amounts in FY 2013-14 and FY 2014-15 could be changed depending on developments with these lawsuits.

7. Utility Users Tax. Utility users tax (UUT) revenue is budgeted at \$93.5 million in FY 2013-14, \$1.6 million (1.8%) more than the FY 2012-13 budget and \$1.8 million (2.0%) more than the FY 2012-13 Nine-Month Report projection, reflecting anticipated growth in private employment and Consumer Price Index (CPI) during FY 2013-14. In FY 2014-15, UUT is budgeted at \$95.4 million, \$1.9 million (2.0%) over the FY 2013-14 budgeted amount.

8. Parking Tax. Parking tax revenue is budgeted at \$83.3 million in FY 2013-14, an increase of \$6.7 million (8.8%) over the FY 2012-13 budget, and \$2.0 million (2.5%) more than the FY 2012-13 Nine-Month Report projection. Parking tax revenue is positively correlated with business activity and employment, both of which are projected to increase over the next two years. In FY 2014-15, parking tax revenue is budgeted at \$85.7 million, \$2.5 million (3.0%) over the FY 2013-14

budgeted amount. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

9. Real Property Transfer Tax. Real property transfer tax (RPTT) revenue is budgeted at \$225.2 million in both FY 2013-14 and FY 2014-15. This figure is a \$21.7 million (10.7%) increase over the FY 2012-13 budget amount, but a \$20.8 million (8.4%) decrease compared to the Nine-Month Report projection. The projected increase from the FY 2012-13 budget in FY 2013-14 is 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, but with weaker growth than previously anticipated. This is reflected in the budgeted revenue held constant in FY 2014-15, due to the expected peak of sales activity in FY 2012-13.

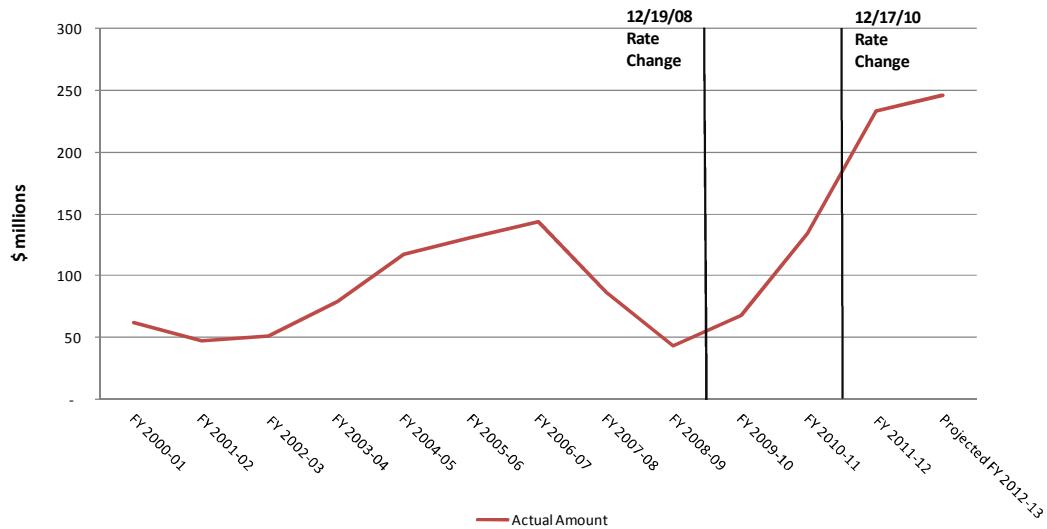
Table 1-7 summarizes recent revenue history by transaction size, and illustrates the strong correlation between total RPTT revenue and sales of high-value (largely commercial) properties. RPTT revenue from sales of properties worth more than \$10 million increased dramatically from FY 2010-11 through FY 2012-13 to approximately 43% more than prior peak value in FY 2006-07. Total RPTT revenue during the same period increased by an even greater amount compared to the prior peak (71%) due to the compounding effect of rate changes introduced by Proposition N passed in 2008 and Proposition N passed in 2010.

Table 1-7. Real Property Transfer Tax Revenue by Transaction Size (\$ millions)

Tax Rate	@ 0.50%		@ 0.68%	@ 0.75%	@ 1.5%	@ 2.5%	Total Revenue
	<\$250K	>\$250K	>\$1 M	>\$5 M	>\$10 M		
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	21.2	30.2	51.7	31.2	135.2	
FY 2011-12	1.0	24.3	31.8	25.3	151.2	233.6	
FY 2012-13 Projection	1.0	25.0	39.3	17.2	163.5	245.9	

In April 2010, the Board of Supervisors and the Mayor approved the Controller's proposed financial policies, submitted in accordance with the provisions of Proposition A passed in November 2009. These policies include the creation of a Budget Stabilization Reserve to be funded with a portion of volatile revenues beginning in FY 2010-11, including 75% of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. RPTT revenue is projected to exceed the prior five-year average in both FY 2013-14 and FY 2014-15 by \$21.3 million and \$19.3 million, respectively, requiring deposits to the Budget Stabilization Reserve of \$15.9 million in FY 2013-14 and \$14.4 million in FY 2014-15. See Appendix 2 for more detail on the Budget Stabilization Reserve and Table 1-8 for historical RPTT revenue.

Table 1-8. Historical Real Property Transfer Tax Revenue (\$ millions)



10. Stadium Admissions Tax. Stadium admissions tax revenue is budgeted at \$2.8 million in FY 2013-14, a small increase of \$0.1 million (2.0%) over the FY 2012-13 budget amount, but is budgeted at \$1.3 million in FY 2014-15, a decrease of \$1.4 million (52.2%) from FY 2013-14. This decline in projected revenue is due to the loss of San Francisco 49ers football games at Candlestick Park starting in FY 2014-15.

11. Access Line Tax. Access line tax revenue is budgeted at \$42.6 million in FY 2013-14, a decrease of \$0.4 million (0.9%) from the FY 2012-13 budget and \$0.4 million (1.0%) more than the FY 2012-13 Nine-Month Report projection. The budget reflects a proposed inflationary increase to the access line tax rate of 2.2% as required under Business and Tax Regulations Code Section 784. In FY 2014-15 moderate growth is expected with revenue budgeted at \$43.0 million, \$0.4 million (1.0%) more than the FY 2013-14 budgeted amount.

12. Interest & Investment Income. General Fund interest and investment income for FY 2013-14 is projected to be \$10.9 million, an increase of \$4.2 million (61.5%) over the FY 2012-13 budget and \$0.5 million (4.4%) over the Nine-Month Report projection. This growth is expected to plateau in FY 2014-15, with only a \$0.1 million (0.6%) budgeted increase. The increase in revenue in FY 2013-14 is the combined effect of increased cash balances and continued low interest rates. Average net monthly interest rates are expected to remain low in FY 2014-15, and average cash levels of unallocated General Fund revenue are expected to remain flat, resulting in relatively flat growth in FY 2014-15.

13. Intergovernmental – Federal. Federal support in the General Fund is projected to increase by \$15.7 million (7.9%) to \$214.5 million in FY 2013-14, due primarily to \$10.0 million in expected one-time federal payments related to the Fourth Street bridge project and \$4.3 million in increased social service funding. Federal support is projected to decrease by \$7.2 million (3.4%) in FY 2014-

15, to \$207.3 million, reflecting the loss of one-time Fourth Street bridge revenue offset by \$2.8 million in additional social service funding. There is potential for additional changes to federal support levels in both years due to the impacts of federal debt reduction efforts.

14. State – Public Safety Sales Tax. Public safety sales tax revenue is budgeted at \$86.8 million in FY 2013-14 and \$89.9 million in FY 2014-15. In FY 2013-14, revenue from this subvention is expected to increase \$7.9 million (10.0%) from the FY 2012-13 budget and \$4.1 million (5.0%) from the FY 2012-13 Nine-Month Report projection. In FY 2014-15, revenue is projected to increase \$3.0 million (3.5%) from the FY 2013-14 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. FY 2013-14 revenue growth assumes a continuation of the 4.5% increase in base sales tax revenue as projected for FY 2012-13, and an increase of approximately 0.5% in San Francisco's County Ratio. FY 2014-15 revenue reflects state sales tax growth only and no increase in the Ratio.

15. State – Realignment. San Francisco receives three groups of allocations of State sales tax and VLF revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor's May Revise budget estimates statewide realignment funding savings of \$300 million in FY 2013-14 and \$900 million in FY 2014-15 as a result of Affordable Care Act (ACA) implementation. These savings are expected to be achieved by realigning additional responsibilities to counties without increasing funding for them. As of this writing, the state budget has not been passed and the total impact on the City of these shifts is unknown. FY 2013-14 and FY 2014-15 realignment revenues are budgeted as follows:

1991 Health & Welfare Realignment. In FY 2013-14 and FY 2014-15, General Fund revenue is anticipated to increase by \$10.4 million (6.9%) and \$5.2 million (3.2%), due to statewide sales tax growth projections contained in the Governor's budget. Growth in state sales tax revenue in one year is distributed to counties in the subsequent year, thus the proposed budget's FY 2013-14 and FY 2014-15 allocations reflect projected state sales tax revenue increases in FY 2012-13 and FY 2013-14, respectively. Changes in the allocation methodology reduced the amount of VLF distributed and increased the amount of sales tax distributed in this type of realignment.

2011 Health and Human Services Realignment. Beginning in FY 2011-12 counties received revenue allocations to pay for behavioral health and protective services programs formerly provided by the State. In FY 2013-14 this revenue is budgeted at \$89.1 million, an \$8.6 million (10.6%) increase from FY 2012-13 revised budget. This increase includes sales tax growth assumed in the Governor's budget, and includes revenue formerly reported in the State – Other revenue category discussed below. FY 2014-15 revenue of \$92.4 million is an increase of \$3.4 million (3.8%) from FY 2013-14.

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 parole agents to county jails and probation officers. Based on revised allocation formulas, this revenue is budgeted at \$32.8 million in FY 2013-14, a \$15.5 million (89.7%) increase over the FY 2012-13 budget. The increase reflects state sales tax growth and the change in accounting of Trial Court Security revenue from a cost reimbursement to subvention format. The budget for FY 2014-15 is \$30.8 million, a

\$2.0 million (6.2%) decrease due to reductions to state funding for Local Community Corrections projected in FY 2014-15 as described in the Governor's budget.

16. State – Other. Other State funding is budgeted at \$192.6 million FY 2013-14, an increase of \$18.9 million (10.9%) from FY 2012-13 budget. The increase is due to the discontinuation of the \$15.0 million allowance for state revenue losses and \$11.7 million of budgeted social service revenue increases related to Affordable Care Act implementation, offset by the shift of \$13.2 million of realignment revenue received by the Department of Public Health to the 2011 Health and Human Services Realignment category described above. The budget for State – Other revenue in FY 2014-15 is \$191.7 million, a decrease of \$0.9 million (0.5%) from FY 2013-14.

17. Charges for Services. The FY 2013-14 proposed budget assumes increased revenue from charges for services of \$10.3 million (6.2%) compared to FY 2012-13, primarily from the following sources:

- \$4.1 million of City Planning revenue, primarily development permit fees;
- \$2.9 million of Department of Public Works revenue, primarily from a \$1.9 million increase in solid waste impound fees;
- \$2.8 million in Fire Department revenue, due to a \$1.6 million increase in ambulance billing recoveries and a \$1.2 million increase in plan check and inspection fees;
- \$1.7 million in Recreation and Park revenue, primarily from permit fees;
- \$1.1 million in Assessor-Recorder revenue from recording fees;
- -\$1.0 million in Public Health revenue, including a \$1.5 million reduction in Public Health Medi-Cal revenue; and
- -\$1.8 million in unallocated General Government Cost Recovery from enterprise departments.

The FY 2014-15 proposed budget assumes only \$0.8 million (0.4%) additional revenue from increases in Planning, Public Works, Police, and Recreation and Park fee revenue, partially offset by further reductions in Public Health Medi-Cal revenue.

The FY 2013-14 revenue increase also includes \$0.4 million in revenue anticipated from Board approval of a small number of fee increases, summarized in Table 1-9. No additional revenue is budgeted for these fee changes in FY 2014-15.

Table 1-9. Legislative General Fund Fee Changes Assumed in the FY 2013-14 Budget

Department	Ordinance Description	Budgeted Revenue
Fire	Increase plan review and field inspection fees	\$ 92,000
Public Health	Revise fees for inspecting agricultural products	\$ 1,000
Public Health	Revise registration fees for inspecting and testing weighing and measuring devices	\$ 139,000
Public Health	Require permanent and temporary body art facilities to obtain and annually renew permits with DPH, and add fees relating to body art permits and licenses	\$ 23,000
Public Health	Regulating and establishing annual fees for Cottage Food operations	\$ 26,000
Public Health	Amend Building Code and Health Code to expand the boundaries and types of projects for which soil testing is required and to require testing of groundwater under specified circumstances	\$ 105,000
Recreation and Park	Reauthorize the Non-resident Botanical Garden Society fee	\$ 49,000
Total:		\$ 435,000

Table 1-9 excludes the effect of automatic CPI adjustments for many City fees and excludes several legislative changes affecting fees with no associated no revenue change to budget, including:

- Fee adjustment for services provided by the Office of the Chief Medical Examiner;
- Fee adjustment for hazardous materials and underground storage tank permits issued by Public Health;
- Fee adjustment for patient rates and other services provided by Public Health;
- Exempting State-certified massage practitioners and massage establishments from Public Health permit requirements;
- Establishing a facility rental fee for the Lake Merced Boathouse; and
- Establishing a fee to allow farmers' markets on Recreation and Park property to operate more than once per week.

Appendix 2. General Fund Reserve Uses and Deposits

As discussed in Appendix 1, the Mayor's proposed budget includes using \$33.7 million from reserves established in prior years during FY 2013-14 and \$17.7 million during FY 2014-15. As shown in Table 2-1 below, the Mayor's proposed budget also includes \$72.5 million and \$52.5 million in deposits to General Fund reserves during FY 2013-14 and FY 2014-15. These appear to be prudent and reflect anticipated Memoranda of Understanding (MOU), litigation, and general contingency reserve requirements.

Table 2-1. Proposed General Fund Reserve Uses and Deposits (\$ millions)

General Fund - Use of Prior Year Reserves	FY 2013-14		FY 2014-15		Note
	FY 2012-13 Budget	Proposed Budget	Proposed Budget	Proposed Budget	
Rainy Day Reserve Allocated to SFUSD (1)	\$ 7.8	\$ 5.8	\$ 4.4	\$ 4.4	1
Rainy Day Reserve One-Time Use	-	1.5	1.5	1.5	1
Recreation and Park Savings Incentive Reserve	1.7	9.7	5.1	5.1	1
Budget Savings Incentive Fund	8.4	16.7	6.8	6.8	1
Total Use of Prior Year Reserves	\$ 17.9	\$ 33.7	\$ 17.7	\$ 17.7	
General Reserve	9.9	22.9	10.8	10.8	2
Budget Stabilization Reserve	17.8	16.0	14.4	14.4	3
Salaries & Benefits Reserve	13.1	13.1	13.5	13.5	4
Litigation Reserve	11.0	11.0	11.3	11.3	5
Reserve for Technical Adjustments	2.5	2.5	2.5	2.5	6
Reserve for Garage Revenue Stabilization	-	7.0	-	-	7
Total General Fund Deposits to Reserves	\$ 54.3	\$ 72.5	\$ 52.5	\$ 52.5	

(1) Assumes approval of Mayor's proposed transfer of \$1.5 million in additional Rainy Day Reserve funds to SFUSD in FY 2012-13.

Notes to Table 2-1.

1. Use of Prior Year Reserves. Use of Rainy Day Reserve, Recreation and Park Savings Incentive Reserve, and the Budget Savings Incentive Fund is discussed in detail in Appendix 1, pages 6-7.

2. General Fund – Deposits to General Reserve. In April, 2010, the Board approved the Controller's proposed financial policies on reserves described in Administrative Code Section 10.60, including the codification of the General Reserve. This reserve is intended to address revenue and expenditure issues not anticipated during the budget's development, and is typically used to fund supplemental appropriations.

The financial policy requires the General Reserve to increase to 1.25% of budgeted General Fund regular revenues in FY 2013-14 and 1.5% in FY 2014-15. The General Reserve will continue to increase each year until it reaches 2% of budgeted General Fund regular revenues in FY 2016-17, with unused General Reserve carried forward from the prior year into the new budget year. The Mayor's proposed budget anticipates \$3.6 billion in regular General Fund revenues in FY 2013-14 and \$3.7 billion in FY 2014-15, resulting in General Reserve requirements of \$44.7 million in FY 2013-14 and \$55.5 million in FY 2014-15. Figures in Table 2.1 above represent the amounts needed to bring the General Reserve to the required level in each year, or \$22.9 million in FY 2013-14 and \$10.8 million in FY 2014-15.

3. Budget Stabilization Reserve. Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These 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 three volatile revenue sources: real property transfer tax revenue above the prior five-year average (adjusted for rate changes), ending unassigned fund balance above that appropriated as a source in the subsequent year's budget, and certain asset sales. The Mayor's proposed budget assumes transfer tax revenue will be above the prior five year adjusted average in both FY 2013-14 and FY 2014-15, resulting in deposits to the Budget Stabilization Reserve of \$16.0 million and \$14.4 million, respectively. The Controller's Office will determine final deposits in September of each year based on actual receipts during the prior fiscal year.

4. Salaries & Benefits Reserve. The Mayor's proposed budget provides \$13.1 million in FY 2013-14 to cover costs related to adopted MOUs with labor organizations, which is no change from the FY 2012-13 budget. The FY 2014-15 proposed budget includes an inflationary increase to the Reserve of \$0.4 million to address known increases in employee wage and benefit costs.

5. Litigation Reserve. The Mayor's proposed budget includes \$11.0 million in litigation reserve, which is intended to provide funding for potential judgments and claims that will be paid out 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. Reserves of \$2.5 million in the FY 2013-14 and FY 2014-15 proposed budgets allow for technical adjustments during the budget review process. The Mayor's Office 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.

7. Reserve for Garage Revenue Stabilization. The Recreation and Park Department receives annual net operating revenue generated by the Union Square Garage. The MTA Board and Recreation and Park Commission have approved an MOU under which the Municipal Transportation Agency (MTA) will provide a one-time payment of \$7.0 million in FY 2012-13 to the Recreation and Park Department for the appraised value of the temporary loss of 129 parking spaces and the permanent loss of 109 parking spaces due to construction of the Union Square Market Street Central Subway Station. The proposed budget places the full amount of this one-time source in a Reserve for Garage Revenue Stabilization to fund ongoing park operating expenses, as it would have used the lost garage revenue. Future uses of the Reserve will be appropriated through the budget process.

Appendix 3. One-time Sources and Nonrecurring Revenue Policy Compliance

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources 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, before reserve deposits, above the prior five-year average;
- 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 is budgeted at \$113.3 million for FY 2013-14 and \$110.6 million for FY 2014-15. These amounts fall substantially below the prior five-year average, estimated for FY 2012-13 to be \$181.2 million, and no other nonrecurring revenues appear to fall within the policy, therefore, the Controller's Office certifies compliance with the policy.

Other Nonrecurring Sources

Table 3-1 shows other General Fund and Hospital Fund nonrecurring revenues in operating funds that do not fall under the policy, which total \$61.6 million in FY 2013-14 and \$11.6 million in FY 2014-15. Total nonrecurring sources, including operating fund balances, total \$174.9 million in FY 2013-14, or \$62.3 million above FY 2012-13 budgeted amounts, and \$122.2 million in FY 2014-15.

**Table 3-1. General Fund and Hospital Fund Nonrecurring Sources
(Operating funds only, \$ millions)**

	FY 2012-13	FY 2013-14	FY 2014-15
General Fund Prior Year Fund Balance	\$ 96.6	\$ 113.3	\$ 110.6
Expected extra 49ers contribution to exit Candlestick Park lease early	\$ 1.0		
Public Health Retroactive State Plan Amendment Revenues	\$ 15.0		
Retroactive reimbursement of 4th Street Bridge construction costs		10.0	
DPH IGT revenue received in FY 2012-13 budgeted as Fund Balance		19.0	
SOMA Skate and Dog Park Transfer-In		1.6	
America's Cup Recoup of Costs		10.0	
Transfer of SB 1128 revenue		21.0	
Reimbursement of Prior Year Capital Expenditures			11.6
Total Nonrecurring General Fund Revenues	\$ 112.6	\$ 174.9	\$ 122.2

Appendix 4. Baselines & Mandated Funding Requirements

Voters have approved requirements for baseline levels of funding or staffing for a number of services, which are summarized in Table 3-1 below.

Table 3-1. Baselines & Mandated Funding/Staffing Requirements (\$ millions)

	FY 2012-13 Original Budget	FY 2013-14 Proposed Budget	FY 2014-15 Proposed Budget
General Fund Aggregate Discretionary Revenue (ADR)	\$ 2,316.3	\$ 2,523.8	\$ 2,636.5
Financial Baselines			
Municipal Transportation Agency (MTA)			
MTA - Municipal Railway Baseline: 6.686% ADR	154.9	168.7	176.3
MTA - Parking & Traffic Baseline: 2.507% ADR	58.1	63.3	66.1
MTA - 80% Parking Tax In-Lieu	61.2	66.6	68.6
Subtotal Municipal Transportation Agency	\$ 274.2	\$ 298.6	\$ 311.0
Library Preservation Fund			
Library - Baseline: 2.286% ADR	53.0	57.7	60.3
Library - Property Tax Set-Aside: \$0.025 per \$100 Net Assessed Valuation (NAV)	37.3	40.0	42.4
Subtotal Library	90.2	97.6	102.6
Children's Services			
<i>Children's Services Baseline - Requirement: 4.973% ADR</i>	115.2	125.5	131.1
Children's Services Baseline - Eligible Items Budgeted	126.4	133.0	134.6
Public Education Services Baseline: 0.290% ADR	6.7	7.3	7.6
Children's Fund Property Tax Set-Aside: \$0.03 per \$100 NAV	44.7	48.0	50.9
<i>Public Education Enrichment Fund: 3.057% ADR</i>	70.8	77.1	80.6
25% Deferral	(17.7)	-	(20.1)
1/3 Annual Contribution to Children and Families Commission - Preschool for All	17.7	25.7	20.2
2/3 Annual Contribution to San Francisco Unified School District (SFUSD):			
Share of SFUSD Contribution Provided as In-Kind Services	2.7	4.0	3.1
Balance of SFUSD Contribution Direct Funding	32.7	47.5	37.2
Total Public Education Enrichment Fund	53.1	77.2	60.4
Subtotal Childrens Services	230.9	265.5	253.5
Other Financial Baselines			
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	37.3	40.0	42.4
Housing Trust Fund	-	20.0	22.8
Human Services Homeless Care Fund: Amount based on aid savings	14.5	14.9	14.9
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	2.0	2.1	2.3
City Services Auditor: 0.2% of Citywide Budget	12.1	12.9	13.4
Subtotal Other Financial Baselines	65.9	89.9	95.7
Total Financial Baselines	\$ 661.2	\$ 751.6	\$ 762.9
Staffing and Service-Driven Baselines			
Police Minimum Staffing		Requirement likely not met in FY 2013-14	
Neighborhood Firehouse Baseline		Requirement met	
Treatment on Demand Baseline		Requirement likely not met	
Office of Economic Analysis Staffing		Requirement met	

Municipal Transportation Agency Baselines. Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for 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 Discretionary Revenues (ADR). Beginning in FY 2002-03, this Charter section also established a minimum 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 MTA baselines at the required levels of \$232.0 million in FY 2013-14 and \$242.4 million in FY 2014-15.

Library Baseline. Charter Section 16.109 established 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 ADR. Based on revenue in the Mayor's proposed budget, the required Library Baseline requirements of \$57.7 million in FY 2013-14 and \$60.3 million in FY 2014-15 are met.

Children's Baseline. Charter Section 16.108 established a Children's Services Fund. 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 ADR. The required baselines for FY 2013-14 and FY 2014-15 are \$125.5 million and \$131.1 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$133.0 million and \$134.6 million, representing surplus funding of \$7.5 million in FY 2013-14 and \$3.5 million in FY 2014-15.

Public Education Services Baseline. Charter Section 16.123-2 established 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 ADR. The Mayor's proposed budget includes the required \$7.3 million in FY 2013-14 and \$7.6 million in FY 2014-15 for this baseline.

Public Education Enrichment Fund Annual Contribution. In addition to the Public Education Services Baseline, Charter Section 16.123-2 requires the City to support education initiatives with annual contributions through FY 2014-15 equal to the City's total contribution in the prior year, adjusted for the change in ADR. The Mayor's FY 2013-14 and FY 2014-15 proposed budget includes \$73.2 million and \$57.3 million respectively for the Public Education Enrichment Fund Annual Contribution plus an allowance for \$4.0 million and \$3.1 million respectively in in-kind contributions to SFUSD, for a total contribution of \$77.2 million in FY 2013-14 and \$60.4 million in FY 2014-15. 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 may reduce the City's contribution to the Public Education Enrichment Fund by up to 25%. The Mayor's proposed budget does not include this reduction for FY 2013-14, but does include it for FY 2014-15.

Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate three property tax-related set-asides, as follows: amounts equivalent to 3.0% of property tax revenues for the Children's Services Fund; 2.5% for the Library Preservation Fund; and 2.5% for the Open Space Fund. The Mayor's proposed budget includes required funding of \$48.0 million in FY 2013-14 and \$50.9 million in FY 2014-15 for the Children's Services Fund, and \$40.0 million and \$42.4 million in FY 2013-14 and FY 2014-15, respectively, for both the Library Preservation Fund and Open Space Fund.

Housing Trust Fund. In 2012, voters approved Proposition C establishing a Housing Trust Fund codified in Charter section 16.110. The Charter requires an annual contribution from the General Fund to the Housing Trust Fund of \$20 million beginning in FY 2013-14 and increasing annually by \$2.8 million. The Mayor's proposed budget includes the required funding for FY 2013-14 and FY 2014-15.

Human Services Care Fund. Also known as Care not Cash, the Human Services Care Fund was passed by voters as Proposition N in November 2002. Administrative Code Section 10.100-77 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 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. The Mayor's proposed budget includes funding of \$14.9 million in FY 2013-14 and FY 2014-15, an increase of \$0.4 million from the FY 2012-13 budgeted amount. The budgeted amounts include \$1.2 million in each year of General Fund support above the required funding amount of \$13.7 million. Since this requirement is not contained in the Charter, the Board may approve an amount higher or lower than the requirement.

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 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline of \$2.1 million in FY 2013-14 and \$2.3 million in FY 2014-15 has been met.

City Services Auditor Baseline. Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2% of the City budget be used to fund audits of City services. The Mayor's proposed budget includes \$12.9 million in FY 2013-14 and \$13.4 million in FY 2014-15 for the City Services Auditor Baseline.

Police Minimum Staffing Baseline. San Francisco Charter Section 4.127, approved by the voters in 1994 as Proposition C, mandates a minimum police staffing baseline of not less than 1,971 sworn full-duty officers. 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, which provides that the Mayor and the Board may convert a required position from a sworn officer to a civilian through the budget process. A number of civilian positions have been added since the Charter amendment was passed; however, no formal certification has been approved by the Police Department.

The Police Department projects that by June 30, 2013 it will have 2,015 full duty sworn officer positions filled. Of these officers 336 will not be available for neighborhood policing and patrol due to modified duty, academy and field training assignments. The Department projects that there will be 111 retirements during FY 2013-14 offset by 168 officers graduating to full-duty sworn status from the academy. These adjustments result in a projected total of 1,736 full-duty sworn officers available for neighborhood policing and patrol, 235 short of the baseline staffing amount. The Controller's Office estimates that by the end of FY 2013-14, 98 positions will have

been civilianized, reducing the minimum staffing level to 1,873. Additionally, the Department will receive overtime funding in the FY 2013-14 proposed budget that the Controller's Office calculates as equivalent to 74 full duty sworn positions, bringing the staffing level to 1,810, or 63 positions short of the baseline amount less civilianized positions, if overtime is counted towards the budget.

As of June 30, 2014 the Police Department projects to have 2,072 full duty sworn officer positions filled. Of these officers 336 will not be available for neighborhood policing and patrol due to modified duty, academy and field training assignments. The Department projects that there will be 80 retirements during FY 2014-15 offset by 135 officers graduating to full-duty sworn status from the academy. These adjustments result in a projected total of 1,791 full-duty sworn officers available for neighborhood policing and patrol, 180 short of the baseline staffing amount. The Controller's Office estimates that by the end of FY 2014-15, 109 positions will have been civilianized, reducing the minimum staffing level to 1,862. Additionally, the Department will receive overtime funding in the FY 2014-15 proposed budget that the Controller's Office calculates as equivalent to 73 full duty sworn positions bringing the staffing level to 1,862, or two positions in excess of the revised baseline amount less civilianized positions, if overtime is counted towards the budget.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act as Proposition F, which established staffing requirements as described in Administrative Code Section 2A.97. The Act requires 24-hour staffing of 42 firehouses and the Arson and Fire Investigation Unit, and no fewer than four ambulances and four Rescue Captains. The Mayor's proposed budget includes \$254.6 million in FY 2013-14 and \$259.2 million in FY 2014-2015 to meet the baseline. Since this requirement is not contained in the Charter, the Board may approve a budgeted amount that does not meet the levels described in the Code.

Treatment on Demand Baseline. In November 2008, voter-approved Proposition T created Chapter 19A, Article III of the Administrative Code, which requires Public Health 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 also requires the Department to report to the Board by February 1 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 2012 (the most recent data), the only treatment modality for which there was a substantially greater number of clients waiting than slots available was for Residential Treatment.

The Mayor's proposed budget does not include additional funding intended to meet the total demand for these services; however, since this requirement is not contained in the Charter, the Board may approve a budgeted amount that does not meet the requirement. Furthermore, as of January 1, 2014, many individuals who need substance abuse treatment will become eligible for services under the Affordable Care Act.

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