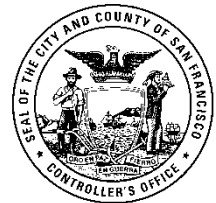


**FY 2014-15 and FY 2015-16
Revenue Letter:**

**Controller's Discussion of the
Mayor's FY 2014-15 and
FY 2015-16 Proposed Budget**



June 10, 2014



City and County of San Francisco

Office of the Controller

Controller's Discussion of the Mayor's FY 2014-15 and 2015-16 Proposed Budget

June 10, 2014

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 June 2, 2014, Mayor Edwin Lee submitted his FY 2014-15 and FY 2015-16 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 2014-15 and FY 2015-16, albeit at more moderate rates than experienced during the past two fiscal years. The budget also includes increases to the City's use of one-time revenues for non-recurring expenditures, particularly capital expenditures.

Overview

As shown in Table 1, the Mayor's proposed budget for FY 2014-15 includes \$4,264 million in General Fund sources and \$8,567 million in all funds sources representing increases of 7.9 percent and 8.3 percent, respectively, from the FY 2013-14 Original Budget. The Mayor's proposed budget for FY 2015-16 includes \$4,320 million in General Fund sources and \$8,559 million in all funds sources representing an increase of 1.3 percent and decrease of 0.1 percent, respectively.

Highlights include:

- **Local tax revenue estimates are reasonable given current economic assumptions.** The proposed budget assumes continued local economic expansion, consistent with the Joint Report published in March and updated for new data. General Fund FY 2014-15 regular revenues are increasing by \$313 million over the FY 2013-14 budget and \$227 million above the revised FY 2013-14 revenue outlook in the Controller's FY 2013-14 Nine-Month Budget Status Report (Nine Month Report), and by \$104 million in FY 2015-16. 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 economic slow-down 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 2013-14 Budget	FY 2014-15 Proposed	FY 2015-16 Proposed
Fund Balance - Prior Year Operating Surplus	\$ 123	\$ 137	\$ 133
Use of Reserves	\$ 34	\$ 58	\$ 13
Regular Revenues	\$ 3,575	\$ 3,889	\$ 3,993
Transfers In to the General Fund	\$ 218	\$ 179	\$ 180
Total GF Sources	\$ 3,950	\$ 4,264	\$ 4,320
Change from Prior Year		\$ 314	\$ 56
Percentage Change		7.9%	1.3%

All Funds

	FY 2013-14 Budget	FY 2014-15 Proposed	FY 2015-16 Proposed
Fund Balance	\$ 281	\$ 381	\$ 261
Use of Reserves	\$ 53	\$ 59	\$ 16
Regular Revenues	\$ 7,576	\$ 8,127	\$ 8,282
Total All-Funds Sources	\$ 7,909	\$ 8,567	\$ 8,559
Change from Prior Year		\$ 658	\$ (8)
Percentage Change		8.3%	-0.1%

- **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 \$195 million in the FY 2014-15 proposed budget, an increase of \$39 million from the FY 2013-14 budget. The proposed FY 2015-16 General Fund operating budget includes \$146 million in fund balance and other reserves, a decrease of \$50 million from the FY 2014-15 proposed budget.
- **The proposed budget modestly decreases long-term reserves, increases short-term reserves:** The proposed budget includes \$19.4 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 \$14.9 million. These uses of reserves are partially offset by a deposit to the Budget Stabilization Reserve. The proposed budget assumes stable commercial real estate market conditions will lead to a \$19.1 million deposit to this reserve in FY 2014-15, and no deposit in FY 2015-16 as transactions begin to slow slightly. Assuming no other deposits, this would result in a net \$4.2 million decrease to the City's economic stabilization reserves (which includes both types of Rainy Day Reserve, and the Budget Stabilization Reserve) in FY 2014-15, from a combined ending balance of \$180.8 million for FY 2013-14 to \$176.6 million for FY 2014-15.

Reserves would decrease \$11.0 million in FY 2015-16, to \$165.6 million, due largely to the assumed draw from the Rainy Day Reserve for the benefit of SFUSD.

In addition, the budget complies with the General Reserve policy, adopted in April 2010, which calls for increasing the General Fund Reserve to 1.5 percent of budgeted regular revenues, or \$57.9 million, in FY 2014-15, and 1.75 percent of budgeted regular revenues, or \$69.3 million, in FY 2015-16. 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 2013-14 Projected	FY 2014-15 Proposed	FY 2015-16 Proposed
Rainy Day Reserve - Economic Stabilization	\$ 44.3	\$ 33.2	\$ 24.9
Rainy Day Reserve - One Time	14.9	2.7	-
General Reserve	38.8	57.9	69.3
Budget Stabilization Reserve	121.6	140.7	140.7
Total	\$ 219.6	\$ 234.5	\$ 234.9

- **Potential for State funding cuts related to implementation of the Affordable Care Act (ACA).** The Governor’s FY 2014-15 May Revise Budget, submitted on May 14, 2014, estimated State savings of \$724.9 million annually beginning in FY 2014-15. The savings are achieved by reducing realignment funding to county health departments. 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. The Mayor’s proposed budget assumes that the state will ultimately redirect \$16.7 million of realignment revenue annually. The timing and size of any local savings is unknown, however, and future budget adjustments are likely to be necessary should the State determine that the savings amount is different. State savings estimates assume that as more people become insured as a result of the ACA, local costs for treating the uninsured will decrease, offsetting the impact of reduced realignment funding.
- **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 minimum expenditure levels are exceeded in both FY 2014-15 and FY 2015-16.** The Children’s baseline funding is \$134.1 million in FY 2014-15 and \$138.6 million in FY 2015-16, which is below budgeted levels by \$13.4 million and \$3.0 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 2014-15 or FY 2015-16.
- **The proposed budget assumes voter approval of affordable housing, Children’s Fund and Public Education Enrichment Fund (PEEF) changes.** The proposed budget assumes passage of three items that will be on the November 2014 ballot: \$28.1 million of proceeds

from the sale of certificates of participation in each budget year to support affordable housing; an increase in the property tax set-aside for the Children’s Fund from 3% to 3.17% in FY 2015-16; and reauthorization of the PEEF without any in-kind allowance for services provided to the School District by City departments.

Conclusions

The Mayor’s proposed budget appears to be reasonable given information currently available, with cautionary notes regarding its reliance on continued revenue growth. 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 2014-15 and FY 2015-16 proposed budget.

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

Sources of Funds	FY 2013-14	FY 2014-15	FY 2015-16	Notes
	Budget	Proposed Budget	Proposed Budget	
Prior Year Fund Balance - Operating Surplus	\$ 122.7	\$ 137.1	\$ 133.1	1
Use of Reserves	33.7	58.4	12.7	2
Subtotal Fund Balance and Reserves	156.4	195.4	145.8	
Regular Revenues				
Property Taxes	1,153.4	1,232.9	1,292.0	3
Business Taxes	533.0	572.4	597.8	4
Sales Tax	125.7	136.1	142.2	5
Hotel Room Tax	273.9	318.4	336.1	6
Utility Users Tax	93.5	91.7	92.3	7
Parking Tax	83.3	84.9	87.1	8
Real Property Transfer Tax	225.2	235.0	220.0	9
Stadium Admissions Tax	2.8	1.3	1.4	10
Access Line Tax	42.6	43.1	43.9	11
Licenses, Permits & Franchises	25.5	27.1	27.3	
Fines and Forfeitures	9.1	4.2	4.3	
Interest & Investment Income	10.9	6.9	8.3	12
Rents & Concessions	23.1	22.7	18.7	
Intergovernmental - Federal	214.5	235.3	238.7	13
State - Public Safety Sales Tax	86.8	91.4	95.0	14
State - 1991 Health & Welfare Realignment	161.2	162.9	168.7	15
State - 2011 Health and Human Services Realignment	89.4	96.8	98.5	15
State - Public Safety Realignment	32.8	31.8	36.2	15
State - Other	192.6	231.8	234.0	16
Charges for Services	166.8	200.7	190.4	17
Recovery of General Government Costs	10.3	9.1	9.1	
Other Revenues	19.0	52.3	51.3	
Subtotal Regular Revenues	3,575.4	3,888.8	3,993.3	
Transfers In to the General Fund	218.0	179.3	180.5	
Total Sources	3,949.8	4,263.5	4,319.6	

1. Prior Year Fund Balance. The proposed budget anticipates a \$270.1 million General Fund surplus to be available at the end of FY 2013-14, or \$19.4 million more than the \$250.7 million ending fund balance projection in the Nine Month Report. The balance includes \$7.0 million in additional property transfer tax revenue net of reserve deposits and baseline transfers, based on an additional \$29.6 million in gross transfer tax revenue; \$9.3 million in operating savings primarily from reduced citywide contract expenditures and savings at the Department of Public Health; and \$3.3 million in savings from closeout of prior year project appropriations.

2. Use of Reserves. As shown in Table 1-2, the Mayor’s proposed budget includes use of \$58.4 million from reserves established in prior years during FY 2014-15 and \$12.7 million during FY 2015-16.

Table 1-2. General Fund Use of Reserves (\$ millions)

General Fund - Use of Prior Year Reserves	FY 2013-14	FY 2014-15	FY 2015-16
	Budget	Proposed Budget	Proposed Budget
Rainy Day Reserve Allocated to SFUSD	\$ 5.8	\$ 11.1	\$ 8.3
Rainy Day Reserve One-Time Expenditures	1.5	12.2	2.7
Recreation and Park Savings Incentive Reserve	9.7	5.9	1.8
Budget Savings Incentive Fund	16.7	29.1	-
Total Use of Prior Year Reserves	\$ 33.7	\$ 58.4	\$ 12.7

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 General Fund and SFUSD operating budgets in years when revenue declines. The FY 2013-14 year-end balance of the Rainy Day Reserve’s Economic Stabilization Account is projected to be \$44.3 million, an increase of \$14.8 million from the Nine Month Report due to higher than anticipated property transfer tax revenue in the current year. The Mayor’s proposed budget assumes no use of the Reserve by the City in FY 2014-15 or FY 2015-16. The budget assumes that the maximum 25 percent allowance for SFUSD will be withdrawn in each budget year, representing \$11.1 million in FY 2014-15 and \$8.3 million in FY 2015-16, leaving a remaining balance in the Reserve of \$24.9 million.

b. Rainy Day Reserve One-Time Expenditures. Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25 percent of excess revenue growth in good years, which can be used towards one-time expenses. The FY 2013-14 year-end balance of this Reserve is projected to be \$14.9 million, an increase of \$7.4 million from the Nine Month Report projection. The Mayor’s proposed budget assumes no deposits and the use of \$12.2 million in FY 2014-15 and \$2.7 million in FY2015-16, exhausting the balance of this Reserve.

c. 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 \$5.9 million from the Reserve in FY 2014-15 and \$1.8 million in FY 2015-16, exhausting the balance of this reserve. Of the \$9.7 million used in FY 2013-14, \$7.0

million was one-time revenue being deposited into a Garage Revenue Stabilization Fund to replace net garage revenues lost due to the construction of the Union Square Market Street Central Subway Station.

d. Budget Savings Incentive Fund. The Citywide Budget Savings Incentive Fund is authorized by Administrative Code Section 10.20. The Fund receives 25 percent of net year-end departmental expenditure savings to support one-time expenditures. The FY 2013-14 Nine Month Budget Status Report projected a year-end balance of \$26.8 million in the Fund. Since the Nine Month Report additional expenditure savings citywide and at the Department of Public Health have been projected, increasing the FY 2013-14 projected year-end balance to \$29.1 million. The proposed budget appropriates the entire balance of the Fund for projects in FY 2014-15. Proposed uses of the Fund are outlined in separate legislation submitted by the Mayor’s Office.

Table 1-3 provides projected growth rates for major local tax revenues. Notes are provided below.

Table 1-3. General Fund Major Local Tax Revenues: Projected Growth Rates

Local Tax Revenues	FY 2014-15 Growth from FY 2013-14 9-Month Projection	FY 2015-16 Growth from FY 2014-15 Proposed Budget	Notes
Property Taxes	4.8%	4.8%	3
Business Taxes	7.1%	4.4%	4
Sales Tax	4.5%	4.5%	6
Hotel Room Tax	3.7%	5.6%	7
Utility Users Tax	0.8%	0.6%	8
Parking Tax	2.7%	2.6%	9
Real Property Transfer Tax	4.4%	-6.4%	10
Stadium Admissions Tax	-51.9%	2.3%	11
Access Line Tax	2.0%	2.0%	12
Total Local Tax Revenue Change	4.7%	3.6%	

3. Property Tax. The FY 2014-15 General Fund share of property tax revenue is estimated at \$1,233 million, which is \$79.6 million (6.9 percent) more than the FY 2013-14 budget and \$56 million (4.8 percent) more than the Nine-Month Report. The FY 2015-16 General Fund share of property tax revenue is estimated at \$1,292 million, which is \$59 million (4.8 percent) more than the proposed FY2014-15 budget. Major changes include:

- **Roll growth:** The proposed FY 2014-15 budget reflects secured property roll growth of 5.2 percent compared to the start of FY 2013-14. Increases in assessed values due to changes in ownership and new construction of real property are expected to account for

most of the increase (about 4.3 percent). Improved real estate market values are assumed to help recover about \$766 million (0.47 percent) from the prior year's Proposition 8 temporary reductions of taxable property values. Finally, the inflation factor allowed under Proposition 13 for FY 2014-15 is 0.454 percent. The roll growth is also estimated to increase state Vehicle License Fee (VLF) backfill by about \$11.7 million.

The proposed FY 2015-16 budget reflects secured roll growth of 5.4 percent compared to the proposed FY 2014-15 budget. The growth assumes 3.4 percent of increased taxable value due to changes in ownership and new construction along with the maximum 2 percent inflation factor allowed under Proposition 13. The improved secured roll value is also expected to increase the state VLF backfill to San Francisco's General Fund by \$10.5 million.

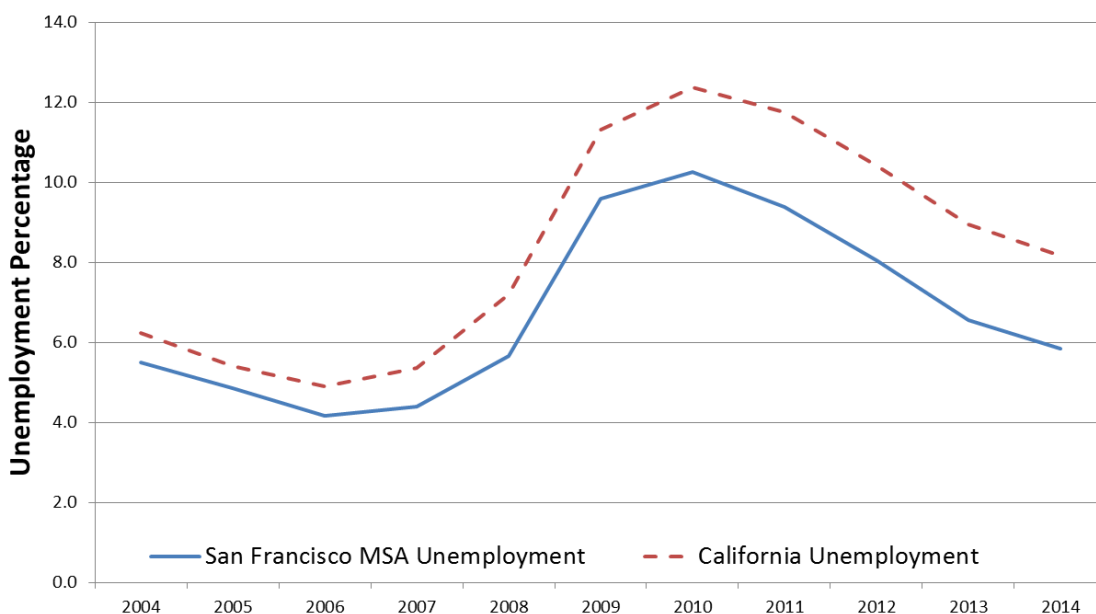
- **Reduced reserve requirements:** General Fund revenue set aside to fund Assessment Appeals Board (AAB) decisions in FY 2014-15 is expected to decline by \$15.2 million compared to the FY 2013-14 budget. Continued strong growth in San Francisco real estate market values has led to a significant decrease in the number of assessment appeals filings expected in FY 2014-15 by property owners. The amount required to fund AAB decisions in FY 2015-16 is expected to decrease by another \$1.9 million.
- **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 \$2.2 million in FY 2014-15 and \$2.0 million in FY 2015-16 over prior year budget, respectively.
- **Assumed change in San Francisco Children's Fund allocation factor for FY 2015-16:** The proposed FY 2015-16 budget includes an assumption that the San Francisco Children's Fund allocation factor will increase by \$0.00166667 (from \$0.03000000 to \$0.03166667) on each \$100.00 valuation of taxable property. The allocation to the General Fund decreases by the same factor. The effect of this assumed increase in the San Francisco Children's Fund allocation factor would be to reduce General Fund revenue in FY 2015-16 by approximately \$3 million.

4. Business Tax. Business tax revenue is budgeted at \$572.4 million in FY 2014-15 and \$597.8 million in FY 2015-16, which are increases over the prior year budget of \$39.4 million (7.4 percent) and \$25.5 million (4.4 percent), 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 2014-15 includes a shift of \$33.3 million from the payroll tax to the gross receipts and administrative office tax categories, as the phase in of the gross receipts tax and corresponding phase out of payroll taxes begins. Additionally, payroll tax projections are increased by \$3.5 million to reflect ending the \$500 surplus payroll tax credit credited towards 2012 and 2013 payroll tax filings. This tax credit was triggered by payroll tax receipt growth in excess of 7.5 percent during 2011 and 2012, which is not expected during 2013.

As shown in Chart 1-1, the unemployment rate for the San Francisco, Oakland, Fremont Metropolitan Statistical Area (MSA) peaked in 2010 and declined consistently in each subsequent year. 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, reaching 5.2 percent for the San Francisco MSA as of April 2014 (averaging 5.9 percent for the first four months of 2014) according to data from the Bureau of Labor Statistics. This is 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 2013, construction, information, and manufacturing industry payrolls improved markedly in San Francisco, while finance and insurance industry payrolls have remained flat.

Chart 1-1. Unemployment Rates for the San Francisco MSA and California, Calendar Years 2004 to 2014



Note: The 2014 rate is an average of preliminary rates from January through April

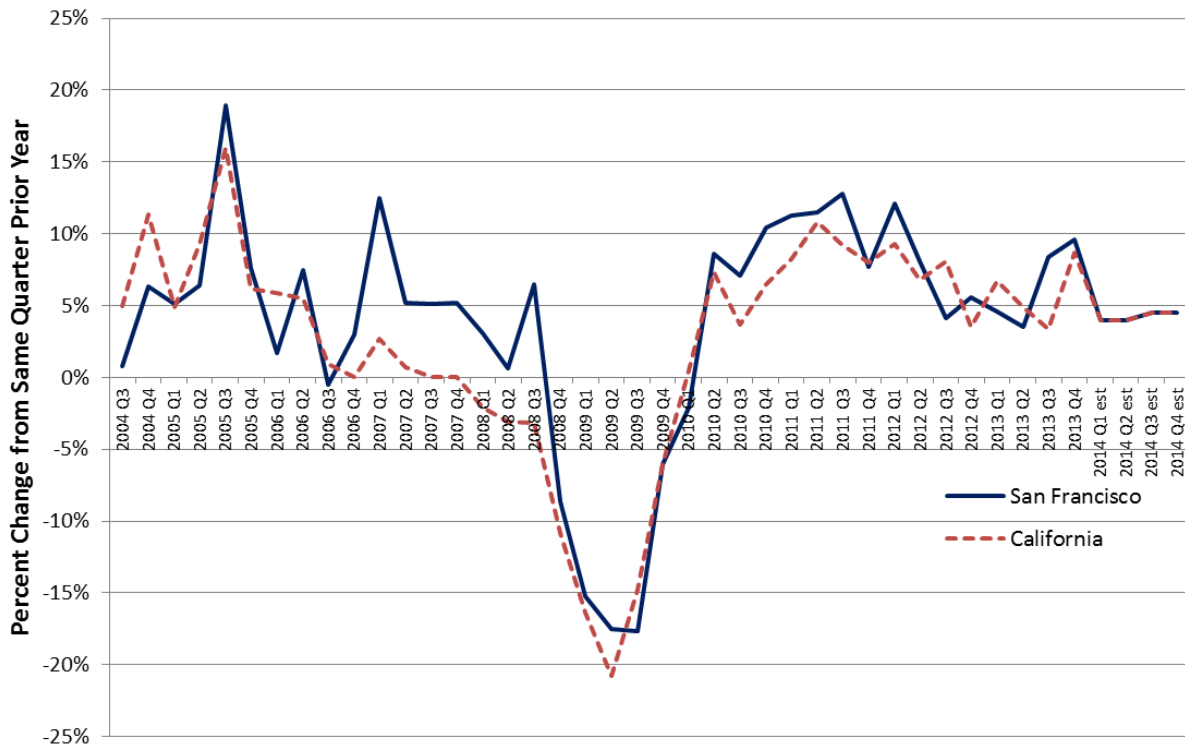
Source: US Bureau of Labor Statistics (BLS), Accessed 6/6/2014

Continued private employment growth averaging 2.2 percent is expected for the calendar years 2014 through 2016. Wages are projected to increase slightly faster than projected rates of inflation, with average growth expected of 2.8 percent for the same period. Projections are sensitive to the timing of national economic downturn and continued growth in the local technology sector.

5. Sales Tax. Local sales tax is budgeted at \$136.1 million in FY 2014-15, which represents growth of \$10.4 million (8.3 percent) from the FY 2013-14 budget and \$5.9 million (4.5 percent) from the Nine Month Report projection. Continued growth is expected during FY 2015-16 as the strong local economy will generate increased taxable sales across nearly all categories, with particularly strong performance in the construction industry, but at a slower rate to reach \$142.2 million, \$6.1 million (4.5 percent) more than FY 2014-15. In addition, the budget assumes no changes from state laws affecting sales tax reporting for online retailers experienced in FY 2012-13 as retailers adopt distribution strategies that allocate sales tax to San Francisco from online purchases. Growth in sales tax revenue will depend on changes to state and federal law and order

fulfilment strategies for online retailers. Chart 1-2 shows historical changes in quarterly sales tax revenues for both the City and the State.

**Chart 1-2. Historical Changes in Local and State Sales Tax Revenues
2004 Q3 through 2014 Q4**



6. Hotel Tax. Total hotel tax revenue is budgeted at \$318.4 million in FY 2014-15, \$44.4 million (16.2 percent) more than the FY 2013-14 budget and \$11.0 million (3.7 percent) more than the Nine Month Report projection for FY 2013-14. In FY 2015-16 \$336.1 million is budgeted, \$17.8 million (5.6 percent) more than the FY 2014-15 proposed budget.

Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply, measured in the aggregate as Revenue per Available Room (RevPAR). Average RevPAR increased by 11.3 percent from prior year during the first nine months of FY 2013-14, and reflects an all-time high of approximately \$201 per night. The majority of FY 2014-15 budgeted growth in hotel tax revenue is attributable to this current year surge. More modest FY 2014-15 and FY 2015-16 RevPAR growth is expected at 5.5 percent and 4.0 percent, respectively. Current period RevPAR growth is cumulative with large increases over the last three years: 11 percent in FY 2012-13, 15 percent in FY 2011-12 and 15 percent in FY 2010-11. Table 1-6 provides a recent history of RevPAR levels.

Table 1-6. Revenue Per Available Room (RevPAR): FY 2008-09 to FY 2013-14

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	Change - \$	Change - %
July	\$ 131	\$ 141	\$ 171	\$ 188	\$ 205	\$ 17.64	9%
August	\$ 134	\$ 154	\$ 173	\$ 196	\$ 230	\$ 34.33	18%
September	\$ 152	\$ 166	\$ 189	\$ 212	\$ 232	\$ 19.73	9%
October	\$ 174	\$ 174	\$ 205	\$ 229	\$ 249	\$ 19.48	8%
November	\$ 107	\$ 111	\$ 152	\$ 152	\$ 195	\$ 43.31	29%
December	\$ 85	\$ 106	\$ 109	\$ 128	\$ 144	\$ 16.49	13%
January	\$ 96	\$ 123	\$ 135	\$ 147	\$ 176	\$ 28.99	20%
February	\$ 102	\$ 136	\$ 156	\$ 153	\$ 187	\$ 33.94	22%
March	\$ 117	\$ 136	\$ 148	\$ 166	\$ 188	\$ 21.99	13%
April	\$ 118	\$ 130	\$ 147	\$ 198			
May	\$ 133	\$ 165	\$ 169	\$ 188			
June	\$ 129	\$ 157	\$ 195	\$ 208			
Average YTD	\$123.16	\$141.50	\$162.35	\$180.40	\$200.69	\$25.16	14.4%
\$ Change from PY	\$ (7.75)	\$ 18.34	\$ 20.85	\$ 18.05	\$ 20.30		
% Change from PY	-5.9%	14.9%	14.7%	11.1%	11.3%		

Growth has been fueled broadly by generally strong demand from all segments of the market (tourist, convention, and business) as a result of San Francisco's strong local economy, and more specifically by the completion of the Moscone Convention Center renovations in July 2012, which boosted growth from convention-related business. Constrained hotel room supply has resulted in large increases in the average daily room rate.

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. Actual revenue in FY 2014-15 and FY 2015-16 will depend on developments with these lawsuits.

7. Utility Users Tax. Utility users tax (UUT) revenue is budgeted at \$91.7 million in FY 2014-15, \$1.8 million (1.9 percent) less than the FY 2013-14 budget and \$0.7 million (0.8 percent) more than the FY 2013-14 Nine Month Report projection, reflecting declining gas, electric and steam utility user tax receipts and flattening growth in commercial phone line service during FY 2014-15. In FY 2015-16, UUT is budgeted at \$92.3 million, \$0.6 million (0.6 percent) over the FY 2014-15 budgeted amount.

8. Parking Tax. Parking tax revenue is budgeted at \$84.9 million in FY 2014-15, an increase of \$1.6 million (2.0 percent) over the FY 2013-14 budget, and \$2.3 million (2.0 percent) more than the FY 2013-14 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 as reflected in increases in business and sales tax revenue projections. In FY 2015-16, parking tax revenue is budgeted at \$87.1 million, \$2.2 million (2.6 percent) over the FY 2014-15 budgeted amount. Parking tax growth estimates are commensurate with expected changes to the consumer price index (CPI) over the same period. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent 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 \$235 million in FY 2014-15, an increase of \$9.8 million (4.4 percent) over the FY2013-14 budget, primarily due to the anticipated continued strength of market fundamentals across all property sectors, resulting in increased demand from institutional investors, as well as owner-users. Since the Nine Month Report was published, several large property transactions have resulted in a revised FY 2013-14 RPTT revenue projection from \$225.2 million to \$254.7 million, an increase of \$29.5 million (13 percent). FY 2014-15 budgeted RPTT revenue represents a decline from the revised FY 2013-14 projected receipts primarily due to a spike in high value property sales during the fourth quarter of FY 2013-14. In FY 2015-16, RPTT revenue is budgeted at \$220 million, \$15 million (6.4 percent) less than the FY 2014-15 budgeted amount as the peak of sales activity is expected during FY 2013-14 and F2014-15.

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 has increased dramatically from \$31.2 million in FY 2010-11 to a projected \$161.1 million in FY 2013-14, an increase of \$129.9 million, or approximately 417 percent. Total RPTT revenue during the period from FY 2005-06 to FY 2013-14 increased by \$124.5 million (96 percent) due to the compounding effect of rate changes introduced by Proposition N passed in 2008 and Proposition N passed in 2010.

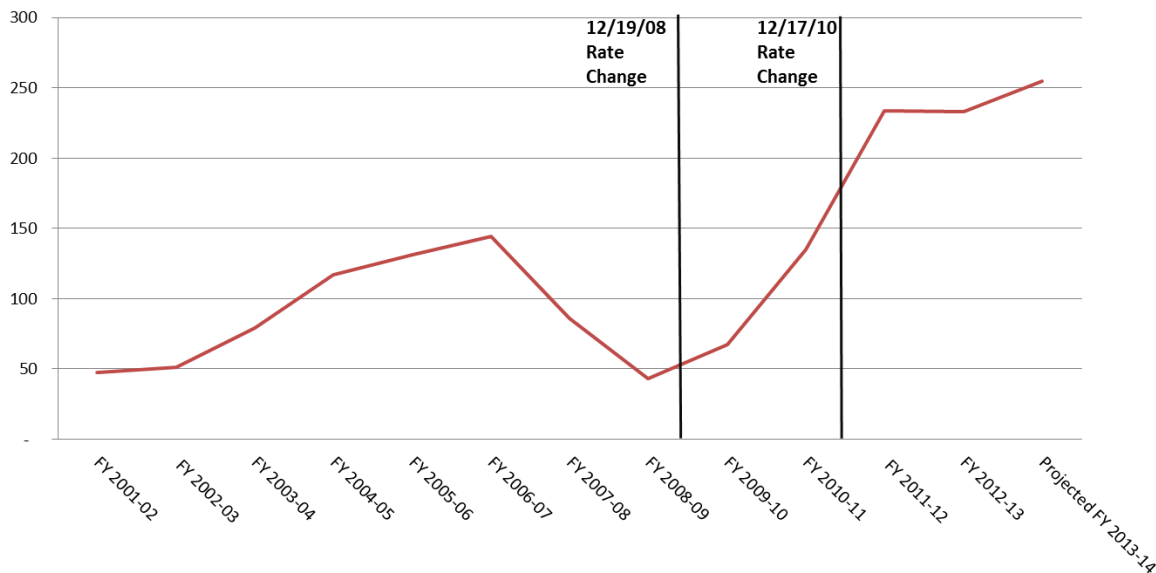
Table 1-7. Real Property Transfer Tax Revenue by Transaction Size (\$ millions)

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	24.7	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	0.9	25.4	41.7	18.9	145.8						232.7
FY 2013-14 Projection	0.9	21.6	47.7	23.4	161.1						254.7

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 percent 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 FY 2014-15 by \$25.5 million, triggering a deposit to the Budget Stabilization Reserve of \$19.1 million. There is no deposit expected during FY2015-16 as RPTT revenue is expected to be in line with the prior

five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve and Chart 1-3 for historical RPTT revenue.

Chart 1-3. Historical Real Property Transfer Tax Revenue (\$ millions)



10. Stadium Admissions Tax. Stadium admissions tax revenue is budgeted at \$1.3 million in FY 2014-15, a decrease of \$1.4 million (51.9 percent) from the FY 2013-14 budget amount. This decline in projected revenue is due to the loss of San Francisco 49ers football games at Candlestick Park starting in FY 2014-15. The FY 2015-16 budget assumes little change in this revenue from FY 2014-15.

11. Access Line Tax. Access line tax revenue is budgeted at \$43.1 million in FY 2014-15, an increase of \$0.4 million (1.0 percent) from the FY 2013-14 budget and \$0.8 million (2.0 percent) over the FY 2013-14 Nine-Month Report projection. The budget reflects a proposed inflationary increase to the access line tax rate of 2.6 percent as required under Business and Tax Regulation Code Section 784. In FY 2015-16 moderate growth is expected, with revenue budgeted at \$43.9 million, \$0.8 million (2.0 percent) more than the FY 2014-15 budgeted amount.

12. Interest & Investment Income. General Fund interest and investment income for FY 2014-15 is budgeted at \$6.9 million, a decrease of \$4.1 million (37.4 percent) from the FY 2013-14 budget and \$1.1 million (13.3 percent) from the Nine Month Report projection. This revenue decline is a result of continuing low interest rates during FY 2014-15 compounded by decreased cash balances due to planned prepayment of employer contributions to the retirement system. FY 2015-16 revenue is expected to increase \$1.4 million (20.3 percent) to \$8.3 million as a result of interest rate and cash balance increases.

13. Intergovernmental – Federal. Federal support in the General Fund is budgeted at \$235.3 million for FY 2014-15, which is a \$20.8 million or a 9.7 percent increase from FY 2013-14 budget, primarily due to \$28.6 million of growth in federal aid payments for various social service programs.

This growth includes increases in allocations of \$16.2 million for welfare and food stamp aid programs, \$7.5 million of increased Maintenance of Effort (MOE) of the In-Home Support Services which directly offsets increased expenditure matching requirements, \$3.0 million from anticipated revenue from participation in the Title IV-E waiver program, and \$2.1 million from HSA closeout revenue for amounts owed based on prior-year expenditures. This growth is offset by the loss of \$10.0 million of one-time revenue in FY2013-14 at the Department of Public Works related to the Fourth Street Bridge project. Revenue is expected to plateau in FY 2015-16, with budgeted revenue of \$238.7 million, a \$3.4 million (1.4 percent) increase from FY 2014-15 budget.

14. State – Public Safety Sales Tax. Public safety sales tax revenue is budgeted at \$91.4 million in FY 2014-15 and \$95.0 million in FY 2015-16, representing annual growth of \$4.5 million (5.2 percent) and \$ 3.7 million (4.0 percent) respectively. The FY 2014-15 budget assumes \$4.4 million (5.0 percent) growth from the projected level in the Nine Month Report. This revenue is allocated to counties by the State separately from the local one-percent sales tax discussed above, and is used to fund police and fire services. Disbursements are made to counties based on the County Ratio, which is the county’s percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in FY2013-14 is 2.9 percent and is expected to remain at that level in FY 2014-15 and FY 2015-16.

15. State – Realignment. San Francisco receives three groups of allocations of State sales tax and Vehicle License Fee (VLF) revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor’s May Revise budget projects \$724.9 million savings by counties in FY 2014-15 as a result of Affordable Care Act (ACA) implementation, and redirects the savings to cover CalWORKs expenditures. As of this writing, the State budget has not been passed and the total impact on counties from these shifts is unknown. A reconciliation of county costs is scheduled to take place starting January 2016.

1991 Health & Welfare Realignment. In FY 2014-15, General Fund revenue is anticipated to increase by \$2.6 million (9.4 percent) from VLF distributions, offset by a \$0.9 million (0.7 percent) loss from sales tax distributions, resulting in a net increase of \$1.7 million (8.7 percent). This increase is net of \$16.7 million of reduced realignment funding from the AB 85 realignment ‘clawback’, which is the same level of reduction assumed in the FY 2013-14 budget. The FY 2015-16 proposed budget includes a net increase of \$5.8 million (4.9 percent) in distributions based on the projected growth payments assumed in the Governor’s May Revised budget. As indicated above, a final reconciliation for FY 2013-14 will take place during FY 2015-16.

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 2014-15 this revenue is budgeted at \$96.8 million, a \$7.4 million (8.3 percent) increase from the FY 2013-14 budget. This increase includes anticipated growth of \$3.3 million in child welfare services subaccount funding and 1.4 million of CalWORKs Maintenance of Effort (MOE) funding received by the Human Services Agency, and a \$1.6 million funding increase in community mental health service and \$0.7 million in state alcohol funds received by Department of Public Health. In FY 2015-16 this revenue is projected at \$98.5 million, which is primarily comprised of an increase of \$2.0 million from the FY 2014-15 budget in the child protective services subaccount.

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 the Governor's May Revised budget, this revenue is budgeted at \$31.8 million in FY 2014-15, a \$1.0 million (5.9 percent) decrease from the FY 2013-14 budget. This decrease resulted from projected reductions in both base amounts and growth amounts as the State budget reflects a temporary drop in funding to support implementation of AB109. The FY 2015-16 proposed budget assumes a \$4.4 million (13.8 percent) increase from FY 2014-15. Distributions to the District Attorney and Public Defender Growth Special Account are projected to increase from \$0.3 million in FY 2013-14 to \$0.5 million in FY 2015-16, a 78.8 percent increase in funding as the State projects an increased workload for public defenders and district attorneys as it transfers responsibility for lower-level offenders and parolees to counties.

16. State – Other. Other State funding is budgeted at \$231.8 million in FY 2014-15, an increase of \$39.3 million (20.3 percent) from the FY 2013-14 budget. This increase is primarily attributable to projected growth for various social service subventions received by the Human Services Agency, including new funding of \$26.5 million for In Home Supportive Services (IHSS). The increased IHSS funding is paired with a matching requirement of City expenditures for IHSS. Other growth items include a \$5.2 million increase in funding from the state Department of Education, a \$3.4 million increase in CalWORKs program funding, \$4.0 million increase in Medi-Cal funding, and a \$1.4 million increase for Welfare to Work. This growth is offset by a \$2.3 million loss from the State Alcohol Fund. The budget for State – Other revenue in FY 2015-16 is \$234.0 million, an increase of \$2.2 million (0.9 percent) from FY 2014-15.

17. Charges for Services. The proposed budget assumes charges for services revenue (including the Recovery of General Government Costs) of \$209.8 million in FY 2014-15, which represents growth from FY 2013-14 original budget of \$32.7 million (18.5 percent), and \$41.1 million (24.3 percent) over the FY 2013-14 Nine Month Report projection. Significant FY 2014-15 changes include:

- \$16.9 million in Public Health revenue, from a reallocation of Healthy San Francisco program revenue into the General Fund.
- \$6.8 million in Planning Department revenue, primarily from a one-time reduction in permit application backlogs and the expected increase in construction permit fees.
- \$4.6 million in additional Fire Department revenue, including \$4.1 million in additional revenue from charges for providing services to the Presidio, which had previously been budgeted as an expenditure recovery, \$2.9 million in additional prior-year Ground Emergency Medical Transit (GEMT) revenue, and a \$1.0 million increase in plan check and inspection fees. These increases are offset by a \$4.1 million ongoing reduction in expected ambulance fees.
- \$4.5 million in Recreation and Park revenue, primarily from one-time events and including \$1.9 million from the disposition of assets from Candlestick Park.

The proposed budget includes \$199.5 million in represents a decline of \$10.4 million (4.9 percent) from FY 2014-15. Significant FY 2015-16 changes include:

The main changes resulting in the \$10.4 million reduction in revenue in FY 2015-16 include:

- \$2.3 million less in Recreation and Park revenue, primarily due to the elimination of one-time revenue gains expected in FY 2014-15 from Candlestick Park.
- \$2.0 million less in Planning Department revenue due to the elimination of one-time revenue gains from the FY 2014-15 backlog reduction.
- \$5.9 million less in Fire Department revenue due to the elimination of prior-year GEMT revenue in the form of ambulance fees.

Given the Mayor's policy instruction to departments to minimize fee increases and eliminate fees where possible, there are few legislative changes to fees in the proposed budget. These include:

- Adjustments to patient rates and other services provided by Public Health;
- Elimination of various City Planning processing fees;
- Elimination of the Mayor's Office of Housing and Community Development Escrow Account Administrative Fee;
- A temporary (six-month) 7 percent reduction in Building Inspection fees.

Appendix 2. General Fund Reserve Uses and Deposits

As discussed in Appendix 1, the Mayor's proposed budget includes the use of \$58.4 million from reserves established in prior years during FY 2014-15 and \$12.7 million during FY 2015-16. As shown in Table 2-1 below, the Mayor's proposed budget also includes \$74.5 million and \$47.7 million in deposits to General Fund reserves during FY 2014-15 and FY 2015-16. 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)

	FY 2013-14	FY 2014-15	FY 2015-16	
General Fund - Use of Prior Year Reserves	Budget	Proposed Budget	Proposed Budget	Note
Rainy Day Reserve Allocated to SFUSD	\$ 5.8	\$ 11.1	\$ 8.3	1
Rainy Day Reserve One-Time Use	1.5	12.2	2.7	1
Recreation and Park Savings Incentive Reserve	9.7	5.9	1.8	1
Budget Savings Incentive Fund	16.7	29.1	-	1
Total Use of Prior Year Reserves	\$ 33.7	\$ 58.4	\$ 12.7	
General Reserve	22.8	19.1	11.5	2
Budget Stabilization Reserve	16.0	19.1	-	3
Salaries & Benefits Reserve	13.1	16.7	17.7	4
Litigation Reserve	11.0	17.1	16.0	5
Reserve for Technical Adjustments	2.5	2.5	2.5	6
Reserve for Garage Revenue Stabilization	7.0	-	-	7
Total General Fund Deposits to Reserves	\$ 72.4	\$ 74.5	\$ 47.7	

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 budget development, and is typically used to fund supplemental appropriations.

The policy requires the General Reserve to increase to 1.5 percent of budgeted General Fund regular revenues in FY 2014-15 and 1.75 percent in FY 2015-16. The General Reserve will continue to increase each year until it reaches 2.0 percent 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 \$3.9 billion in regular General Fund revenues in FY 2014-15 and \$4.0 billion in FY 2015-16, resulting in General Reserve requirements of \$57.9 million in FY 2014-15 and \$69.3 million in FY 2015-16. Figures in Table 2.1 above represent the amounts needed to bring the General Reserve to the required level in each year, or \$19.1 million in FY 2014-15 and \$11.5 million in FY 2015-16.

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 percent 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 FY 2014-15, resulting in a deposit to the Budget Stabilization Reserve of \$19.1 million. Transfer tax revenues in FY 2015-16 are not projected to exceed the prior five-year average in FY 2015-16, and therefore no reserve deposit is budgeted in this year. 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 \$16.7 million in FY 2014-15 to cover costs related to MOUs with labor organizations which will come before the Board in June. The FY 2015-16 proposed budget annualizes the value of these and other changes and increases the reserve by \$1.0 million.

5. Litigation Reserve. The Mayor's proposed budget includes \$17.1 million for the litigation reserve in FY 2014-15, declining to \$16.0 million in FY 2015-16, which is intended to provide funding for potential judgments and claims that will be paid out during the budget period 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 the level recommended in the Five Year Financial Plan Update for General Fund Supported Operations for FY 2014-15 through FY 2017-18 (i.e. the Joint Report) published on March 6, 2014.

6. Reserve for Technical Adjustments. Reserves of \$2.5 million in the FY 2014-15 and FY 2015-16 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. This was a one-time reserve deposit in FY 2013-14 to reflect a payment from the Municipal Transportation Agency (MTA) to the Recreation and Parks Department for the value of lost parking spaces due to construction of the Union Square Market Street Central Subway Station.

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, which 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 \$137.1 million for FY 2014-15 and \$133.1 million for FY 2015-16. These amounts fall substantially below the prior five-year average, estimated through FY 2013-14 to be \$224.2 million. The other nonrecurring revenues that fall within the policy are a total of \$2.9 million budgeted for the sale of property and assets at the departments of Public Health and Recreation and Parks (Candlestick Park assets). Budgeted nonrecurring expenditures greatly exceed this amount, therefore, the Controller's Office certifies compliance with the policy.

Other Nonrecurring Sources

Table 3-1 shows all General Fund nonrecurring revenues in operating funds, which total \$157.5 million in FY 2014-15 and \$143.6 million in FY 2015-16.

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

	FY 2013-14	FY 2014-15	FY 2015-16
General Fund Prior Year Fund Balance	\$ 122.7	\$ 137.1	\$ 133.1
DPH Sale of Buildings/Land Onondaga St.	1.8	1.0	-
Fire Department Prior Year MediCal Revenue (GEMT)	3.0	5.9	-
Reimbursement of Prior Year Capital Expenditures	-	11.6	10.5
Sale of Candlestick Park Assets	-	1.9	-
Retroactive reimbursement of 4th Street Bridge construction costs	10.0	-	-
SOMA Skate and Dog Park Transfer-In	1.6	-	-
America's Cup Recoup of Costs	5.0	-	-
Transfer of SB 1128 revenue	21.0	-	-
Total Nonrecurring General Fund Revenues	\$ 184.1	\$ 157.5	\$ 143.6

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 4-1. Baselines & Mandated Funding/Staffing Requirements (\$ millions)

	FY 2013-14 Original Budget	FY 2014-15 Proposed Budget	FY 2015-16 Proposed Budget
General Fund Aggregate Discretionary Revenue (ADR)	\$ 2,523.5	\$ 2,696.2	\$ 2,786.6
Financial Baselines			
Municipal Transportation Agency (MTA)			
MTA - Municipal Railway Baseline: 6.686% ADR	168.7	180.3	186.3
MTA - Parking & Traffic Baseline: 2.507% ADR	63.3	67.6	69.9
MTA - 80% Parking Tax In-Lieu	66.6	67.9	69.7
Subtotal Municipal Transportation Agency	\$ 298.6	\$ 315.8	\$ 325.9
Library Preservation Fund			
Library - Baseline: 2.286% ADR	57.7	61.6	63.7
Library - Property Tax Set-Aside: \$0.025 per \$100 Net Assessed Valuation (NAV)	40.0	43.0	45.3
Subtotal Library	97.6	104.7	109.0
Children's Services			
<i>Children's Services Baseline - Requirement: 4.973% ADR</i>	125.5	134.1	138.6
Children's Services Baseline - Eligible Items Budgeted	131.6	147.5	141.6
Public Education Services Baseline: 0.290% ADR	7.3	7.8	8.1
Children's Fund Property Tax Set-Aside: \$0.03 per \$100 NAV	48.0	51.6	57.3
<i>Public Education Enrichment Fund: 3.057% ADR</i>	77.1	82.4	85.2
25% Deferral	-	-	-
1/3 Annual Contribution to Children and Families			
Commission - Preschool for All	25.5	27.5	28.4
2/3 Annual Contribution to San Francisco Unified School District (SFUSD):			
Share of SFUSD Contribution Provided as In-Kind Services	4.0	4.3	-
Balance of SFUSD Contribution Direct Funding	47.4	50.7	56.8
Total Public Education Enrichment Fund	76.9	82.4	85.1
Subtotal Childrens Services	263.8	289.3	292.2
Other Financial Baselines			
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	40.0	43.0	45.3
Housing Trust Fund	20.0	22.8	25.6
Human Services Homeless Care Fund: Amount based on aid savings	13.7	14.4	14.4
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	2.1	2.3	2.4
City Services Auditor: 0.2% of Citywide Budget	12.9	14.9	14.8
Subtotal Other Financial Baselines	88.7	97.4	102.5
Total Financial Baselines	\$ 748.7	\$ 807.1	\$ 829.5
Staffing and Service-Driven Baselines			
Police Minimum Staffing		Requirement likely not met	
Neighborhood Firehouse Baseline		Requirement met	
Treatment on Demand Baseline		Requirement likely 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 General Fund 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 \$247.9 million in FY 2014-15 and \$256.2 million in FY 2015-16.

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 annually by the percent increase or decrease in ADR. Based on revenue in the Mayor's proposed budget, the required Library Baseline requirements of \$61.6 million in FY 2014-15 and \$63.7 million in FY 2015-16 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 annually by the percent increase or decrease in ADR. The required baselines for FY 2014-15 and FY 2015-16 are \$134.1 million and \$138.6 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of \$147.5 million and \$141.6 million, representing surplus funding of \$13.4 million in FY 2014-15 and \$3.0 million in FY 2015-16.

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 annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required \$7.8 million in FY 2014-15 and \$8.1 million in FY 2015-16 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. 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 percent. The Mayor's proposed budget does not assume this reduction for either FY 2014-15 or FY 2015-16. For FY 2014-15, the proposed budget includes \$78.2 million for the Public Education Enrichment Fund Annual Contribution, plus an allowance for \$4.23 million in in-kind contributions to SFUSD. For FY 2015-16, it includes \$85.1 million contribution but no allowance of in-kind contributions to SFUSD based on the assumption that reauthorization of Public Education Enrichment Fund will pass without any in-kind contribution allowance for services provided to the School District by City departments.

Property Tax-Related Set-Asides. Charter Sections 16.108, 16.109, and 16.107 mandate three property tax-related set-asides: amounts equivalent to 3.0 percent of property tax revenues for the Children's Services Fund; 2.5 percent for the Library Preservation Fund; and 2.5 percent for the Open Space Fund. The Mayor's proposed budget includes required funding of \$51.6 million in FY 2014-15 and \$57.3 million in FY 2015-16 for the Children's Services Fund, and \$43.0 million and \$45.3 million in FY 2014-15 and FY 2015-16, respectively, for both the

Library Preservation Fund and Open Space Fund. The proposed FY 2015-16 budget includes an assumption that the San Francisco Children's Fund allocation factor will increase by 0.166667percent, resulting in a \$3.0 million increase in the Children's Services Fund allocation. The net General Fund impact of this change is a reduction of \$2.6 million, as General Fund baseline contributions are reduced by \$0.4 million.

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 of \$22.8 million and \$25.6 million in FY 2014-15 and FY 2015-16, respectively.

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 \$15.2 million in FY 2014-15 and FY 2015-16. The budgeted amounts include \$0.8 million in each year of General Fund support above the required funding amount of \$14.4 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 \$2.3 million in FY 2014-15 and \$2.4 million in FY 2015-16 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 percent of the City budget be used to fund audits of City services. The Mayor's proposed budget includes \$14.9 million in FY 2014-15 and \$14.8 million in FY 2015-16 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 full-duty officers 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, 2015 it will have 1,976 full-duty sworn officer positions filled, which assumes 80 retirements during FY 2014-15 offset by 120 officers graduating to full-duty. The department projects that 225 officers will not be available for

neighborhood policing and patrol due to modified duty, academy and field training assignments. These adjustments result in a projected total of 1,751 full-duty sworn officers available for neighborhood policing and patrol, 220 short of the baseline staffing amount. The Controller's Office estimates that by the end of FY 2014-15, 77 positions will have been civilianized, reducing the minimum staffing level to 1,894. Additionally, the Department will receive overtime funding in the FY 2014-15 proposed budget that the Controller's Office calculates as equivalent to 69 full-duty sworn positions, bringing the staffing level to 1,820, or 74 positions short of the adjusted baseline amount, if overtime is counted towards the budget.

As of June 30, 2016 the Police Department projects to have 2,016 full-duty sworn officer positions filled which assumes 80 retirements during FY 2014-15 offset by 120 officers graduating to full duty. The department projects that 225 officers will not be available for neighborhood policing and patrol due to modified duty, academy and field training assignments. 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 2015-16, 77 positions will have been civilianized, reducing the minimum staffing level to 1,894. Additionally, the Department will receive overtime funding in the FY 2015-16 proposed budget that the Controller's Office calculates as equivalent to 69 full duty sworn positions bringing the staffing level to 1,859, or 35 positions short of the adjusted baseline amount, if overtime is counted towards the budget.

Neighborhood Firehouse Baseline. In November 2005, San Francisco voters passed the Neighborhood Firehouse Protection Act (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 \$264.1 million in FY 2014-15 and \$260.1 million in FY 2015-2016 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 approval of Proposition T created Chapter 19A, Article III of the Administrative Code, which requires the Department of 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 2013 (the most recent data available), the only treatment modality for which there were more clients waiting than slots available was for Outpatient Treatment, which had ten clients waiting and nine open slots, so it appears the baseline is met.

In addition, it is expected that many individuals who need substance abuse treatment have or will soon become eligible for services under the Affordable Care Act and will receive treatment that is fully federally funded.

STAFF CONTACTS

Alex Koskinen, Budget Analyst, Alex.Koskinen

Devin Macaulay, Budget Analyst, Devin.Macaulay@sfgov.org

Drew Murrell, Revenue Manager, Drew.Murrell@sfgov.org

Jamie Whitaker, Property Tax Manager, James.Whitaker@sfgov.org

Michelle Allersma, Director of Budget & Analysis, Michelle.Allersma@sfgov.org

Nick Delgado, Budget and Revenue Analyst, Nicholas.Delgado@sfgov.org

Risa Sandler, Budget Manager, Risa.Sandler@sfgov.org

Theresa Kao, Budget Analyst, Theresa.Kao@sfgov.org

Yuri Hardin, Budget and Revenue Analyst, Yuri.Hardin@sfgov.org