



OFFICE OF THE CONTROLLER

March 21, 2008

The Honorable Gavin Newsom, Mayor
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

**Re: Three-Year Budget Projection for General Fund Supported Operations
FY 2008-09 through FY 2010-11**

Dear Mayor Newsom and Members of the Board of Supervisors:

San Francisco Administrative Code Section 3.6 requires a three-year budget report to be issued annually by the Controller, the Mayor's Budget Director, and the Budget Analyst for the Board of Supervisors. This report projects budgetary sources and uses for General Fund Supported operations for FY 2008-09 through FY 2010-11 as follows.

	FY 2008-09	FY 2009-10	FY 2010-11
Projected Surplus / (Shortfall), millions	\$ (338.4)	\$ (45.9)	\$ (40.7)

Table A on the following page highlights projected changes in General Fund Supported operations, including the projected budgetary surpluses and shortfalls over the next three years. The key assumptions and findings impacting the FY 2008-09 projection include:

- Loss of prior year fund balances and reserves of \$167.5 million used as a source of funding in the FY 2007-08 adopted budget.
- Personnel cost increases of \$117.7 million for the annualization of wage increases negotiated in existing labor contracts, annualization of partial year positions approved in the FY 2007-08 adopted budget and increases in health and dental benefits for active and retired employees.
- State budget reductions of \$41.1 million. These cuts begin in FY 2007-08 as mid-year reductions and continue into FY 2008-09.

The FY 2008-09 shortfall of \$338.4 million assumes that the currently projected FY 2007-08 fund balance of \$7.6 million remains available to help balance FY 2008-09. Our fund balance projection includes updated revenue projections as well as special congressional election costs. Any further supplemental appropriations, other than those noted in the Controller's Six-Month

Report for FY 2007-08 along with the special congressional election, will increase the projected shortfall for FY 2008-09. Additionally, any mid-year savings achieved as proposed through the Mayor's mid-year savings initiative will decrease the projected shortfall for FY 2008-09. The following table details the change in projected year-end fund balance for the General Fund from the Controller's Six-Month Budget Status Report.

FY 2007-08 Budgetary Status Projection

	6-Month Report	Change	Joint Report
Prior Year Fund Balance & Reserves	\$ 19.0	\$ -	\$ 19.0
Current Year			
Sources, Revenues & Transfers In	\$ 8.2	\$ (20.1)	\$ (11.9)
Uses, Operations & Transfers Out	\$ (16.2)	\$ (1.2)	\$ (17.4)
Required Rainy Day Reserve Deposits	\$ (7.5)	\$ 7.5	\$ -
Required Other Reserves	\$ (2.2)	\$ -	\$ (2.2)
General Reserve	\$ 20.2	\$ -	\$ 20.2
Projected Fiscal Year-End Fund Balance	\$ 21.4	\$ (13.8)	\$ 7.6

- Absent any changes, such as the proposed Charter Amendment on the June 2008 ballot that proposes changes to retiree health and pension benefits for City employees and freezes wages for 18 months, wage increases for labor contracts expiring in June of 2009 and 2010 are projected to grow at the rate of inflation which is estimated by the California Department of Finance at 2.1 percent in FY 2009-10 and 2.3 percent in FY 2010-11. Any increases over those percentages will increase the shortfall. For new contracts, every additional 1.0 percent increase equals \$9.5 million of General Fund Supported cost in FY 2009-10 and \$11.6 million in FY 2010-11.
- The projection for FY 2008-09 includes the \$60.5 million assumed in the recently proposed 10-year Capital Plan, \$5.0 million for San Francisco General Hospital rebuild planning and \$15.7 million for furniture and fixtures for Laguna Honda Hospital. To the extent any of this is delayed or funded through debt, the shortfall will decrease.

**Table A: High-Level Summary for General Fund Supported Operations
Projected Budgetary Surplus / (Shortfall), in millions**

Sources	FY 2008-09	FY 2009-10	FY 2010-11
Fund Balances & Prior Year Reserves	\$ (167.5)	\$ (0.4)	\$ -
State Budget	\$ (41.1)	\$ -	\$ -
Revenues & Transfers In	\$ 110.9	\$ 102.3	\$ 102.6
Subtotal - Sources	\$ (97.7)	\$ 101.9	\$ 102.6
Uses			
Personnel Costs	\$ (117.7)	\$ (100.5)	\$ (84.8)
Voter Mandated Baselines	\$ (30.4)	\$ (28.2)	\$ (19.6)
New Voter Mandates	\$ (29.6)	\$ (1.0)	\$ (1.0)
Other Citywide & Departmental Costs	\$ (62.9)	\$ (18.1)	\$ (37.9)
Subtotal - Uses	\$ (240.7)	\$ (147.8)	\$ (143.3)
Projected Surplus / (Shortfall), millions	\$ (338.4)	\$ (45.9)	\$ (40.7)

While the three fiscal year periods covered by this budget projection reflect projected shortfalls based on the current levels of service as assumed in this report, all final budgets must be balanced. As in the past, this report assumes that any prior-year projected shortfalls are balanced with ongoing solutions, including a combination of increased revenues and decreased expenditures. To the degree one-time solutions are used, subsequent shortfalls grow by a like amount.

Our projections reflect the estimated cost of providing the current level of City services through current business practices for General Fund Supported operations. These projections are not intended to commit the City to future spending levels. Actual funding decisions will be subject to availability of funds as well as policy decisions of the Mayor and Board of Supervisors. Additional key assumptions to note in this year's Joint Report are included below. Based on these assumptions, key budgetary changes in sources and uses are highlighted in Table B on page 6.

Assumptions Contained in the Budget Projection

- Most employee unions negotiated three-year labor Memoranda of Understanding (MOU) agreements from July 1, 2006 through June 30, 2009. Annualization of FY 2007-08 MOU increases and MOU increases negotiated in agreements during FY 2007-08 for existing contracts will result in projected costs of \$73.3 million in FY 2008-09, \$66.6 million in FY 2009-10, and \$30.2 million in FY 2010-11.
- For employee unions with expiring MOUs as of June 30, 2009, our projections assume cost increases equal to projected inflation of 2.1 percent (costing \$20.1 million) and 2.3 percent (costing \$26.3 million) for FY 2009-10 and FY 2010-11 respectively. Our inflation projections are based on the California Department of Finance's projected consumer price index for the San Francisco Bay Area. If increases in salaries exceed the levels of inflation assumed in this report, the projected shortfalls in years two and three

shown above will increase. For these unions, an additional one percent salary increase over and above the inflation increase assumed in our projection equals \$9.5 million for both FY 2009-10 and FY 2010-11. For employee unions with **expiring MOUs as of June 30, 2010**, an additional one percent salary increase over and above the inflation increase assumed in our projection equals \$2.1 million, for a total of \$11.6 million in FY 2010-11.

- The Charter-mandated employer-share **retirement contribution** rate will decrease from 5.91 percent in FY 2007-08 to 4.99 percent in FY 2008-09 for Miscellaneous, Police and Fire employees. Cost savings related to the change in mandatory employer retirement contribution rates for SFERS are projected to be \$12.1 million in FY 2008-09. Based on projected yields on retirement investment funds, we have assumed a retirement contribution rate of 4.2 percent in FY 2009-10 and 4.3 percent in FY 2010-11, resulting in a \$10.4 million savings and \$1.3 million cost, respectively. The CalPERS retirement contribution rate is also set to decrease slightly in FY 2008-09 (going from 18.065 percent to 17.481 percent) for covered public safety personnel, resulting in projected savings of \$0.5 million in FY 2008-09, followed by projected savings of \$0.4 million in FY 2009-10. The same rate is assumed for both FY 2009-10 and FY 2010-11 for CalPERS.
- For all three years, we have assumed that the City's operating costs will reflect inflationary cost increases for **contract services, materials and supplies (including fuel)**. This results in projected increased cost of \$14.1 million, \$14.1 million and \$15.3 million for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. These increases are tied to inflationary increases of 2.2, 2.1 and 2.3 percent as projected by the California Department of Finance for the San Francisco Bay Area. The 2.2 percent rate of inflation projected by the California Department of Finance for FY 2008-09 is significantly lower than the most recent overall rate of 3.8 percent.
- Consistent with the Governor's Proposed **State Budget**, our projection includes **proposed net decreased funding of \$41.1 million, including FY 2007-08 mid-year reductions as well as cuts occurring in FY 2008-09**. The impact on San Francisco of the Governor's Proposed State budget is summarized on page 19. Continuation of property tax shifts implemented in prior years for the **Educational Revenue Augmentation Fund (ERAF I and ERAF II)** will cost the General Fund an estimated \$330.1 million in foregone revenue in FY 2008-09. Approximately half of the State reductions will result in a loss of discretionary revenue.
- We have assumed no cuts in Federal programs in our projection at this time. The **Federal Budget** delivered to Congress on February 4, 2008 included a number of cuts, such as freezing discretionary revenue spending to 0.3 percent over FY 2007-08 levels for all programs except national security. Notable items for local governments include the absence of funding for both the Edward Byrne Memorial Justice Assistance Grant program and for the Community Oriented Policing Services (COPS) program, reductions to state and local government sewage and pollution control, and reductions of nearly 50 percent to grants for state and local first responders (including local firefighters). The Federal Budget proposes to merge the Community Development Block Grant (CDBG) program with other housing programs and reduce its funding by 25 percent, while

increasing HOME grants for local affordable housing projects by 15 percent. Funding for local transportation programs is proposed to be cut by 10 percent.

Nationwide, proposed health entitlement reductions, including Medicare and Medicaid, total \$178 billion and \$17.3 billion, respectively, over the next five years. Savings would come from freezing payment rate increases and reducing federal payments to states. However, a \$20 billion increase to the State Children's Health Insurance Program (SCHIP) is also being proposed over the same period.

Table B: Key Changes to General Fund Supported Sources & Uses, millions

<u>SOURCES - Fund Balances & Prior Year Reserves</u>	FY 2008-09	FY 2009-10	FY 2010-11
Change in Fund Balances & Project De-Appropriations	(\$150.0)	\$17.4	\$0.0
Change in Reserves	(17.5)	(17.8)	0.0
Subtotal - SOURCES - Fund Balance & Prior-Year Reserve	(167.5)	(0.4)	0.0
<u>SOURCES - Revenues, Transfers In, State Budget Shifts & Redevelopment</u>			
General Taxes & Other General Fund Revenue Growth	114.6	97.7	100.5
Redevelopment Share of Property Tax	(1.7)	(8.0)	(6.8)
Human Services - Social Service Incremental Revenue Draw	2.1	4.6	2.1
Other GFS Revenues (incl. Hospital Net Revenues)	(4.1)	8.0	6.9
State Budget Impact	(41.1)	0.0	0.0
Subtotal - SOURCES - Change in Revenues, Transfers In ...	69.8	102.3	102.6
TOTAL CHANGES TO SOURCES	(97.7)	101.9	102.6
<u>USES - Salary & Benefits</u>			
Annualize Partial Year Positions - Police Officers	(15.9)	0.0	0.0
Annualize Partial Year Positions - Nurses	(8.0)	0.0	0.0
Annualize Partial Year Positions - All Other	(13.5)	0.0	0.0
Prior Year COLA Annualization & Closed MOU Increases	(73.3)	(66.6)	(30.2)
Assume CPI on Open Contracts	0.0	(20.1)	(26.3)
Health and Dental Benefit Costs - Active Employees & Dependents	(14.8)	(16.3)	(17.9)
Health and Dental Benefit Costs - Retirees	(4.2)	(7.4)	(8.1)
Pension - Employer Contribution Rates - CalPERS	0.5	0.4	0.0
Pension - Employer Contribution Rates - SFERS	12.1	10.4	(1.3)
Other Misc. Costs - Long-Term Disability, Social Security, Unemployment, Work Days	(0.6)	(0.9)	(1.0)
Subtotal - USES - Salaries and Benefits	(117.7)	(100.5)	(84.8)
<u>USES - Other Operating Budget Costs, Citywide & Departmental</u>			
Baseline & Mandate Requirements	(30.4)	(28.2)	(19.6)
Base Budget Adjustments	14.1	0.0	0.0
Capital, Facilities Maintenance, Equipment, Equipment & Technology	(14.4)	(4.2)	0.3
CPI Inflation on Materials, Supplies, Nonprofit Contracts, & Fuel	(14.1)	(14.1)	(15.3)
Lease Payments & Debt Service	(4.8)	(3.0)	0.1
Paid Sick Leave Ordinance - Prop F, November 2006	1.5	(0.1)	(0.1)
Utilities Costs	(1.9)	(0.9)	(1.0)
Workers Compensation	(1.0)	(1.9)	(1.8)
<u>Departmental</u>			
Academy of Science - Open New Academy	(0.7)	0.2	(0.2)
City Administrator - Convention Facilities Subsidy	(7.7)	(1.4)	0.9
Courts & Public Defender - Indigent Defense	(1.9)	1.6	0.0
Emergency Communication - Low-Income 911 Fee Subsidy	0.3	(1.4)	(1.2)
Elections - Number of Elections	7.5	(3.0)	3.8
Elections - New Voting System	(0.9)	0.4	(0.3)
Ethics - Combined Mayoral and Supervisors' Election Fund	(0.6)	0.0	0.0
Film Rebate Program	0.0	0.6	0.0
GSA - DTIS - Expiration of PEG Operating Funding (AB2987)	0.0	(0.5)	0.0
Human Resources - Collective Bargaining Expenses	(2.1)	2.1	(0.1)
Human Services - Supportive Housing Services, Pipeline Units	(2.9)	(3.7)	(2.8)
Human Services - Aid Costs	(4.8)	(7.4)	(5.5)
Police - COPS Match, MOE for Grant-Funded Positions	(2.0)	(1.2)	0.0
Police - Crime Lab and Medical Examiner Relocation	0.0	0.0	(14.0)
Police - Tactical Unit Rental Costs	(1.4)	(0.4)	(0.0)
Public Health - SFGH Rebuild Planning Phase Funding	7.0	5.0	0.0
Public Health - Healthy San Francisco Operating Costs	0.0	0.0	0.0
Public Health - Healthy Kids & Young Adults Enrollment	3.3	2.7	0.0
Public Health - Community Justice Center	(0.8)	(1.0)	0.0
Public Health - Laguna Honda Hospital Laundry Contract	0.2	(2.1)	(0.4)
Public Health - Laguna Honda Hospital Fixtures, Furniture, & Equipment	(15.7)	15.7	(0.1)
Public Utilities Commission - Water - Low-Income Rate Subsidy	(0.2)	(0.1)	(0.1)
Recreation & Parks - Golf Fund Subsidy	(0.1)	(0.1)	(0.1)
Redevelopment - Survey Area Loans	0.5	0.0	0.0
Sheriff - Additional Inmate Incarceration Costs	(19.5)	0.0	0.0
<u>New Voter Initiatives & Propositions</u>			
Prop A - MUNI. Additional Parking Tax Funding (November 2007)	(27.9)	(1.0)	(1.0)
Prop G - Golden Gate Stables Matching Fund (November 2007)	(0.8)	0.0	0.0
Prop I - Office of Small Business (November 2007)	(0.9)	0.0	0.0
Subtotal - USES - Other Budget Costs, Citywide & Departmental	(122.9)	(47.3)	(58.5)
TOTAL CHANGES TO USES	(240.7)	(147.8)	(143.3)
PROJECTED SURPLUS / (SHORTFALL)	(338.4)	(45.9)	(40.7)

SUMMARY OF PROJECTIONS

SOURCES - Fund Balances & Prior-Year Reserves

The change in fund balances and projected reserves result in a year-over-year loss of \$165.2 million. Key changes in fund balances and reserves include:

Fund Balances – General Fund Supported. A loss of \$150.0 million is projected year-over-year from FY 2007-08's budgeted levels. This is comprised of a \$116.9 million reduction in budgeted fund balances (consistent with the Controller's Six-Month Report projection, as updated with revenue and expenditure projections through mid-March) as well as \$33.1 million of project de-appropriation funding included in the budget as a one-time source. By way of comparison, the FY 2007-08 budget included \$124.6 million of net fund balances used for General Fund Supported operations.

Reserves from Prior Years. Occasionally, unspent reserve balances established in prior years are available to cover budget costs. The FY 2007-08 budget was balanced using net available prior-year reserves totaling \$23.5 million. The net projected FY 2008-09 available reserves are estimated to be \$17.5 million lower mainly due to the use of the one-time and capital account funding from the Rainy Day Reserve. Key reserves are summarized below.

- **Rainy Day Reserve – Economic Stabilization Account.** No draw down from the Rainy Day Reserve's Economic Stabilization Account was included as a funding source in the FY 2007-08 budget. At this time, anticipated revenue growth in FY 2008-09 through FY 2010-11 results in the City being ineligible to use the Rainy Day's Economic Stabilization Account as a funding source for the City budget. As of this report's projection, additional deposits to the Rainy Day Reserve are not projected to be required in FY 2007-08 nor during the projection period of FY 2008-09 through FY 2010-11. The Controller's Office is working with the School District to assess the projected impact of State cuts to their budget as well as the City's potential capacity to provide partial backfill funding from the City's Rainy Day Reserve – Economic Stabilization Account.
- **Rainy Day Reserve – One-Time Spending Account.** The Rainy Day's One-Time Spending Account is projected to have \$0.2 million available for one-time spending based on projected accumulated balances and deposits made through FY 2007-08. This compares to the \$15.8 million budgeted in FY 2007-08. No additional deposits are projected over this three-year period. Our projection assumes the use of the \$0.2 million projected balance as a funding source for the FY 2008-09 budget.
- **Citywide Budget Savings Incentive Reserves.** The FY 2007-08 budget included \$6.3 million in savings reserves. A Supplemental Appropriation of \$4.3 million for the Department of Public Health was also approved by the Board of Supervisors on March 18, 2008 that used the Budget Savings Incentive Reserves as a source of funds. The net result is that no additional savings reserves are projected to be available to fund FY 2008-09 spending, nor are savings reserve balances projected for either FY 2009-10 or FY 2010-11.

- **Recreation & Park Budget Savings Incentive Reserves.** The FY 2007-08 budget did not include any Recreation & Park Budget Savings Incentive Reserves. No balance is projected for FY 2008-09 or thereafter at this time.
- **Salary & Benefits (MOU) Reserves.** Existing reserves are projected to be sufficient through FY 2007-08, and new funding requirements have been noted in the Personnel cost projections.

SOURCES – Revenues, Transfers In, State Budget & Redevelopment Impact

Attachments 1 and 2 summarize Revenue and Transfer-In sources for the three-year projection. Key highlights are noted below.

- **General Tax, Recurring Revenues & Transfers In.** Recurring Revenues & Transfers In are projected to increase \$114.6 million in FY 2008-09 from the FY 2007-08 original budget levels, followed by increases of \$97.7 million and \$100.5 million in FY 2009-10 and FY 2010-11, respectively. Notable strength projected in the General Fund is primarily due to Property Tax, Business Payroll Tax, and Hotel Room Tax revenue growth, offset partially by a projected reduction in Real Property Transfer Tax revenues.
- **Redevelopment Tax Increment Requirement.** Tax increment funding allocated to the Redevelopment Agency is partially funded from Property Tax revenue that would otherwise accrue to the General Fund. The FY 2007-08 budget was based upon an assumed gross tax increment of \$78.5 million budgeted for the Redevelopment Agency – some \$40.5 million less than the currently estimated available tax increment funding that could be allocated to the Redevelopment Agency. Per the negotiated agreement between the Redevelopment Agency and the City, all Mission Bay Tax Increment is required to flow to the Agency. Our projection includes growth in Redevelopment tax increment funding which would result in a net reduction to General Fund revenue of \$1.7 million in FY 2008-09, along with \$8.0 million and \$6.8 million in FY 2009-10 and FY 2010-11, respectively, to fund planned increases in debt service costs. Without this planned increase in tax increment funding to the Redevelopment Agency, the net revenue would otherwise accrue to the General Fund. Of every \$1 of property tax increment, \$0.57 is allocated to the General Fund. The remainder goes to other taxing entities, like the School District, Community College, BART and Bay Area Air Quality Management District as well as ERAF.
- **Human Services Agency Revenue.** The Human Services Agency is projected to have departmental revenue growth of \$2.1 million in FY 2008-09, \$4.6 million in FY 2009-10, and \$2.1 million in FY 2010-11. These revenue changes are offset by projected cost increases related to aid and supportive housing service costs of \$7.7 million in FY 2008-09, \$11.1 million in FY 2009-10 and \$8.3 million in FY 2010-11 discussed further in the expenditure section below.
- **Public Health Department Revenue - Hospitals.** Public Health hospital revenues are projected to decrease by \$4.1 million in FY 2008-09, followed by increases of \$8.0 million and \$6.9 million in FY 2009-10 and FY 2010-11, respectively. These revenue changes are offset by projected cost increases of \$6.0 million in FY 2008-09, though cost savings are projected of

\$20.3 million for FY 2009-10 and \$24.9 million for FY 2010-11 as discussed further in the departmental expenditure section below.

- **State Revenue Impact.** Consistent with the Governor's Proposed State Budget, our projection includes a loss of \$41.1 million in funding. Also, we have assumed the continuation of property tax shifts implemented in prior years for the Educational Revenue Augmentation Fund (ERAF I and ERAF II) of \$330.1 million annually. Further details of State reductions are summarized on page 19.

In summary, total General Fund sources are projected to decrease by \$97.7 million in FY 2008-09, including the loss of \$167.5 million in Fund Balances and Prior-Year Reserves, \$41.1 million in State cuts, with partially off-setting revenue growth of \$110.9 million in all other Revenues and Transfers In.

USES – Salaries and Benefits

We are projecting increased labor costs for the General Fund of \$117.7 million in FY 2008-09, followed by increases of \$100.5 million in FY 2009-10 and \$84.8 million in FY 2010-11. These result from known MOU provisions for City employees, mandated health benefit and retirement cost increases, changes in the number of workdays in each fiscal year, as well as **assumed wage increases for new contracts equal to the projected rate of inflation.**

Additional expenditure increases due to Salaries and Benefits are discussed below.

- **Annualization of Partial-Year Position Funding.** In FY 2008-09, the City will incur additional costs to annualize positions funded for only a partial year in the FY 2007-08 budget. Most of the positions were funded for only three-quarters of a year. Annualization of partial-year positions results in additional costs of \$37.4 million to fund these positions for a full year.
- **MOU Costs – Contracts Set Through June 30, 2009.** Most MOUs will expire at the end of FY 2008-09. Costs reflecting negotiated salary and fringe benefit increases as outlined in each bargaining unit MOU are assumed in our projection, including \$73.3 million for FY 2008-09, \$66.6 million for FY 2009-10, and \$30.2 million for FY 2010-11 related to the annualization of prior-year costs. Additionally for FY 2009-10, since employees covered by these contracts are set to have a new contract, we have assumed that wage-related costs grow at a 2.1 percent inflation rate as projected by the California Department of Finance for the San Francisco Bay Area, along with 2.3 percent for FY 2010-11.
- **MOU Costs –‘New Contracts’.** MOU contracts for almost all bargaining units will expire at the end of FY 2008-09. To capture projected cost associated with anticipated new contracts, we have included projected cost increases tied to the inflation as projected by the California Department of Finance for the San Francisco Bay Area for the next three fiscal years. These rates of inflation are 2.1 percent for FY 2009-10 and 2.3 percent for FY 2010-11. These inflation assumptions result in projected cost for new contracts of \$20.1 million in FY 2009-10 and \$26.3 million in FY 2010-11.
- **Health and Dental Benefits.** Total health and dental benefits are projected to increase by \$19.0 million, \$23.7 million and \$26.0 million in FY 2008-09, FY 2009-10 and FY 2010-11, respectively. This is comprised of both current employee and retiree subsidy costs as follows:

1. **Current Employees.** The Charter requires the City's contribution for individual health coverage costs to increase based on a survey of California's ten largest counties. The most recently conducted survey resulted in a 3.9 percent increase (going from \$403.14 to \$418.80 per month) in the Charter-required contribution from FY 2007-08 to FY 2008-09. Given this increase as well as other projected changes in plan utilization, planned use of fund balance of \$4.0 million during FY 2008-09 and negotiated benefit provisions, costs related to current employees are projected to increase by \$14.8 million, \$16.3 million and \$17.9 million for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. Our projections for FY 2008-09 and FY 2009-10 are based on projected underlying insurance cost increases of an estimated 8.7, 10.0 and 10.0 percent respectively.
 2. **Retired City Employees.** Charter Section A8.428 also mandates health coverage for retired City employees. These medical benefits for retirees are projected to increase in cost by \$4.2 million, \$7.4 million, and \$8.1 million for FY 2008-09, FY 2009-10 and FY 2010-11 respectively. Our projections for FY 2008-09, FY 2009-10 and FY 2010-2011 are based on projected underlying cost increases of 6.0, 10.0 and 10.0 percent.
- **Pension Costs.** Total pension costs are projected to decrease because of projected contribution rate decreases, resulting in savings of \$12.6 million and \$10.8 million in FY 2008-09 and FY 2009-10 respectively, followed by additional cost of \$1.3 million in FY 2010-11. This is comprised of contributions into CalPERS and SFERS as follows:
 1. **CalPERS Contribution Rate Changes – Employer-Share Only.** The California Public Employees' Retirement System (CalPERS) has notified the City that the employer contribution rates for employees covered by CalPERS Safety will decrease from 18.065 percent in FY 2007-08 to 17.481 percent in FY 2008-09. We have included a rate of 17.00 percent as estimated by CalPERS for FY 2009-10 for the latter two years of our projection. These contribution rate assumptions result in pension savings of \$0.5 million in FY 2008-09 and \$0.4 million in FY 2009-10.
 2. **SFERS Contribution Rate Changes – Employer-Share Only.** Employer-share contribution rates are set to decrease from 5.91 percent in FY 2007-08 to 4.99 percent in FY 2008-09 for covered City employees, as adopted by the Retirement Board on January 9, 2008. Required employer-share rates included in our projection are based on the San Francisco Employees' Retirement System's (SFERS) actuarial valuation as of July 1, 2007 (published in February 2008). Our projections assume required employer-share contribution rates of 4.2 percent in FY 2009-10 and 4.3 percent in FY 2010-11 as estimated by the Retirement System, resulting in the retirement contribution savings of \$12.1 million for FY 2008-09 and \$10.4 million for FY 2009-10, followed by incremental cost of \$1.3 million for FY 2010-11. Note that even though we assume return on assets to be flat in FY 2009-10, the City's required contribution is projected to decrease slightly due to prior years' strong performance of the Retirement System's investments.
 - **Other Miscellaneous Benefits Costs.**
 1. **Change in Work Days.** Most fiscal years consist of 261 workdays for regularly scheduled shifts. FY 2007-08 was affected by a leap year, which increased costs for 24/7 operations. After factoring in all workdays and weekend coverage for 24/7 operations in FY 2008-09, the City's General Fund Supported operating costs are projected to have savings of \$1.7

million due to one less workday for 24/7 operations, followed by no net impact in FY 2009-10 and FY 2010-11.

2. **Long-Term Disability.** Various bargaining units have long-term disability benefits included in their negotiated labor agreements. Since most contracts are set through the end of FY 2008-09, there will be no costs increases in FY 2008-09.
3. **Unemployment & Social Security Costs.** Each year the Federal government increases the base on which Social Security taxes are paid. This impacts both employee and employer costs. Our projection includes \$0.8 million, \$0.9 million and \$1.0 million of additional costs due to Social Security in FY 2008-09, FY 2009-10 and FY 2010-11 respectively. Our projection also assumes a 0.1 percent increase in unemployment insurance for FY 2008-09, resulting in increased costs of \$1.5 million. No changes are anticipated in unemployment costs for FY 2009-10 or FY 2010-11.

USES – Other General Citywide Costs

We project other non-salary expenditure increases of \$122.9 million, \$47.3 million and \$58.5 million for FY 2008-09, FY 2009-10 and FY 2010-11 respectively.

Baseline Requirements. The Charter specifies baseline-funding levels for various programs or functions, including Public Education, the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, Children's Services, the City Services Auditor, the Municipal Symphony, and the Human Services Care Fund. Baseline amounts are generally linked to changes in discretionary City revenues, though some are otherwise a function of citywide expenditures or base-year program expenditure levels. The revenue and expenditure projections assumed in this report result in projected cost increases related to Charter-mandated baseline requirements of \$30.4 million, \$28.2 million and \$19.6 million for FY 2008-09, FY 2009-10 and FY 2010-11 respectively.

Baseline & Other Mandated Spending Requirements, (in millions)

Existing Baselines & Mandates	2008-09	2009-10	2010-11
Public Education Enhancement Funding	(15.0)	(15.0)	(2.4)
Public Education Baseline (0.28% of discretionary revenue)	0.0	(0.2)	(0.2)
MUNI Baseline (6.70% of discretionary revenue)	(7.9)	(5.4)	(5.5)
DPT Baseline (2.42% of discretionary revenue)	(2.7)	(1.9)	(2.0)
Library Preservation Baseline (2.19% of discretionary revenue)	(2.5)	(1.8)	(1.8)
MTA Transfer In - Lieu of Parking Tax (current 40% share)	(1.9)	(1.0)	(1.0)
Children's Baseline (4.84% of discretionary revenue)	(0.1)	(2.5)	(6.4)
Human Services Care Fund	(0.3)	(0.1)	(0.1)
Controller - City Services Auditor (0.2% of Budgeted Uses)	0.1	(0.2)	(0.2)
Municipal Symphony Baseline (1/8 of 1% of Property Tax Rev)	(0.1)	(0.1)	(0.1)
Subtotal - Baseline & Select Mandates	(30.4)	(28.2)	(19.6)

- **Base Budget Adjustments.** Adjustments to the Base Budget typically include the elimination of one-time costs, the annualization of on-going supplemental appropriations that happen during the current fiscal year as well as adjustments associated with continuing Board-approved add-backs in the budget. The effect of all base budget changes is a net savings of \$14.1 million in FY 2008-09. This savings is primarily attributed to the elimination of \$8.4 million of one-time project funding for housing add-backs and \$6.8 million from the updating

of project cost recoveries from departments for Project eMerge (the human resources information system), offset partially by \$1.1 million for all other net changes.

- **Capital, Facilities Maintenance, Equipment & Technology.** Our capital and facilities maintenance cost projections are consistent with those outlined in the FY 2009-18 Capital Plan — currently proposed at \$60.5 million for FY 2008-09, then growing 10 percent in each subsequent year. Our projections also assume level funding of \$15.8 million over the next three years for the cash purchase technology and equipment programs, as well as an annual equipment lease purchase program discussed in the Debt Service & Lease Financing section below.
- **CPI – Inflationary Increases for Non-Personnel (Materials, Supplies, Professional Services, Non-Profit Contracts & Fuel) Costs.** Our projection assumes inflationary cost increases of 2.2 percent in FY 2008-09 at a cost of \$14.1 million, 2.1 percent in FY 2009-10 at a cost of \$14.1 million and 2.3 percent in FY 2010-11 at a cost of \$15.3 million. These inflation projections are from the California Department of Finance for the San Francisco Bay area. Of the projected costs noted above, we have included additional costs of \$0.1 million annually for higher fuel (gasoline) prices.
- **Debt Service & Lease Financings.** Based on current debt repayment requirements as well as an assumed lease-financing program for equipment purchases (ranging between \$12.3 and \$14.1 million per year over our projection period), total debt service and lease financing costs are projected to increase by \$4.8 million in FY 2008-09 and \$3.0 million in FY 2009-10. Incremental savings of \$0.1 million are projected for FY 2010-11, as past debt is retired.
- **Paid Sick Leave Ordinance (Proposition F, November 2006).** Our projection includes \$1.5 million of savings in FY 2008-09 associated with the Paid Sick Leave Ordinance, as well as \$0.1 million of projected costs for FY 2009-10 and FY 2010-11. These changes are primarily related to the annualization of required funding levels, as the FY 2007-08 budget included one and a half years of costs due to accrued prior-year obligations.
- **Utility Costs.** Costs related to utilities, including electricity, natural gas, water, sewer, garbage and steam are projected to increase by \$1.9 million in FY 2008-09, \$0.9 million in FY 2009-10 and \$1.0 million in FY 2010-11. Notable increases are tied to: 1) natural gas commodity price increases, 2) water rate increases of 15.0 percent on average per fiscal year, 3) sewer service rate increases of 9.0 percent in FY 2008-09 and 3.0 percent on average in each of the two subsequent fiscal years; and 4) garbage rate increases of 5.0 percent in each fiscal year.
- **Workers' Compensation Costs.** Workers' compensation costs are projected to increase \$1.0 million in FY 2008-09, \$1.9 million in FY 2009-10 and \$1.8 million in FY 2010-11. The FY 2008-09 projected increase is a result of a legislated increase in temporary disability benefits (indemnity payments) and assumed medical inflation of five percent. Our projections also assume medical inflation of five percent per year in the latter two years of the projection period. Our medical inflation assumption is lower than the 10 percent assumed for medical fringe benefits noted above due to the new medical provider network requirements as previously legislated under the State's workers' compensation reforms. Additionally, we have assumed that the number of indemnity claims will remain relatively flat over the next three years.

USES – Other Departmental Uses & Voter-Approved Measures

- **Academy of Sciences - New Facility.** The new Academy of Sciences facility in Golden Gate Park is set to open in September 2008. Cost increases associated with the new facility are a result of increases in the number of aquarium tanks and animal specimens. Total costs are projected to increase \$0.7 million in FY 2008-09, followed by incremental savings of \$0.2 million in FY 2009-10, and additional costs of \$0.2 million in FY 2010-11.
- **City Administrator – Convention Facilities Fund Subsidy.** Our projection assumes increased General Fund Support to the Convention Facilities Fund due to higher estimated debt service payments and operating contract costs, resulting in \$7.7 million and \$1.4 million in increased costs for FY 2008-09 and FY 2009-10 respectively, followed by \$0.9 million in savings for FY 2010-11. This increase in support is partially due to our assumption that all Hotel Tax revenue growth accrues to the General Fund, and that no additional Hotel Tax revenue growth is allocated to the Convention Facilities Fund during the next three fiscal years.
- **Courts and Public Defender – Indigent Defense.** Additional costs of \$1.9 million are projected for FY 2008-09 for the legally-required defense costs of eight indigent defendants in the case of People v. Bell. This includes \$1.6 million for the Superior Court and \$0.3 million for the Public Defender, who is representing one of the lead defendants in the case. The Superior Court costs are not anticipated to extend beyond FY 2008-09, resulting in savings of \$1.6 million in FY 2009-10. The City plans to request State reimbursements; however, no projected receipts are included in our projection at this time.
- **Emergency Communications – 911 Fund Subsidy for Low-Income Households.** The General Fund Support related to the subsidization of exempt low-income households from the 911 fee, net of all other projected expenditure and revenue changes, is projected to decrease by \$0.3 million in FY 2008-09, then increase by \$1.4 million in FY 2009-10 and increase by \$1.2 million in FY 2010-11.
- **Elections Department – Number of Elections.** The number of elections changes from year to year. Currently one (the presidential election in November 2008) is expected for FY 2008-09, two (gubernatorial primary and municipal) for FY 2009-10, and one (gubernatorial) for FY 2010-11. This results in projected incremental savings of \$7.5 million in FY 2008-09, followed by incremental costs of \$3.0 million in FY 2009-10, and \$3.8 million of savings in FY 2010-11.
- **Elections Department – Voting System.** The City entered into a contract for a new voting system and associated services beginning with the February 2008 election. This contract is projected to result in additional costs of \$0.9 million in FY 2008-09, followed by savings of \$0.4 million in FY 2009-10 and additional costs of \$0.3 million in FY 2010-11.
- **Ethics Commission – Public Financing of Elections.** The Ethics Commission administers the Election Campaign Fund for the City which provides public-match funding to candidates for the Mayor and the Board of Supervisors. The City must provide \$2.75 per resident for this purpose. In FY 2008-09, there is a projected cost of \$0.6 million. After FY 2008-09, funding for the program is projected to remain level year to year. In 2007, the Board of Supervisors passed legislation that merged the supervisorial and mayoral programs and required a

combined appropriation of \$2.75 per resident. This is comprised of costs related to both mayoral and supervisorial elections as follows:

1. **Mayoral Elections.** Ordinance No. 31-06, approved by the Board of Supervisors in February 2006, created a publicly-financed election program for mayoral candidates starting in November 2007. Historically, appropriation based on \$2.00 per resident resulted in \$1.6 million per fiscal year.
 2. **Supervisorial Elections.** Proposition O, approved in November 2001, created a publicly-financed election program for supervisorial candidates starting in November 2002. In prior years, the supervisorial portion of this program was funded annually based on the number of supervisorial seats up for election. Since there were no supervisorial seats up for election in 2007-08, there will be an incremental cost of \$0.75 per resident, or \$0.6 million, in FY 2008-09.
- **Film Rebate Program.** The City's film rebate program is slated to sunset on June 30, 2009. Assuming that the program is not extended past that time, \$0.6 million of projected savings results in FY 2009-10.
 - **General Services Agency – DTIS – Public Education & Government Funding.** AB2987 resulted in the loss of local government control over video franchising in California. The effect is a projected loss of \$0.5 million of video franchise related Public Education & Government (PEG) channel funding in FY 2009-10.
 - **Human Resources – Labor Contract Negotiation.** The majority of labor contracts will expire in the next three fiscal years. Beginning in FY 2008-09, the Human Resources Department will begin collective bargaining with SEIU, Local 21 Professionals and Crafts. This activity results in projected incremental costs of \$2.1 million in FY 2008-09, followed by \$2.1 million in savings in FY 2009-10, and additional cost of \$0.1 million in FY 2010-11.
 - **Human Services Agency.** The agency has projected cost increases of \$7.7 million in FY 2008-09 followed by further cost increases of \$11.1 and \$8.3 million in the latter two years of our projection. These changes are summarized below.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Human Services - Supportive housing services for pipeline units	(2.9)	(3.7)	(2.8)
Human Services - Aid	(4.8)	(7.4)	(5.5)
Human Services Agency Costs	(7.7)	(11.1)	(8.3)

1. **Supportive Services Costs for Housing in Construction Pipeline.** The Human Services Department is projecting additional costs of \$2.9 million in FY 2008-09, \$3.7 million in FY 2009-10, and \$2.8 million in FY 2010-11 related to supportive services in subsidized housing units which are scheduled to be added over the next three years.
2. **Aid Costs.** The Human Services Agency is projecting increased General Fund expenditures of \$4.8 million, \$7.4 million and \$5.5 million in FY 2008-09, FY 2009-10 and FY 2010-11, respectively. Increases in General Fund Supported aid expenditures are projected to increase between two to three percent per year on average. The rise is a result of a combination of increases in costs due to increasing caseloads for some programs and higher In Home Supportive Services Program costs, which are partially

offset by decreases in costs (as seen in FY 2007-08 as well) related to lower than expected caseloads in both the County Adult Assistance and CalWorks Childcare programs. Caseloads for the County Adult Assistance and CalWorks Childcare programs are expected to remain level through FY 2010-11, while caseloads for In-Home Supportive Services are expected to continue to rise. Overall, the Human Services Agency is projected to receive over 50 percent of its funding for client aid payments from the State and Federal governments.

- **Police Department Costs.** The department has projected cost increases of \$3.4 million in FY 2008-09, \$1.6 million in FY 2009-10 and \$14.0 million in FY 2010-11. These changes are summarized below.
 1. **COPS Grant Funding** – The continued backfilling of positions affected by the expiration of multi-year Federal COPS grant funding is projected to result in cost increases of \$2.0 million in FY 2008-09 and \$1.2 million in FY 2009-10.
 2. **Crime Lab and Medical Examiner Costs** – The Crime Lab is currently located in the Hunter's Point Shipyard, and the Medical Examiner in a substandard facility in the Hall of Justice. The City is required to move out of both locations, and plans to co-locate these functions in a new facility. The projected costs, including improvements, fixtures, and rent for the new facility are estimated to be \$14.0 million in FY 2010-11.
 3. **Tactical Unit Rent** – The Police Tactical Unit is required to vacate its current location at the Hunter's Point Shipyard. Rent for a new facility is projected to result in additional costs of \$1.4 million in FY 2008-09 and \$0.4 million in FY 2009-10.
- **Public Health Department Costs.** The Department of Public Health is projected to have department-specific increases in expenditures of \$6.0 million in FY 2008-09 along with savings of \$20.3 in FY 2009-10 and \$0.5 million in FY 2010-11. Public Health has projected decreased revenues of \$4.1 million in FY 2008-09, followed by increased revenues of \$8.0 million in FY 2009-10 and \$6.9 million in FY 2010-11. For FY 2008-09, this results in an estimated net departmental deficit of \$10.1 million due primarily to an assumed cash purchase of \$15.7 million in Furniture, Fixture and Equipment (FF&E) for the new Laguna Honda Hospital, partially offset by one-time project savings related to the planning phase of the San Francisco General Hospital rebuild. Select departmental expenditure changes are summarized below.
 1. **SF General Hospital Rebuild.** The FY 2007-08 budget included \$12.0 million for General Hospital project planning. Our projection assumes that project planning will be completed in FY 2008-09, resulting in project savings year-over-year of \$7.0 million in FY 2008-09 and \$5.0 million in FY 2009-10.
 2. **Laguna Honda Furniture, Fixtures & Equipment (FF&E).** FF&E costs, assuming a cash purchase program, for the new Laguna Honda Hospital are projected to result in cost increases of \$15.7 million in FY 2008-09 followed by savings of \$15.7 million in FY 2009-10 and additional cost of \$0.1 million in FY 2010-11. If the project scope or timing changes, this projection could also change. Additional FF&E purchases that were eligible for lease financing have been included in our projection under Debt Service & Lease Financings above.

3. **Other Public Health Items.** Other miscellaneous items are projected to result in cost savings of \$2.7 million in FY 2008-09 followed additional costs of \$0.4 million and \$0.4 million in FY 2009-10 and FY 2010-11, respectively. These are described below.

- **Healthy San Francisco.** Our projection assumes no increase in General Fund expenditures related to the Healthy San Francisco program. Additionally, we have assumed intergovernmental funding would continue as well.
- **Healthy Kids & Young Adults Enrollment.** In light of the transitioning of Healthy Young Adult members to Healthy San Francisco starting in FY 2008-09, we are projecting cost savings of \$3.3 million and \$2.7 million in FY 2008-09 and FY 2009-10, respectively.
- **Community Justice Center.** Our projection assumes \$0.8 million and \$1.0 million in increased costs for FY 2008-09 and FY 2009-10, respectively.
- **Laguna Honda Laundry Costs.** Our projection assumes savings of \$0.2 million in FY 2008-09 due to the closing of Clarendon Hall, followed by additional costs of \$2.1 million and \$0.4 million in FY 2009-10 and FY 2010-11, respectively. When the new laundry facility becomes fully operational, the department intends to terminate the laundry contract.
- **PUC – Low-Income Rate Subsidy – Water & Sewer.** The FY 2007-08 budget included \$1.4 million in General Fund Supported rate subsidization for low-income households for water and sewer. Based upon projected rate changes, increased costs of \$0.2 million, \$0.1 million and \$0.1 million are projected over FY 2008-09, 2009-10, and 2010-11, respectively
- **Recreation and Park – Golf Fund Subsidy.** Our projection assumes a General Fund Support subsidy to the Golf Fund increasing by \$0.1 million, \$0.1 million, and \$0.1 million in FY 2008-09, FY 2009-10 and FY 2010-11 respectively. The FY 2007-08 budget included a subsidy of \$1.3 million.
- **Redevelopment – Survey Area Loans.** The FY 2007-08 budget included \$0.5 million in City loan funding to the Redevelopment Agency. This loan funding is projected to be a one-time expenditure to provide funding for survey area costs, therefore projected savings result in FY 2008-09.
- **Sheriff's Department – Inmate Incarceration Costs.** In October 2007, the U.S. District Court ruled that it is unconstitutional for prisoners to sleep on mattresses on the floor. Concurrently, the jails have experienced a 12.5 percent increase in population since July 2007, requiring the Sheriff to open four inmate housing pods (240 beds), staffed by deputy sheriffs on overtime. Based on projected prisoner growth, the department plans to open a fifth pod by year-end and expects to open the entire 360-bed jail in the next fiscal year, resulting in projected additional costs of \$19.5 million beginning in FY 2008-09 and continuing into the next two fiscal years.
- **New Voter Initiatives.** Voters approved new mandates in November 2007, which result in projected cost increases for the General Fund of \$29.6 million in FY 2008-09, \$1.0 million in FY 2009-10 and \$1.0 million in FY 2010-11. These include additional Public Transportation funding allocations related to Parking Tax revenues (Proposition A), the Golden Gate Stables Matching Fund (Proposition G) and the Office of Small Business (Proposition I).

In summary, General Fund Supported uses are projected to increase \$240.7 million in FY 2008-09, \$147.8 million in FY 2009-10 and \$143.3 million in FY 2010-11.

Items Not Included in Our Projection

As with all projections, unforeseen events may occur that change the City's future financial condition. Additionally, we are aware of some factors now that may impact the City's finances over the next three years, but we are unable to predict what that effect and timing might be.

- **Natural Disasters & Man-Made Disruptions.** As in previous reports, we have not included any projected costs associated with natural disasters or man-made disruptions.
- **New Development Projects.** There are several large, proposed projects that will likely result in both new tax revenues and associated costs. Our projections make no assumption regarding the net financial impact of these projects, which include Mission Bay, the Transbay Terminal, Mid-Market, and the development of Treasure Island.
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases.** Various fee increases may be proposed to the Board of Supervisors before the end of the year or as part of next year's budget. No increases have been assumed in our projections.
- **Pending or Proposed Legislation – June & November Elections.** In June 2008, voters will decide on a proposed change to **Retiree Health and Pension Benefits** for City employees. If this were to be approved, future retiree health costs for new employees would be funded, though current liabilities related to existing employees would largely remain and would still need to be otherwise addressed by the City. Pension costs, however, would be projected to increase, resulting in additional on-going annual pension costs of \$84 million over the next 20 years (of which \$50.4 million or 60 percent would impact the General Fund Supported portion of the City's budget). These pension cost increases could be at least partially offset by \$35 million of savings in FY 2009-10 related to the proposed FY 2009-10 wage freeze provision also included in the measure (of which \$20.1 million is savings to General Fund Supported operations). Additionally, an **Affordable Housing** measure is slated to come before voters in November 2008. This measure would establish an \$88 million baseline as well as set-aside an estimated \$33.4 million in property tax revenues that now accrue to the General Fund.
- **Post Employment Benefits – GASB 45's Impact on Retiree Health Benefits.** This report's projections assume that the City continues to cash fund the immediately due portion of retiree health costs, but not the accrued liability or total costs related to post employment retiree health subsidy benefits. The Government Accounting Standards Board Pronouncement #45 (GASB 45) requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in FY 2007-08. GASB 45 does not require this liability be funded, only that the liability be reported on the annual financial statements.

To help plan for the implementation of GASB 45, the City requested a preliminary actuarial valuation of this liability. In its November 1, 2007 report on GASB 45 Valuation Results and Plan Design, Mercer Consulting estimated that if the City were to have a Funded Plan to cover post-employment medical benefits, the projected liability would be \$2.6 billion and have an annual required contribution of \$256.1 million, assuming an 8.0 percent return on investments,

while covering all City operations, including those that are General Fund supported. If the City were to continue to have an Unfunded Plan, the projected liability would be \$4.0 billion and have an annual required contribution of \$391.4 million. In FY 2007-08, the City's budget included \$114.6 million for total retiree health subsidies, which represents the amount needed to pay current costs due during the fiscal year. The additional potential liability to the City would, therefore, be the difference between the Mercer estimate of annual required contribution and the fiscal year budgeted levels. The calculations in the report are sensitive to a number of critical assumptions, including but not limited to the projected rate of increases in health plan costs.

- **Salary Increases on New Contracts.** Only inflationary increases are assumed for new contracts. An additional one percent salary increase over and above the assumed inflationary increase equals \$9.5 million in General Fund cost in FY 2009-10 and \$11.6 million in FY 2010-11.
- **Federal Budget Changes.** We do not assume new programmatic reductions included in the President's proposed budget or General Fund backfill of any proposed cuts in our projection. The Community Oriented Policing (COPs) grant impact shown in our projection relates to prior-year, existing grant award funding, which requires a minimum continuation of employment for one year after grant expiration. However, our projection assumes the City backfills existing COPs grant-funded positions as previously awarded grant funding expires in order to maintain police staffing levels over the next three years. Our projection also assumes no new future funding for the federal COPs program, as COPs grant funding has been eliminated in the proposed Federal budget. This means that local governments across the country now have one less critical funding source available for future police protection enhancement initiatives.

State Budget Items Included in Our Projection

- **State Budget Changes.** Programmatic reductions or changes included in the Governor's proposed State Budget of \$41.1 million have been assumed in our projection as shown in Table C on the following page for General Fund Supported operations.

**Table C: State Budget Estimated Impact, Increases / (Reductions)
in Millions**

		January Budget, Incl. Mid- Year FY 2007-08 Cuts
PROGRAM FUNDING CUTS		
<u>Human Services Agency</u>		
Adult Protective Services		(0.3)
CALWORKS COLA/CAAP Grants		(1.5)
CALWORKS Administrative Funding Due to Caseload Changes		(1.0)
10% Reduction to MediCal Payments		(0.8)
IHSS Cut to County Administrative Funding and Redetermination Change		(0.5)
Child Welfare Service Allocations		(1.9)
<u>Public Health</u>		
10% Reduction to MediCal Payments - Managed Care		(0.7)
10% Reduction to MediCal Payments - Distinct Part Nursing (LHH)		(5.3)
Shifting Safety Net Care Pool Funds to CCS		(1.9)
Funding Reduction for County Administration for CCS and CHDP		(0.2)
Reduced Support to Local AIDS Programs		(0.5)
Prop 99 (CHIP)		(0.8)
Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Reduction in State Maximum Allowance		(0.8)
Mental Health Managed Care Reduction		(0.1)
State Perinatal GF, Drug Court and Other Substance Abuse		(0.2)
Rate Cut for Drug MediCal providers		(0.7)
Prop 36 Treatment for Non-Violent Drug Offenders		(0.3)
Healthy Families		(0.2)
<u>Juvenile Probation</u>		
Juvenile Probation Camps Funding		(0.3)
<u>Mayor's Office of Criminal Justice</u>		
Juvenile Justice Crime Prevention Act		(0.3)
<u>Citywide</u>		
Health and Welfare Realignment - Projected Sales Tax Decrease		(7.0)
Interest Income from Deferred Payments		(2.0)
SB90 Revenue Delay		(13.2)
Prop 36 Treatment for Non-Violent Drug Offenders - Other Departments		(0.8)
General Fund Program Loss Subtotal		(41.1)

CONCLUSION

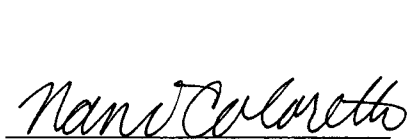
We project a \$338.4 million shortfall for FY 2008-09, followed by a \$45.9 million shortfall in FY 2009-10 and a \$40.7 million shortfall in FY 2010-11. The Charter requires that each fiscal year the budget of the City and County must be balanced. Therefore, this report assumes that any projected shortfall will be eliminated in the year in which such projected shortfalls first appear.

In addition to the risks noted above, a number of policy considerations are also present.

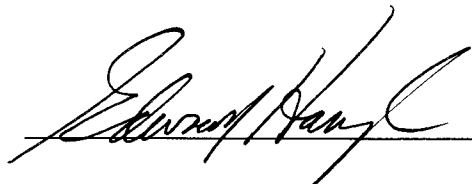
- City policymakers are faced with significant budgetary challenges for FY 2008-09 due largely to the use of all projected available fund balance in FY 2007-08. However, record Rainy Day Reserves are still projected to be on deposit to mitigate the next economic downturn.
- We continue to recommend that City policymakers examine both short- and long-term strategies to mitigate the projected shortfall for FY 2008-09 and beyond.
- The extent to which the Mayor and the Board of Supervisors approve supplemental appropriations of General Fund monies this spring above those assumed in this projection, the shortfall for next fiscal year will be commensurately increased.
- The extent to which the Mayor's Office mid-year savings plans are achieved for General Fund Supported operations this spring above those assumed in the Controller's Six-Month Budget Status Report, the shortfall for the next fiscal year will be commensurately decreased.

We acknowledge that projections of the City's financial condition over multiple years are far less certain than those for the immediate future. This report is based on the best information available at this time. All three of our offices will continue to work closely together in the coming months and will keep you apprised of any changes that occur.

Respectfully submitted,



Nani Coloretti
Budget Director
Mayor's Office



Edward Harrington
Controller



for Harvey M. Rose
Budget Analyst
Board of Supervisors

Attachment 1: General Fund Supported Operations: Revenues & Transfers In

Attachment 2: Growth in General Fund Supported Operations' Revenues & Transfers In

cc: Angela Calvillo, Clerk of the Board

Attachment 1: General Fund Supported Operations: Revenues & Transfers In

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	FY 2006-07	FY 2006-07	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	Original Budget	Year-End Actuals	Original Budget	6-Month Projection	Projection	Projection	Projection
1 Property Taxes	\$ 837.5	\$ 894.8	\$ 934.7	\$ 952.0	\$ 1,024.8	\$ 1,065.8	\$ 1,108.4
2 Business Taxes	332.2	336.8	359.7	354.3	383.2	400.4	416.4
3 Sales Tax	106.2	107.8	113.5	113.5	119.2	124.6	129.6
4 Hotel Room Tax	125.9	143.1	148.9	161.8	179.3	194.3	207.2
5 Utility Users Tax	79.4	78.7	80.2	79.6	81.2	82.8	84.5
6 Parking Tax	36.1	64.8	64.8	65.7	66.7	67.7	68.7
7 Real Property Transfer Tax	105.0	144.0	123.5	123.5	106.6	109.8	113.1
8 Stadium Admission Tax	2.9	2.3	3.0	2.5	2.5	2.5	2.5
Subtotal - Tax Revenues	1,625.2	1,772.3	1,826.4	1,853.0	1,963.6	2,047.9	2,130.4
9 Licenses, Permits & Franchises	20.9	22.1	22.1	22.1	22.4	23.0	23.7
10 Fines, Forfeitures & Penalties	4.9	4.7	3.9	4.5	4.5	4.5	4.5
11 Interest & Investment Income	34.0	40.1	35.5	34.1	21.1	21.7	22.4
12 Rents & Concessions	20.1	18.4	19.8	19.8	20.2	20.7	21.2
Subtotal - Licenses ... Concessions	79.9	85.4	81.3	80.4	68.1	69.9	71.6
13 Federal Subventions	194.3	183.6	214.1	213.1	213.0	213.0	213.0
State Subventions							
14 Social Service Subventions	127.4	126.1	133.8	133.9	117.4	117.4	117.4
15 Health & Welfare Realignment	165.2	172.4	170.2	168.1	171.5	177.5	183.6
16 Health/Mental Health Subventions	75.2	68.8	81.9	79.4	76.6	76.6	76.6
17 Public Safety Sales Tax	74.0	69.3	73.3	70.0	72.8	75.7	78.7
18 Motor Vehicle In-Lieu (County & City)	5.6	4.7	5.3	4.9	5.1	5.3	5.5
19 Other Grants & Subventions	22.9	38.4	29.7	31.2	26.0	26.0	26.0
Subtotal - State Subventions	470.3	479.7	494.2	487.4	469.2	478.4	487.7
CHARGES FOR SERVICES							
20 General Government Service Charges	32.8	27.1	31.7	29.6	29.9	30.2	30.5
21 Public Safety Service Charges	24.6	25.6	27.0	24.8	22.5	22.7	22.9
22 Recreation Charges - Rec/Park	7.1	6.2	7.5	7.5	7.5	7.6	7.7
23 MediCal, MediCare & Health Svc. Chgs.	47.4	47.0	51.3	51.6	51.6	51.6	51.6
24 Other Service Charges	11.8	8.1	10.9	10.9	10.9	10.9	10.9
25 Charges for Services	123.7	114.1	128.4	124.4	122.5	123.1	123.7
26 Recoveries of General Government Costs	10.3	11.6	8.7	8.7	17.3	14.7	15.2
27 Other Revenues	18.8	12.4	16.1	20.5	9.6	9.6	9.6
TOTAL REVENUES	2,522.5	2,659.1	2,769.2	2,787.5	2,863.3	2,956.6	3,051.2
TRANSFERS INTO GENERAL FUND:							
29							
30							
31							
32 TOTAL GF Revenues & Transfers In							
33 OTHER GF SUPPORTED (GFS) OPERATIONS, net							
Budget Year State Programmatic Cuts							
34 TOTAL GFS Revenues & Transfers In, net							
35							
36							
39							
40							

\$ Change from Prior Year Original Budget (PY Projection for Latter Two Years) - (GF Only)

% Change from Prior Year Original Budget (PY Projection for Latter Two Years)

\$ Change from Prior Year Original Budget (PY Projection for Latter Two Years)

% Change from Prior Year Original Budget (PY Projection for Latter Two Years)

Attachment 2: Growth in General Fund Supported Operations' Revenues & Transfers In

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	FY 2008-09			FY 2009-10		FY 2010-11	
	% Chg from FY 2007-08 AA0		Report Projection	% Chg from FY 2008-09 Projection		% Chg from FY 2009-10 Projection	
	Original Budget	2007-08 Joint		2008-09 Projection		2009-10 Projection	
1 Property Taxes	9.6%	6.5%			4.0%		4.0%
2 Business Taxes	6.5%	5.0%			4.5%		4.0%
3 Sales Tax	6.9%	5.0%			4.5%		4.0%
4 Hotel Room Tax	20.5%	9.7%			8.3%		6.6%
5 Utility Users Tax	1.2%	2.0%			2.0%		2.0%
6 Parking Tax	2.9%	1.5%			1.5%		1.5%
7 Real Property Transfer Tax	-13.7%	3.0%			3.0%		3.0%
8 Stadium Admission Tax	-16.0%	1.0%			1.0%		1.0%
Subtotal - Tax Revenues	7.5%	5.8%			4.3%		4.0%
9 Licenses, Permits & Franchises	1.7%	1.7%			2.7%		2.7%
10 Fines, Forfeitures & Penalties	14.2%	0.0%			0.0%		0.0%
11 Interest & Investment Income	-40.6%	-38.3%			3.0%		3.0%
12 Rents & Concessions	1.8%	1.8%			2.5%		2.5%
Subtotal - Licenses ... Concessions	-16.2%	-15.4%			2.5%		2.6%
13 Federal Subventions	-0.6%	0.0%			0.0%		0.0%
State Subventions							
14 Social Service Subventions	-12.3%	-2.2%			0.0%		0.0%
15 Health & Welfare Realignment	0.8%	2.0%			3.5%		3.4%
16 Health/Mental Health Subventions	-6.5%	-2.5%			0.0%		0.0%
17 Public Safety Sales Tax	-0.7%	4.0%			4.0%		4.0%
18 Motor Vehicle In-Lieu (County & City)	-4.6%	4.0%			4.0%		4.0%
19 Other Grants & Subventions	-12.6%	13.1%			0.0%		0.0%
Subtotal - State Subventions	-5.1%	1.0%			2.0%		1.9%
Charges for Services							
20 General Government Service Charges	-5.7%	1.0%			1.0%		1.0%
21 Public Safety Service Charges	-16.7%	-9.1%			1.0%		1.0%
22 Recreation Charges - Rec/Park	1.0%	1.0%			1.0%		1.0%
23 MediCal, MediCare & Health Svc. Chgs.	0.6%	0.0%			0.0%		0.0%
24 Other Service Charges	-0.1%	0.0%			0.0%		0.0%
Subtotal - Charges for Services	-4.6%	-1.5%			0.5%		0.5%
26 Recoveries of General Government Costs	98.3%	98.3%			-15.1%		3.0%
27 Other Revenues	-40.3%	-53.2%			0.0%		0.0%
28 TOTAL REVENUES	3.4%	3.5%			3.3%		3.2%
TRANSFERS INTO GENERAL FUND:							
29			Airport				
30			Other Transfers				
31			Total Transfers-In				
32 TOTAL GF Revenues & Transfers In	3.5%	3.4%			3.2%		3.2%
33 OTHER GENERAL FUND SUPPORTED (GFS) OPERATIONS, net	-0.6%	-0.6%			1.2%		1.0%
34 TOTAL GFS Revenues & Transfers In, net	2.7%	2.6%			2.8%		2.8%