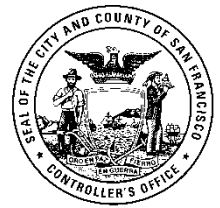


# City and County of San Francisco

Office of the Controller

## **FY 2014-15 Six-Month Budget Status Report**



*February 10, 2015*





# City and County of San Francisco

## Office of the Controller

FY 2014-15 Six-Month Budget Status Report

February 10, 2015

### Summary

The Controller's Office provides periodic budget status updates to the City's policy makers during the course of each fiscal year, as directed by Charter Section 3.105. This report provides expenditure and revenue information and projections as of December 31, 2014, incorporating more current information up to the date of publication as available. Report highlights include:

- Overall revenue growth and expenditure savings will result in a projected current year ending balance of \$256.5 million, of which \$137.1 million has been appropriated in the FY 2015-16 budget. The drivers of increased fund balance predominantly result from tax revenue growth above budgeted levels and expenditure savings in the Department of Public Health and Human Services Agency. This represents an improvement to current year fund balance of approximately \$21.6 million versus the assumptions contained in the Five Year Financial Plan and Mayor's Budget Instructions issued in December 2014.
- The Five Year Financial Plan projected shortfalls over the next two fiscal years of \$104.2 million, comprised of \$15.9 million in FY 2015-16 and \$88.3 million in FY 2016-17. Application of this additional current year fund balance will reduce these shortfalls to a combined \$82.6 million over the two years, to \$5.1 million in FY 2015-16 and \$77.5 million in FY 2016-17. These projections will be updated in March 2015.
- Projected revenue growth results in a \$35.8 million deposit to the Budget Stabilization Reserve, an increase in the deposit of \$16.7 million over the \$19.1 million deposit anticipated in the budget. There is currently no projected deposit to the Rainy Day Reserve, however, revenue growth beyond current projections will trigger them. Economic reserves, including the Budget Stabilization Reserve, the General Reserve, and the City's portion of the Rainy Day Reserve, are projected to total \$241.0 million at year end, or 5.8% of General Fund revenues. This is slightly below the 6.5% reached by FY 2013-14 year end largely due to the approval of Proposition C in November 2014, which transferred \$24.6 million of the Rainy Day Economic Stabilization account balance to a new School District Reserve. The City's target for economic reserves is 10% of General Fund revenues.
- Economic growth is also contributing to increased fund balances at several of the City's enterprises, including the Airport, Port, Building Inspection and Municipal Transportation Agency (MTA), as described in Appendix 5 below. The exception to this trend is the Public Utilities Commission (PUC), where ending balances are expected to be \$37 million below beginning balances due to a revenue shortfall in water operations.

**Table 1. FY 2014-15 Projected General Fund Variances to Budget (\$ Millions)**

<b>A. FY 2014-15 Starting Balance</b>	
FY 2013-14 Ending Fund Balance	\$ 294.6
Appropriation in the FY 2014-15 Budget	(135.9)
<b>Subtotal Starting Balance</b>	<b>158.7</b>
<b>B. Current Year Revenues and Expenditures</b>	
Citywide Revenue Surplus	96.9
Baseline Contributions	(10.3)
Departmental Operations	34.2
Approved & Projected Supplemental Appropriations	(20.3)
Projected Use of General Reserve	20.3
<b>Subtotal Current Year Revenues and Expenditures</b>	<b>120.8</b>
<b>C. Withdrawals from / (Deposits) to Reserves</b>	<b>(23.0)</b>
<hr/>	
<b>D. FY 2014-15 Projected Ending Balance</b>	<b>256.5</b>
Previous Projected Ending Balance	217.0
Use of General Reserve not Previously Projected	(17.9)
<b>E. Improvement versus Last Projection</b>	<b>21.6</b>

**A. General Fund Starting Balance**

The budget appropriated \$135.9 million in FY 2014-15 and \$137.1 million in FY 2015-16. The General Fund available fund balance at the end of FY 2013-14 was \$294.6 million, or \$21.7 million more than was appropriated.

**B. Current Year Revenues and Expenditures**

**Citywide Revenue Surplus**

As shown in Table 2, citywide revenues have improved by \$96.9 million compared to revised budget, primarily due to increased real property transfer, hotel and business tax revenue. Improvements to real property transfer tax revenue are a result of higher transaction values in the top tax tier. Business tax improvements are largely the result of higher than expected job growth. Hotel tax increases are primarily due to higher than expected room and occupancy rates, as well as collections from short-term rentals. More information on these revenue trends is provided in Appendix 1.

**Table 2. General Fund Citywide Revenues Variances to Budget (\$ Millions)**

	<b>Revised Budget</b>	<b>6-Month Projection</b>	<b>Surplus (Shortfall)</b>
Property Taxes	1,232.9	1,245.0	12.1
Business Taxes	572.4	595.3	23.0
Sales Tax - Local 1% and Public Safety	227.5	232.9	5.4
Hotel Room Tax	318.4	337.2	18.8
Utility User & Access Line Taxes	134.8	136.4	1.7
Parking Tax	84.9	84.9	-
Real Property Transfer Tax	235.0	267.0	32.0
Interest Income	6.9	8.9	2.0
Citywide Realignment Revenue	162.9	164.2	1.3
Motor Vehicle In-Lieu	-	0.6	0.6
Franchise Taxes	17.0	16.6	(0.4)
Transfers In from Other Funds	179.3	179.7	0.4
<b>Total Citywide Revenues</b>	<b>3,171.8</b>	<b>3,268.7</b>	<b>96.9</b>

**Baseline Contributions**

Table 3 shows that due to changes in discretionary revenues, projections for baseline and parking tax in-lieu transfers to the MTA, Public Library and Public Education Enrichment Fund are increased by a net \$10.3 million compared to budget. The Public Library transfer is net of a \$0.6 million reduction as a result of a projected year-end surplus in the fund, which is returned to the General Fund.

**Table 3. General Fund Baseline and In-Lieu Transfers (\$ Millions)**

	<b>Revised Budget</b>	<b>6-Month Projection</b>	<b>Variance</b>
<b>Aggregate Discretionary Revenues (ADR)</b>	<b>2,696.2</b>	<b>2,790.3</b>	<b>94.0</b>
MTA Baseline 9.2% ADR	247.9	256.5	8.6
Library Baseline 2.3% ADR	61.6	63.2	1.6
Public Education Fund Baseline 0.3% ADR	3.9	4.0	0.1
<b>Total Baseline Transfers</b>	<b>313.4</b>	<b>323.7</b>	<b>10.3</b>
80% Parking Tax in Lieu Transfer to MTA	67.9	67.9	-
<b>Total Baselines and In-Lieu Transfers</b>	<b>381.3</b>	<b>391.6</b>	<b>10.3</b>

## Departmental Operations

The Controller's Office projects a net departmental operations surplus of \$34.2 million summarized in Table 4 below and further detailed and discussed in Appendix 2.

**Table 4. FY 2014-15 Departmental Operating Summary (\$ Millions)**

	<b>Revenue Surplus / (Shortfall)</b>	<b>Uses Savings / (Deficit)</b>	<b>Net Surplus / (Deficit)</b>
<b>Net Shortfall Departments</b>			
Fire Department	(4.3)	-	(4.3)
Police	(0.7)	-	(0.7)
City Attorney	(0.5)	0.1	(0.4)
Sheriff	(0.1)	-	(0.1)
<b>Subtotal Departments with Net Deficits</b>	<b>\$ (5.6)</b>	<b>\$ 0.1</b>	<b>\$ (5.5)</b>
<b>Net Surplus Departments</b>			
Human Services Agency	\$ (14.4)	\$ 27.9	\$ 13.5
General City Responsibility	-	11.0	11.0
Public Health	(10.6)	18.1	7.5
Public Works	1.7	(0.2)	1.5
City Planning	1.4	-	1.4
Treasurer/Tax Collector	(0.9)	1.8	1.0
City Administrator	0.2	0.8	1.0
Other Net Surplus	(0.2)	3.2	2.9
<b>Subtotal Departments with Net Surpluses</b>	<b>\$ (22.8)</b>	<b>\$ 62.6</b>	<b>\$ 39.8</b>
<b>Combined Total</b>	<b>\$ (28.4)</b>	<b>\$ 62.6</b>	<b>\$ 34.2</b>

The Mayor's Office and the Controller's Office will work with departments with anticipated expenditure shortfalls to develop a plan to bring expenditures in line with revenues by year-end without requiring supplemental appropriations. The Department of Emergency Management, the Department of Public Health, the Fire Department and Sheriff will require a supplemental appropriation to shift funding from savings in permanent salaries and other categories to cover over-expenditures in overtime, pursuant to San Francisco Administrative Code Section 3.17, adopted by the Board of Supervisors in September 2011.

## **Approved and Projected Supplemental Appropriations**

Three General Fund supplemental appropriations have been approved year to date: \$2.1 million of General Reserve for legal support for unaccompanied immigrant youth, \$0.3 million of General Reserve for support for HIV prevention, and \$0.2 million of street use permit fee revenue for the Department of Public Works to continue to provide portable restrooms. There is one pending supplemental appropriation of \$3.4 million of General Reserve for cost of doing business increases for nonprofit organizations that contract with the City.

In FY 2013-14, \$14.5 million of anticipated Transferable Development Rights (TDR) revenue was appropriated to support the War Memorial rebuild project. However, given changes in the transfer development market, no revenues have been received to date or are projected in the current fiscal year. This projection assumes the use of the General Reserve to offset this anticipated loss, consistent with the ordinance originally appropriating TDR revenue as a source for the project.

## **Projected Use of General Reserve**

This report assumes the use of \$20.3 million from the General Reserve described in the preceding paragraph. Any uses of the Reserve will require a budget year deposit of an equal amount to maintain required funding levels, as shown in section B of Table 1 above. These uses will reduce the balance of the Reserve by \$20.3 million and increase the amount needed to fund the reserve by \$20.3 million more than is currently budgeted in FY 2015-16.

## **C. Withdrawals from / Deposits to Reserves**

A total of \$42.1 million is projected to be deposited into reserves, or \$23.0 million more than budgeted, including \$16.7 million to the Budget Stabilization Reserve due to Real Property Transfer Tax revenue above the five year average and \$6.3 million to the Citywide Budget Savings Incentive Reserve due to projected departmental expenditure savings. There is no projected deposit to the Recreation and Park Savings Incentive Reserve at this time. In the Rainy Day Reserve account an \$11.1 million withdrawal for the school district is budgeted and no additional deposits are projected. Pursuant to Proposition C, the economic stabilization portion of the Rainy Day Reserve will be split in half, with \$24.9 million going to a new School Reserve and \$24.9 million going to a City Reserve. A discussion of the status of reserves is included in Appendix 3.

## **D. Projected Ending Fund Balance: \$256.5 Million**

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2014-15 of \$256.5 million, \$119.4 million above the \$137.1 million appropriated in the FY 2015-16 budget.

## **E. Improvement versus Last Projection: \$26.1 Million**

The projected ending fund balance of \$256.5 million is \$26.1 million higher than the December 2014 Five Year Financial Plan fund balance projection of \$217.0 million. This projection did not include the use of \$3.4 million in General Reserve in the current year to fund cost of living increases for CBOs that contract with the City or to backfill the shortfall in TDR revenue for the

War Memorial Rebuild project. This use of General Reserve will have to be backfilled in the budget year.

## **F. Other Funds**

Special revenue funds are used for departmental activities that have dedicated revenue sources or legislative requirements that mandate the use of segregated accounts outside the General Fund. Some of these special revenue funds receive General Fund baseline transfers and other subsidies.

Enterprise funds are used primarily for self-supporting agencies, including the Airport, Public Utilities Commission and the Port. The Municipal Transportation Agency receives a significant General Fund subsidy.

Projected General Fund Support requirements for these funds are included in the department budget projections in Appendix 2. Appendix 5 provides a table of selected special revenue and enterprise fund projections and a discussion of their operations.

## **G. Projection Uncertainty Remains**

Projection uncertainties include:

- The potential for continued fluctuations in general tax revenues, particularly in transfer tax and business taxes, given the implementation of the new gross receipts tax.
- The effect of Affordable Care Act (ACA) implementation on Public Health revenues. The state continues to allocate Disproportionate Share Hospital (DSH) funding for uninsured patients to San Francisco General Hospital based on historical calculation methodologies. At the same time, the state is implementing reductions to indigent care funding (or “clawing back” 1991 Realignment), as previously uninsured clients become insured under the ACA. This reconciliation trails DSH allocations by 18-24 months. The Controller’s Office will continue to work with Public Health staff to update projections for the Nine-Month Report.

## **H. Additional Projections will be Provided in the Five Year Financial Plan Update and Nine-Month Budget Status Report**

The Five Year Financial Plan Update will provide revenue and expenditure projections for FY 2015-16 through FY 2019-20 in early March 2015. FY 2014-15 projections will be updated in the Nine-Month Budget Status Report, scheduled to be published in early May 2015.

## **I. Six-Month Overtime Report**

Administrative Code Section 18.13-1 requires the Controller to submit overtime reports to the Board of Supervisors at the time of the Six-Month and Nine-Month Budget Status Reports, and annually. Appendix 6 presents budgeted, actual, and projected overtime.

## **J. Appendices**

1. General Fund Revenues and Transfers In
2. General Fund Department Budget Projections



3. Status of Reserves
4. Salary and Benefits Reserve Update
5. Other Funds Highlights
6. Overtime Report

## **Appendix 1. General Fund Revenues and Transfers In**

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As shown in Table A1-1, total General Fund revenues are projected to be \$77.1 million above revised budget. Of this total, \$96.9 million is due to improvements in citywide revenue as discussed in this Appendix 1.

The FY 2014-15 budget assumed slowing growth in tax revenues throughout the fiscal year. Property transfer tax, business tax, and hotel tax revenues are projected to surpass budgeted levels as discussed below. These gains are offset by decreases in state subventions received by the Human Services Agency and decreases in ambulance revenue received by the Fire Department discussed in Appendix 2. Selected citywide revenues are discussed below.

**Table A1-1: Detail of General Fund Revenue and Transfers In**

GENERAL FUND (\$ Millions)	FY 2013-14		FY 2014-15		
	Year End Actual	Original Budget	Revised Budget	6-Month Projection	Surplus/ (Shortfall)
<b>PROPERTY TAXES</b>	\$ 1,177.4	\$ 1,232.9	\$ 1,232.9	\$ 1,245.0	\$ 12.1
<b>BUSINESS TAXES</b>	562.9	572.4	572.4	595.3	23.0
<b>OTHER LOCAL TAXES</b>					
Sales Tax	133.7	136.1	136.1	140.4	4.3
Hotel Room Tax	310.1	318.4	318.4	337.2	18.8
Utility Users Tax	86.8	91.7	91.7	91.7	-
Parking Tax	83.5	84.9	84.9	84.9	-
Real Property Transfer Tax	261.9	235.0	235.0	267.0	32.0
Stadium Admission Tax	2.4	1.3	1.3	1.3	-
Access Line Tax	43.8	43.0	43.0	44.7	1.7
<b>Total Other Local Taxes</b>	<b>922.2</b>	<b>910.4</b>	<b>910.4</b>	<b>967.2</b>	<b>56.8</b>
<b>LICENSES, PERMITS &amp; FRANCHISES</b>					
Licenses & Permits	10.7	10.1	10.1	10.7	0.5
Franchise Tax	16.3	17.0	17.0	16.6	(0.4)
<b>Total Licenses, Permits &amp; Franchises</b>	<b>27.0</b>	<b>27.1</b>	<b>27.1</b>	<b>27.3</b>	<b>0.1</b>
<b>FINES, FORFEITURES &amp; PENALTIES</b>	<b>5.3</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>-</b>
<b>INTEREST &amp; INVESTMENT INCOME</b>	<b>10.1</b>	<b>6.9</b>	<b>6.9</b>	<b>8.9</b>	<b>2.0</b>
<b>RENTS &amp; CONCESSIONS</b>					
Garages - Rec/Park	12.4	10.7	10.7	10.7	-
Rents and Concessions - Rec/Park	11.9	9.5	9.5	9.5	-
Other Rents and Concessions	2.7	2.5	2.5	2.5	-
<b>Total Rents and Concessions</b>	<b>26.9</b>	<b>22.7</b>	<b>22.7</b>	<b>22.7</b>	<b>-</b>
<b>INTERGOVERNMENTAL REVENUES</b>					
<b>Federal Government</b>					
Social Service Subventions	218.5	229.5	229.5	217.9	(11.6)
Other Grants & Subventions	-1.3	5.4	15.4	18.2	2.8
<b>Total Federal Subventions</b>	<b>217.2</b>	<b>234.9</b>	<b>244.9</b>	<b>236.0</b>	<b>(8.9)</b>
<b>State Government</b>					
Social Service Subventions	164.3	197.1	197.1	195.6	(1.4)
Health & Welfare Realignment - Sales Tax	133.4	133.0	133.0	132.8	(0.2)
Health & Welfare Realignment - VLF	32.2	29.9	29.9	31.4	1.5
Health & Welfare Realignment - CalWORKs MOE	20.1	26.7	26.7	24.1	(2.7)
Health/Mental Health Subventions	83.9	97.2	97.2	91.0	(6.2)
Public Safety Sales Tax	87.5	91.4	91.4	92.5	1.1
Motor Vehicle In-Lieu	0.7	-	-	0.6	0.6
Public Safety Realignment (AB109)	33.5	31.8	31.8	32.1	0.3
Other Grants & Subventions	27.4	17.2	17.2	16.7	(0.5)
<b>Total State Grants and Subventions</b>	<b>583.0</b>	<b>624.4</b>	<b>624.4</b>	<b>616.9</b>	<b>(7.5)</b>
<b>Other Regional Government</b>					
Redevelopment Agency	2.2	2.6	2.6	2.2	(0.5)
<b>CHARGES FOR SERVICES:</b>					
General Government Service Charges	46.8	52.7	52.9	57.8	4.9
Public Safety Service Charges	32.7	33.6	33.6	33.6	-
Recreation Charges - Rec/Park	17.2	19.3	19.3	19.3	-
MediCal, MediCare & Health Service Charges	60.5	79.5	79.5	75.3	(4.3)
Other Service Charges	14.6	15.7	15.7	15.7	-
<b>Total Charges for Services</b>	<b>171.8</b>	<b>200.8</b>	<b>201.0</b>	<b>201.5</b>	<b>0.6</b>
<b>RECOVERY OF GEN. GOV'T. COSTS</b>	<b>9.4</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>	<b>0.0</b>
<b>OTHER REVENUES</b>	<b>5.6</b>	<b>21.6</b>	<b>21.6</b>	<b>20.6</b>	<b>(1.0)</b>
<b>TOTAL REVENUES</b>	<b>3,721.0</b>	<b>3,870.0</b>	<b>3,880.2</b>	<b>3,956.9</b>	<b>76.7</b>
<b>TRANSFERS INTO GENERAL FUND:</b>					
Airport	38.0	38.4	38.4	38.8	0.4
Other Transfers	175.7	140.9	140.9	140.9	-
<b>Total Transfers-In</b>	<b>213.6</b>	<b>179.3</b>	<b>179.3</b>	<b>179.7</b>	<b>0.4</b>
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>\$ 3,934.7</b>	<b>\$ 4,049.2</b>	<b>\$ 4,059.4</b>	<b>\$ 4,136.6</b>	<b>\$ 77.1</b>

**Property Tax** revenue in the General Fund is projected to be \$12.1 million (1.0%) above budget and \$67.6 million (5.7%) over prior year actual revenue. Most of the improvement is due to increases in expected supplemental and escape property tax assessments of about \$11.1 million and \$7.0 million, respectively. Assumptions about other components of property tax revenues, including late payment penalty revenues the amount needed to fund assessment appeals, are unchanged from the budget. Property tax set asides to special revenue funds are increased by \$1.4 million, as shown below.

#### Property Tax Set Asides

	Original Budget	6-Month Projection	Variance
Children's Fund	51.6	52.1	0.5
Open Space Fund	43.0	43.4	0.4
Library Preservation Fund	43.0	43.4	0.4
<b>Total</b>	<b>137.7</b>	<b>139.0</b>	<b>1.4</b>

**Business Tax** revenues in the General Fund include business registration fees, payroll taxes, gross receipts taxes and administrative office taxes. Business tax revenue is projected to be \$23.0 million (4.1%) above budget, and \$32.4 million (5.8%) over prior year actual revenues. The projected growth in business tax revenues is expected to be supported by strong growth in wages and employment in San Francisco continued from last fiscal year. In FY 2013-14, the Bureau of Labor Statistics reported 4.9% growth in employment and 11.6% wage growth over the previous fiscal year.

Projections include the full annual value of an increase in business registration fee levels, which went into effect in tax year 2013, as well as the full annual value of the new gross receipt tax being phased in over a five year period, which began in tax year 2014.

Business registration revenues are projected to be \$41.8 million, matching prior year actual revenues. This is \$6.3 million (17.6%) above budget. The increase over budget reflects the impact of stronger than expected jobs growth.

**Local Sales Tax** revenues are projected to be \$4.3 million (3.2%) above budget, and \$6.7 million (5.0%) over prior year actual revenues. FY 2014-15 average growth in the first two quarters is 5.0% over the same period prior year mainly due to increased taxable sales from construction and business-to-business transactions. This growth is projected to continue in the remaining quarters, ending with 5.0% above prior year actual sales tax revenue.

**Hotel Room Tax** revenues are projected to be \$18.8 million (5.9%) above budget and \$27.1 million (8.7%) over prior year actual revenues. The increase is partly due to improved hotel room tax collections enabled by recently passed legislation around the regulation of short-term rentals. In addition, San Francisco is expected to see strong economic performance from its hospitality sector.

The average monthly increase in Revenue per Available Room (RevPAR), which is the combined effect of occupancy, average daily room rates, and room supply, during the first five months of FY 2014-15 was approximately 8.8% over the same period prior year, and though it is

a slower rate of growth than prior years, room rates are at an all-time high of approximately \$245 per night. RevPAR growth has increased annually by more than 10% in each of the last four years: 14% in FY 2013-14, 11% in FY 2012-13, 15% in FY 2011-12 and 15% in FY 2010-11.

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. Final year-end revenue will be either greater or less than our projection depending on developments with these lawsuits.

**Utility Users Tax** revenues are projected to be \$91.7 million, meeting budget expectations. Revenues are projected to be \$4.9 million (5.7%) over prior year actual revenues. Telephone user tax revenues are projected to increase by 5.0% over prior year and gas and electric revenues are projected to increase by 6.3%. Water user tax revenue represents a small portion of overall utility users tax but is projected to increase by 6.0% from prior year.

**Parking Tax** revenues are projected to be equal to budget and \$1.4 million (1.7%) over prior year revenues. Continued growth in business activity and employment, as reflected in increases to business registration, payroll and sales tax projections, is driving increases in parking tax revenues from the prior year. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit under Charter Section 16.1110.

**Real Property Transfer Tax** revenues are projected to be \$32.0 million (13.6 %) above budget and \$5.1 million (1.9%) above prior year actual revenues. Strong demand from institutional investors and owner-users for San Francisco real estate across all property types (office, hotel, retail, and residential) has continued from the prior year into FY 2014-15. This is due in large part to the continued growth of underlying market fundamentals, such as strong tenant demand, rental rates, and occupancy rates, and the relative attractiveness of San Francisco real estate compared with other investment options worldwide.

Transfer tax revenue is one of the General Fund's most volatile sources and is highly dependent on a number of factors, including investor interest, economic cycles, interest rates, property values and credit availability, all of which have been favorable for San Francisco commercial and residential real estate in the past three years. The composition of sales in the first six months of the fiscal year was heavily concentrated on high value sales as 62 percent of transfer tax revenue was generated from property sales in excess of \$10 million, a 21 percent increase over the same period in FY 2013-14. The number of sales in the first two quarters of the fiscal year is expected to outpace that of the final two quarters.

**Access Line Tax** revenues are projected to be \$1.7 million (3.8%) above budget, and \$0.9 million (2.0%) above prior year actual revenues. Growth is consistent telephone utility user tax revenue increases and reflects similar underlying growth in business activity.

**Interest & Investment** revenues are projected to be \$2.0 million (29.8%) above budget in the General Fund and \$1.2 million below prior year actual revenues. Average monthly pooled interest rates were higher than budgeted, and revenues through December were above budgeted amounts due to increased cash in the pool. However, pooled interest rates are

anticipated to trend lower than the prior year for the last two quarters of the fiscal year. The revenue surplus is net of a reduction in interest revenue of \$0.9 million allocated to the Treasurer-Tax Collector (TTX) because of expenditure savings. TTX only receives interest revenue up to the level of eligible expenditures. Any reductions to TTX interest revenue become unallocated General Fund interest revenue.

**State and Federal Grants and Subventions** are projected to be \$16.3 million below budget primarily due to \$9.7 million in reductions to CalWORKs childcare subsidies as a result of lower than expected caseloads and the State not funding an expected childcare subsidy; \$6.2 million in reductions to state health and mental subventions including \$5.0 million in reductions to Short Doyle funding and \$1.2 million in reductions Medi-Cal Administrative and Targeted Case Management subventions at the Department of Public Health; and reductions to multiple Social Service Subventions and CalWORKs Realignment revenue primarily as a result of expenditure savings at the Human Services Agency totaling \$4.1 million. These reductions are partially offset by: an increase of \$1.4 million over budget from a federal reimbursement for the Fourth Street Bridget construction; a \$1.3 million surplus is projected in 1991 Health and Welfare realignment revenue due to an unbudgeted one-time payment of sales tax adjustments (\$1.4 million) and mental health base payments (\$2.7 million), which are partially offset by the loss of caseload payments from FY 13-14 growth; and, an increase of \$1.1 million in public safety sales tax receipts primarily due to a one-time allocation correction for multiple years.

## Appendix 2. General Fund Department Budget Projections

**Table A2-1. General Fund Supported Operations (\$ millions)** *Note: Figures may not sum due to rounding*

<b>GENERAL FUND (\$ millions)</b>	<b>Uses Revised Budget</b>	<b>Uses Projected Year-End</b>	<b>Revenue Surplus/ (Shortfall)</b>	<b>Uses Savings/ (Deficit)</b>	<b>Net Surplus/ (Deficit)</b>	<b>Notes</b>
<b>PUBLIC PROTECTION</b>						
Adult Probation	33.3	33.1	-	0.3	0.3	1
Superior Court	32.0	32.0	-	-	-	
District Attorney	39.6	39.6	-	-	-	
Emergency Management	45.6	45.6	-	-	-	2
Fire Department	319.2	319.2	(4.3)	-	(4.3)	3
Juvenile Probation	36.9	36.6	-	0.3	0.3	4
Public Defender	30.1	29.8	-	0.3	0.3	5
Police	464.0	464.0	(0.7)	-	(0.7)	6
Sheriff	174.1	174.1	(0.1)	-	(0.1)	7
<b>PUBLIC WORKS, TRANSPORTATION &amp; COMMERCE</b>						
Public Works	37.9	38.1	1.7	(0.2)	1.5	8
Economic & Workforce Development	27.9	27.9	0.5	-	0.5	9
Board of Appeals	1.0	1.0	-	-	-	
<b>HUMAN WELFARE &amp; NEIGHBORHOOD DEVELOPMENT</b>						
Children, Youth & Their Families	32.8	32.8	-	-	-	
Human Services Agency	748.4	720.5	(14.4)	27.9	13.5	10
Environment	-	-	-	-	-	
Human Rights Commission	2.4	2.4	-	-	-	
County Education Office	0.1	0.1	-	-	-	
Status of Women	5.7	5.7	-	-	-	
<b>COMMUNITY HEALTH</b>						
Public Health Total	1,071.3	1,066.7	(10.6)	18.1	7.5	11
<b>CULTURE &amp; RECREATION</b>						
Asian Art Museum	9.0	9.0	-	-	-	
Arts Commission	5.8	5.8	-	-	-	
Fine Arts Museum	13.5	13.5	-	-	-	
Law Library	1.5	1.5	-	-	-	
Recreation and Park	81.7	81.7	-	-	-	
Academy of Sciences	4.5	4.5	-	-	-	
<b>GENERAL ADMINISTRATION &amp; FINANCE</b>						
City Administrator	51.9	51.1	0.2	0.8	1.0	12
Assessor / Recorder	16.6	15.8	(0.9)	0.9	-	13
Board of Supervisors	13.6	13.3	-	0.3	0.3	14
City Attorney	9.4	9.3	(0.5)	0.1	(0.4)	15
Controller	13.4	13.4	-	-	-	
City Planning	30.5	30.5	1.4	-	1.4	16
Civil Service Commission	0.8	0.8	-	-	-	
Ethics Commission	2.6	2.6	-	-	-	
Human Resources	11.6	11.6	-	-	-	
Health Service System	0.6	0.2	-	0.4	0.4	17
Mayor	16.1	16.1	-	-	-	
Elections	13.3	12.7	0.1	0.7	0.8	18
Retirement System	-	-	-	-	-	
Technology	2.1	2.1	-	-	-	
Treasurer/Tax Collector	26.4	24.6	(0.9)	1.8	1.0	19
<b>GENERAL CITY RESPONSIBILITIES</b>	<b>290.5</b>	<b>279.5</b>	<b>-</b>	<b>11.0</b>	<b>11.0</b>	<b>20</b>
<b>TOTAL GENERAL FUND</b>	<b>3,718.5</b>	<b>3,669.4</b>	<b>(28.4)</b>	<b>62.6</b>	<b>34.2</b>	

## ***Notes to General Fund Department Budget Projections***

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The following notes provide explanations for the projected variances for select departments' actual revenues and expenditures compared to the revised budget.

### **1. Adult Probation**

The Adult Probation Department projects to end the fiscal year with a net surplus of \$0.3 million primarily due to lower than expected salary and benefits costs in the current hiring plan.

### **2. Emergency Management**

The Department of Emergency Management projects that it will end the fiscal year within budget. A supplemental reappropriation will be requested to transfer salary and benefit savings to support a projected shortfall in overtime expenditures, per Administrative Code section 3.2. The overtime spending increases are mainly due to maintaining minimum staffing requirements and improving emergency call response times.

### **3. Fire Department**

The Fire Department currently projects a net shortfall of \$4.3 million. This deficit is a result of a net revenue deficit of \$4.3 million, due to a shortfall in Ground Emergency Medical Transport (GEMT) ambulance fee reimbursement and net insurance revenue of \$5.0 million, partially offset by a \$0.7 million surplus of other revenue and fees, including overtime service and plan check fees.

Expenditures are expected to be within budget. A supplemental request to reappropriate regular salaries and benefit savings to overtime expenses at the Port and Airport is expected, pursuant to Administrative Code Section 3.2.

### **4. Juvenile Probation**

The Juvenile Probation Department projects to end the fiscal year with a net surplus of \$0.3 million due to expected salary and benefit savings of \$0.4 million partially offset by over expenditure of \$0.1 million in workers compensation.

### **5. Public Defender**

The Public Defender projects to end the fiscal year with a net surplus of \$0.3 million, primarily due to delayed hiring, vacant positions and employees on unpaid leave.

### **6. Police Department**

The Police Department projects a net shortfall of \$0.7 million due to parking garage permits, false alarm response, and other public safety fee revenue weakness. Expenditures are expected to be within budget.

### **7. Sheriff**

The Sheriff's Department is projected to end the fiscal year with a net deficit of \$0.1 million due to a projected revenue shortfall. This is due to a \$0.8 million shortfall in State revenue from a lower than expected re-entry pod prisoner population, largely offset by a projected \$0.7 million surplus in other revenues, including those from housing prisoners for the U.S. Marshalls Service. Net expenditures are projected to be on budget, however significant over expenditures of \$3.9 million in overtime pay and \$0.5 million in premium pay are expected to be offset by savings in permanent salary and benefits, as well as \$0.5 million in advanced disability reimbursement from the State, and \$0.2 million in one-time expenditure reductions.



In order to ensure the Department stays within budget, the Controller's Office is reviewing requests to fill positions, and has also placed \$0.8 million of capital, non-personnel, and materials and supplies expenditure appropriations on reserve. These reserves may be liquidated or released as appropriate, based upon the realization of overall spending projections, including overtime and materials savings through the remainder of the fiscal year. The Department and Controller's Office will continue to work closely together to monitor and adjust spending to remain within budget. The Department will request a supplemental to re-appropriate permanent salaries to overtime salaries.

#### **8. Public Works**

The Department of Public Works projects a net surplus of \$1.5 million. This surplus is primarily due to \$1.7 million in additional revenues, including \$1.4 million more than budget in reimbursements for prior year work on the Fourth Street Bridge, and \$0.1 million in higher than expected revenues for street space permits and right of way assessments.

#### **9. Economic and Workforce Development**

The Office of Economic and Workforce Development projects to end the year with a net surplus of \$0.5 million mainly due to unanticipated Enterprise Zone revenues from the State's extension for businesses to apply for tax credits.

#### **10. Human Services Agency**

The Human Services Agency projects to end the fiscal year with a \$13.5 million surplus due to \$27.9 million projected expenditure savings, which is offset by \$14.4 million lower than budgeted revenue. Overall expenditure savings are comprised of \$8.9 million in childcare support, \$8.6 million in other aid and assistance, \$3.0 million in in-home supportive services, \$2.3 million in foster care and adoption support, and \$5.1 million in all other programs. An overall revenue shortfall is due to \$9.7 million in reductions in child care support, \$2.1 million less in in-home supportive services revenue, \$1.8 million lower than budget in foster care and adoption support, and \$3.4 million less in all other programs, slightly offset by \$2.6 million in increased revenue from all other aid and assistance programs. Projections do not assume changes to revenue or expenditures from the Title IV-E waiver recently approved by the state.

##### ***Child Care Support***

The State's proposed funding of CalWORKs Stage 3 Childcare subsidies through county welfare departments was not enacted, resulting in over-budgeting of both expenditure and revenue by \$6.8 million. CalWORKs Stage 1 and 2 Childcare have expenditure and revenue savings of \$2.1 million, due to lower than expected caseloads. Additionally, the State reduced the Stage 1 Childcare revenue allocation by \$0.8 million. A net childcare shortfall of \$0.8 million is projected.

##### ***In-Home Supportive Services***

The In-Home Supportive Services Program is projecting expenditure savings of \$3.0 million due to lower than expected contract costs and Maintenance of Effort amount. This is offset by \$2.1 million in reduced revenue, for a net savings of \$0.9 million.

##### ***Aid Assistance Programs***

Lower than expected caseloads across the County Adult Assistance and in the CalWORKs programs result in combined expenditure savings of \$8.6 million and associated revenue shortfalls of \$2.6 million, for a net surplus of \$11.2 million.

**Foster Care and Adoptions**

Lower than expected caseloads across Foster Care and Adoptions also results in projected expenditure savings of \$2.3 million and associated revenue shortfalls of \$1.8 million, for a net surplus of \$0.5 million

**Other Programs**

The JOBS NOW subsidized employment program is projecting expenditure savings of \$0.4 million due to lower than expected caseloads. This program has experienced a shift in client mix, with fewer CalWORKs clients and more CAAP clients, resulting in a projected loss of revenue of \$1.8 million, and a net deficit of \$1.4 million. In the Medi-Cal program, the Governor’s proposed budget includes an additional \$150 million statewide for the continued implementation of the Affordable Care Act, which would result in an additional \$8.1 million of revenue for San Francisco. In other aid program net savings of \$4.1 million are projected primarily due to salary and benefits savings of \$4.0 million due to hiring delays, contract under-expenditures of \$4.0 million, and \$1.1 million in additional program savings, partially offset by a combined projected revenue shortfall of \$4.1 million. Net savings of \$1.7 million is projected for all other programs by year-end.

**Table A2.2. Human Services Agency (\$ Millions)**

<b>Program</b>	<b>Sources Surplus / (Shortfall)</b>	<b>Uses Savings / (Deficit)</b>	<b>Net Surplus / (Deficit)</b>
In Home Supportive Services (IHSS)	(2.1)	3.0	0.9
Foster Care & Adoption Support	(1.8)	2.3	0.5
Child Care Support	(9.7)	8.9	(0.8)
Other Aid Assistance/Programs	2.6	8.6	11.2
All Other Programs	(3.4)	5.1	1.7
<b>Total All Programs</b>	<b>\$ (14.4)</b>	<b>\$ 27.9</b>	<b>\$ 13.5</b>

**11. Public Health**

The Department of Public Health projects to end the fiscal year with a net General Fund surplus of \$7.5 million. Overall department revenues are projected to be \$10.6 million less than budgeted, and expenditures are projected to be \$18.1 million less than budgeted.

**Table A2.3. Department of Public Health by Fund (\$ Millions)**

<b>Fund</b>	<b>Sources Surplus/ (Shortfall)</b>	<b>Uses Savings/ (Deficit)</b>	<b>Net Surplus/ (Shortfall)</b>
Public Health General Fund	(2.7)	7.1	4.4
Laguna Honda Hospital	9.1	(2.4)	6.6
San Francisco General Hospital	(17.0)	13.5	(3.5)
<b>Total</b>	<b>(10.6)</b>	<b>18.1</b>	<b>7.5</b>

### ***Public Health General Fund***

Department of Public Health General Fund programs, including Primary Care, Mental Health, Substance Abuse, Jail Health, and Population Health & Prevention, have a combined revenue shortfall of \$2.7 million. This includes \$5.0 million less than expected reimbursement from Short Doyle Medi-Cal for Mental Health, \$2.2 million less than budgeted revenue in the Population Health Division due to reduced revenues for the Medi-Cal Administrative Activities and Targeted Case Management programs, and \$1.0 million less than budgeted due to the delay in sale of property. These revenue shortfalls are partially offset by Primary Care revenues \$4.5 million above budget due to higher than expected revenues from the Medi-Cal expansion under the Affordable Care Act (ACA) and \$1.0 million in other surpluses. Expenditures are expected to be \$7.1 million below budget, primarily due to delays in hiring new positions budgeted to improve compliance with primary care access standards under the ACA.

In addition, projections assume \$32.0 million in reserved Disproportionate Share Hospital revenue received in FY 2013-14 will be repaid to the state in the form of reductions to indigent care funding (1991 Realignment) as the state adjusts these payments to reflect previously uninsured clients that are now enrolled in insurance plans due to the Affordable Care Act (ACA).

### ***Laguna Honda Hospital***

The Department projects a \$6.6 million net surplus for Laguna Honda Hospital. The department projects a revenue surplus of \$9.1 million due to \$4.6 million in lower-than-anticipated growth in unbillable patient days for Medi-Cal Managed Care recipients, and \$4.5 million from increased patient census and recovery of Distinct Part Nursing Facility supplemental revenues. Laguna Honda also projects \$2.4 million in expenditures above budget, due to under-budgeting of fringe benefit costs and expansion of health insurance coverage for temporary employees.

### ***San Francisco General Hospital***

The Department projects \$3.5 million deficit for San Francisco General Hospital. Revenues are \$17.0 million below budget. SFGH projects a \$34.5 million unfavorable variance in capitation revenues, due to capitation rates lower than budget. This shortfall is offset by a \$17.5 million surplus in patient service revenues due to a slower than anticipated decline in fee-for-service revenues associated with the transition of Medi-Cal recipients to managed care, the continued implementation of presumptive eligibility for Medi-Cal, and an increased per diem rate for Medi-Cal inpatient services.

Expenditures are projected to be below budget by \$13.5 million. SFGH projects \$7.9 million of savings in operating transfers out due to lower than budgeted intergovernmental transfers to pay the non-federal share for supplemental revenue programs, and a \$6.4 surplus in salary and fringe benefits, due to delays in hiring positions not backfilled with per diem or overtime staffing, such as information technology, clerical, and interpreter positions. A supplemental reappropriation will be needed to transfer salary and benefit savings to support a projected shortfall in overtime expenditures.

## **12. City Administrator**

The City Administrator projects a net \$1.0 million surplus at year end. A revenue surplus of \$0.2 million is projected due to higher than expected medical examiner fees and City Hall event fees, offset by other revenue shortfalls including lower than expected labor standards enforcement penalties. Expenditure savings of \$0.8 million are projected from lower than

budgeted salary and benefits expenditures across programs, including Animal Care and Control and the Medical Examiner's Office, offset by higher than budgeted expenditures facilities management. This expenditure surplus assumes that a negative fund balance of \$0.8 million in the Neighborhood Beautification Fund (which houses the Community Challenge Grant program) is cleared by year end.

**13. Assessor Recorder**

The Assessor Recorder projects to end the fiscal year within budget. The Department projects a revenue shortfall of \$0.9 million primarily due to slower growth in the collection of recording fees compared to the prior year, offset by \$0.9 million in expenditure savings due mainly to hiring delays.

**14. Board of Supervisors**

The Board of Supervisors projects \$0.3 million surplus at the end of the fiscal year, mainly from salary and benefit savings due to vacancies.

**15. City Attorney**

The City Attorney's Office projects a net \$0.4 million year-end shortfall, based on an anticipated revenue shortfall of \$0.5 million partially offset by \$0.1 million in net expenditure savings. The revenue shortfall is largely due to \$0.5 million less revenue from the Office of Community Investment and Infrastructure due to lower than budgeted legal support needs. Net expenditure savings of \$0.1 million includes \$2.6 million in salary and benefits and other expenditure savings, offset by nonpersonnel expenditure overages of \$0.7 million and \$1.8 million in work order shortfalls. Increases to work order recoveries in the second half of the year may address the projected shortfall.

**16. City Planning**

The City Planning Department projects to end the year with a net surplus of \$1.4 million, due to a revenue surplus from planning application and building permit fees. This surplus is net of a \$3.0 million transfer of fee revenue to support the caseload backlog reduction project in FY 2014-15.

**17. Health Service System**

The Health Service System projects a \$0.4 million surplus at the end of the fiscal year, mainly from salary and benefit savings due to delays in hiring.

**18. Elections**

The Department of Elections is projecting a net surplus of \$0.8 million due to a revenue surplus of \$0.1 million and an expenditure surplus of \$0.7 million. The revenue surplus is comprised primarily of ballot argument fees and county candidate filing fees above budgeted amounts. The expenditure surplus is due to increased expenditure recoveries and overall salary and benefit savings.

**19. Treasurer/Tax Collector**

The Treasurer/Tax Collector (TTX) projects to end the year with a net surplus of \$1.0 million, primarily due to expenditure savings, offset by lower than budgeted interest revenue. Expenditure savings consist of \$1.8 million in anticipated salary and benefit and nonpersonnel costs. The Department also projects a \$0.2 million increase in delinquent revenue collections, offset by a \$1.1 million reduction to interest revenue as described in the Interest and Investment Income section of Appendix 1.

## **20. General City Responsibility**

General City Responsibility contains funds that are allocated for use across various City departments. Savings of \$11.0 million are projected due to updated information about the City's exposure to legal claims. Most notably, in December 2014, the City received a ruling in its favor in a class action suit brought on behalf of disabled individuals regarding ADA access. Projections assume that appropriations for nonprofit COLAs are used to pay for the minimum wage increase approved by voters in November 2014, as was reflected in the proposed Five Year Financial Plan issued on December 9, 2014.

## Appendix 3. Status of Reserves

Various code and Charter provisions govern the establishment and use of reserves. Reserve uses, deposits, and projected year-end balances are displayed in Table A3.1 and discussed in detail below. Table A3.1 also includes deposits and withdrawals included in the approved FY 2015-16 budget.

**Table A3.1 Reserve Balances (\$ millions)**

	FY 2014-15				FY 2015-16		
	Starting Balance	Projected Deposits	Projected Withdrawals	Projected Ending Balance	Budgeted Deposits	Budgeted Withdrawals	Projected Ending Balance
General Reserve	\$ 58.0	\$ -	\$ (20.3)	\$ 37.7	\$ 11.5	\$ -	\$ 49.2
Budget Savings Incentive Fund	32.1	6.3	(28.4)	10.0	-	-	10.0
Recreation & Parks Savings Incentive Reserve	12.9	-	(5.9)	6.9	-	(1.8)	5.2
Rainy Day Economic Stabilization Reserve	60.3	(49.2)	(11.1)	-	-	-	-
City Reserve	n/a	24.6	-	24.6	-	-	24.6
School Reserve	n/a	24.6	-	24.6	-	-	24.6
Rainy Day One-Time Reserve	22.9	-	(12.2)	10.7	-	(2.7)	8.0
Budget Stabilization Reserve	132.3	35.8	-	168.1	-	-	168.1
Salary and Benefits Reserve	24.3	-	(24.3)	-	14.0	(14.0)	-
<b>Total</b>	<b>342.7</b>	<b>42.1</b>	<b>(102.3)</b>	<b>282.5</b>	<b>25.5</b>	<b>(18.5)</b>	<b>289.5</b>

**General Reserve:** To date, supplemental appropriations of \$2.1 million for legal support for unaccompanied immigrant youth and \$0.3 million for HIV prevention have been approved, and there is a pending supplemental appropriation of \$3.4 million of General Reserve for cost of doing business increases for nonprofit organization contractors. In addition, this projection assumes the use of the General Reserve to offset the anticipated \$14.5 million shortfall in Transferable Development Rights (TDR) revenue appropriated in FY 2013-14 to support the War Memorial rebuild project, for a total Reserve use of \$20.3 million. The remaining \$37.7 million will be carried forward to FY 2015-16. The approved budget includes an \$11.5 million deposit to the reserve in FY 2015-16, which will have to be increased by \$20.3 million as discussed in section B of the report above.

Pursuant to a financial policy approved by the Board of Supervisors in 2011 and codified in Administrative Code Section 10.60(b), year-end balances in the General Reserve are carried forward into subsequent years and thereby reduce the amount of future appropriations required to support minimum reserve requirements established by the policy. For FY 2014-15 and FY 2015-16, the policy requires the General Reserve to be no less than 1.5% and 1.75% of budgeted regular General Fund revenues, respectively. The current balance of the reserve is \$55.6 million.

**Budget Savings Incentive Fund:** The Citywide Budget Savings Incentive Fund (authorized by Administrative Code Section 10.20) receives 25% of year-end departmental expenditure savings to be available for one-time expenditures, unless the Controller determines that the City's financial condition cannot support deposits into the fund. At FY 2013-14 year end, the Reserve balance was \$32.1 million. Projected deposits of \$6.3 million and budgeted uses of \$28.4 million result in a projected year end balance of \$10.0 million. The current budget did not appropriate any of the balance for use in FY 2015-16.

**Recreation and Parks Savings Incentive Reserve:** The Recreation and Parks Saving Incentive Reserve, established by Charter Section 16.107(c), is funded by the retention of year-end new revenue and net expenditure savings by the Recreation and Parks Department. This Reserve ended FY 2013-14 with \$12.9 million, of which \$5.9 million was appropriated for FY 2014-15 uses. No deposits are projected for the current fiscal year, leaving a projected ending balance of \$6.9 million. Note that the current budget also appropriated \$1.8 million in uses for FY 2015-16.

**Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes a Rainy Day Economic Stabilization Reserve funded by 50% of excess of revenue growth in good years, which can be used to support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline. The Rainy Day Economic Stabilization Reserve began the year with \$60.3 million. A budgeted \$11.1 million withdrawal from the Reserve for the benefit of the San Francisco Unified School District to offset the impact of declines in inflation-adjusted per pupil revenue results in a balance of \$49.2 million.

Charter Section 9.113.5 was amended in November 2014 with the passage of Proposition C, which replaced the Rainy Day Economic Stabilization Reserve with two separate reserves—the School Reserve and the City Reserve. Each reserve is funded with \$24.6 million, or 50% of the \$49.2 million balance of the Rainy Day Economic Stabilization Reserve as of January 1, 2015. Of the excess revenue growth formerly deposited to the Rainy Day Economic Stabilization Reserve, 75% will be deposited to the City Reserve and 25% to the School Reserve. No deposits or withdrawals are currently projected. The approved FY 2015-16 budget included a draw of \$8.31 million for the benefit of the School District, however, this withdrawal has now been superseded by the provisions of Proposition C.

**Rainy Day One-Time Reserve:** Charter Section 9.113.5 establishes a Rainy Day One-Time Reserve funded by 25% of excess revenue growth, which can be used for one-time expenses. This Reserve began the year with \$22.9 million. A budgeted withdrawal of \$12.2 million results in a projected year-end balance of \$10.7 million. The FY 2015-16 budget includes a use of \$2.7 million.

Any increases to revenues during the remainder of the fiscal year would result in deposits of 75% of such revenue to the Rainy Day Reserve as described in this section.

**Budget Stabilization Reserve:** Established in 2010 by Administrative Code Section 10.60(c), the Budget Stabilization reserve augments the Rainy Day Economic Stabilization Reserve. The Budget Stabilization Reserve is funded by the deposit each year of 75% of real property transfer taxes above the prior five year average (adjusted for policy changes) and ending unassigned fund balance above that appropriated as a source in the subsequent year's budget. The current balance of the Reserve is \$132.3 million, and the budget assumed a \$19.1 million deposit in FY 2014-15. The adjustment for rate increases in November 2010 has increased due to updated data about the tax rates at which transactions are occurring, resulting in a projected increase in the deposit of \$16.7 million. The projected ending balance for FY 2014-15 is \$168.1 million.

**Salary and Benefits Reserve:** Administrative Provisions Section 10.4 of the Annual Appropriation Ordinance (AAO) authorizes the Controller to transfer funds from the Salary and Benefits Reserve, or any legally available funds, to adjust appropriations for employee salaries and related benefits for collective bargaining agreements adopted by the Board of Supervisors. The Salary and Benefits Reserve had a fiscal year starting balance of \$24.3 million (\$10.0 million carried forward from FY 2013-14 and \$14.3 million appropriated in the FY 2014-15 budget). As of February 6, 2015, the Controller's Office has transferred \$1.7 million to City departments and anticipates transferring the remaining amount to City departments by year-end, as detailed in Appendix 4. The approved budget for FY 2015-16 assumes the use of \$14.0 million from this reserve.



## Appendix 4. Salary and Benefits Reserve Update

Table A4-1. Salary and Benefits Reserve (\$ millions)

<b>Sources</b>	
Adopted AAO Salary and Benefits Reserve	\$ 14.3
Carryforward balance from FY 2013-14	10.0
<b>Total Sources</b>	<b>24.3</b>
<b>Uses</b>	
<b>Transfers to Departments</b>	
SEIU as needed temporary employees healthcare (Q1 & Q2)	1.1
Training and development	0.3
Paperless pay implementation	0.1
SEIU Local 250 Life Insurance premiums	0.2
Visual Display Terminal Insurance (Q1 & Q2)	0.1
<b>Total Transfers to Departments</b>	<b>1.7</b>
<b>Anticipated Allocations</b>	
Public Safety, including wellness, premium, and one-time payouts	13.2
Citywide Premium, Retirement and Severance payouts	1.0
Various Training, Tuition, and Other Reimbursements	1.6
Retiree Health	1.6
SEIU as needed temporary employees healthcare (Q3 & Q4)	0.7
Surviving Spouse benefits	0.7
Citywide Retirement	3.7
SEIU Local 250 Life Insurance premiums	0.2
Visual Display Terminal Insurance (Q3 & Q4)	0.1
<b>Total Anticipated Allocations</b>	<b>22.7</b>
<b>Total Uses</b>	<b>24.3</b>
<b>Net Surplus / (Shortfall)</b>	<b>\$ -</b>

## Appendix 5. Other Funds Highlights

Table A5-1. Other Fund Highlights, \$ Millions

	Prior Year		FY 2014-15					Estimated Year-end Fund Balance	Note
	FY 2013-14 Year-End Available Fund Balance	Fund Balance Used in FY 14-15 Budget	Starting Available Fund Balance	Sources Surplus / (Shortfall)	Uses Savings / (Deficit)	Net Operating Surplus / (Deficit)			
<b><u>SELECT SPECIAL REVENUE AND INTERNAL SERVICES FUNDS</u></b>									
Building Inspection Operating Fund	\$56.3	\$26.2	\$30.1	\$2.3	\$5.3	\$7.7	\$37.8	1	
Children's Fund	\$4.6	\$4.7	(\$0.1)	\$1.3	\$0.2	\$1.5	\$1.4	2	
Public Education Special Fund	\$8.0	\$2.9	\$5.1	\$0.0	\$1.1	\$1.1	\$6.2	3	
Convention Facilities Fund	\$30.6	\$10.5	\$20.1	\$0.3	\$3.8	\$4.1	\$24.2	4	
Golf Fund	\$0.9	\$0.0	\$0.9	\$0.0	\$0.0	\$0.0	\$0.9	5	
Library Preservation Fund	\$20.4	\$3.4	\$17.0	\$0.7	\$3.2	\$3.8	\$20.8	6	
Local Courthouse Construction Fund	\$0.2	\$0.0	\$0.2	(\$0.3)	\$0.1	(\$0.3)	(\$0.1)	7	
Open Space Fund	\$7.0	\$0.9	\$6.2	\$0.0	\$1.4	\$1.4	\$7.6	8	
Telecomm. & Information Systems Fund	\$8.5	\$4.0	\$4.5	\$1.7	\$0.0	\$1.7	\$6.2	9	
General Services Agency-Central Shops Fund	\$1.1	\$0.0	\$1.1	\$0.0	\$0.0	\$0.0	\$1.1	10	
Arts Commission Street Artist Fund	(\$0.1)	\$0.0	(\$0.1)	(\$0.2)	\$0.0	(\$0.2)	(\$0.3)	11	
War Memorial Fund	\$2.8	\$1.4	\$1.4	\$0.0	\$0.1	\$0.1	\$1.5	12	
Gas Tax Fund	\$4.6	\$0.0	\$4.6	(\$2.5)	\$0.0	(\$2.5)	\$2.0	13	
Neighborhood Beautification Fund	(\$0.8)	\$0.0	(\$0.8)	\$0.0	\$0.8	\$0.8	\$0.0	14	
<b><u>SELECT ENTERPRISE FUNDS</u></b>									
Airport Operating Fund	\$93.6	\$58.5	\$35.1	(\$2.1)	\$51.8	\$49.7	\$84.8	15	
MTA – Operating Funds	\$185.3	\$20.0	\$165.3	\$14.0	\$0.1	\$14.1	\$179.4	16	
Port Operating Fund	\$27.3	\$12.3	\$15.0	\$2.3	\$3.2	\$5.5	\$20.5	17	
PUC – Hetch Hetchy Operating Fund	\$33.4	\$0.0	\$33.4	(\$16.3)	\$14.2	(\$2.1)	\$31.3	18	
PUC – Wastewater Operating Fund	\$111.2	\$0.0	\$111.2	(\$23.1)	\$21.8	(\$1.3)	\$109.9	19	
PUC – Water Operating Fund	\$228.5	\$50.6	\$177.9	(\$41.1)	\$7.6	(\$33.5)	\$144.4	20	
DPH – Laguna Honda Debt Service Fund	\$21.8	\$0.0	\$21.8	\$0.0	\$0.0	\$0.0	\$21.8	21	

**Select Special Revenue & Internal Services Funds**

**1. Building Inspection Fund**

The Building Inspection Department operating fund began the year with \$30.1 million in available fund balance with \$26.2 million appropriated in the current year. The Department projects a \$2.3 million surplus in operating revenues due to higher than expected permit volumes, and expenditures to be \$5.3 million under budget largely due to salary savings, resulting in a projected fiscal year-end available fund balance of \$37.8 million.

**2. Children's Fund**

The Children's Fund began the fiscal year with a negative fund balance of \$0.1 million. Current year revenues are projected to be \$1.3 million better than budget due to estimated increases in property tax set-aside revenue, and \$0.2 million savings in grant expenditures. The projected fiscal year-end available fund balance is \$1.4 million.

**3. Children's Fund – Public Education Special Fund**

The Public Education Special Fund began the fiscal year with \$5.1 million in available fund balance. Decreases in City Grant expenditures of \$1.1 million result in a projected fiscal year-end available fund balance is \$6.2 million.

**4. Convention Facilities Fund**

The Convention Facilities Fund began the fiscal year with \$20.1 million in available fund balance, as \$10.5 million of the prior year ending balance was appropriated in the current year. A revenue surplus in rents and concessions of \$0.3 million, work order savings of \$0.3 million and \$3.5 million in debt service savings are projected, resulting in a projected fiscal year-end available fund balance of \$24.2 million.

**5. Golf Fund**

The Golf Fund began the fiscal year with \$0.9 million in available fund balance. The Recreation and Parks Department projects revenues and expenses to be on budget. The Department expects a \$0.5 million salary and benefit deficit to be offset by savings in non-labor expenditures and no change to fund balance is expected at year-end.

**6. Library Preservation Fund**

The Library Preservation Fund began the fiscal year with \$20.4 million in available fund balance. The Department projects a revenue surplus of \$1.3 million including a \$2.2 million improvement to General Fund baseline contributions and \$0.9 million in reduced property taxes, library services and lease revenue. This is supplemented by a \$3.2 million reduction in expenditures on both salaries and non-personnel services. This revenue surplus and expenditure savings results in a return of \$0.6 million to the General Fund, or the portion of net savings attributable to the baseline transfer. The net result is a projected fiscal year end available fund balance of \$20.8 million.

**7. Local Courthouse Construction Fund**

The Local Courthouse Construction Fund began the year with a fund balance of \$0.2 million. Despite debt service restructuring which reduced the FY 2014-15 annual debt service payment from \$4.2 million to \$2.8 million, a \$0.3 million revenue shortfall and \$0.1 expenditure saving will result in an anticipated fund balance shortfall of \$0.1 million.

**8. Open Space Fund**

The Open Space Fund began the fiscal year with \$6.2 million in available fund balance. The Department projects an expenditure surplus of \$1.4 million and revenues to be on budget resulting in a projected fiscal year-end available fund balance of \$7.6 million.

**9. Telecommunication & Information Services Fund**

The Telecommunication & Information Services Fund began the fiscal year with an available fund balance of \$4.5 million. The Department projects a \$1.7 million revenue surplus, resulting in a fiscal year-end available fund balance of \$6.2 million.

**10. Central Shops Fund**

The Central Shops fund began the year with an available fund balance of \$1.1 million. Savings from lower gas prices will be passed on to departments, resulting in both reduced expenses and recoveries, and no net change to fund balance.

**11. Arts Commission Street Artist Fund**

The Street Artist Program Fund began the fiscal year with a fund balance shortfall of \$0.1 million. The Department projects that revenues will be below budget by \$0.2 million and expenditures within budget, leading to an estimated year-end fund balance shortfall of \$0.3 million. The Controller's Office and the Department will continue to work to identify a solution to address the shortfall.

**12. War Memorial Fund**

The War Memorial Fund began the fiscal year with a fund balance of \$1.4 million. The Department projects revenues on budget and expenditure savings of \$0.1 million, resulting in a projected year end fund balance of \$1.5 million.

**13. Gas Tax Fund**

The Gas Tax fund began the year with an available fund balance of \$4.6 million. The Department of Public Works projects a revenue shortfall in the current year, as \$2.5 million in state revenue was budgeted in FY 2014-15 but received at FY 2013-14 year end. Expenditures are on budget, resulting in a projected year end balance of \$2.0 million.

**14. Neighborhood Beautification Fund**

The Neighborhood Beautification Fund (which houses the Community Challenge Grant program) began the year with a \$0.8 million negative fund balance. Tax year 2014 payroll tax revenues allocated to the fund are projected to be on budget at \$1.0 million. This report assumes the Administrative Services Department will close \$0.8 million in expenditure appropriations to clear the negative fund balance by year end.

**Select Enterprise Funds**

**15. Airport Operating Fund**

The Airport began the fiscal year with \$35.1 in available fund balance. The department projects a revenue shortfall of \$2.1 million, and net expenditure savings of \$51.8 million, for

a net operating surplus of \$49.7 million. The revenue projection is comprised of an \$11.3 million shortfall in non-operating revenue, offset by \$9.2 million in increased concessions revenue. This revenue shortfall is projected to be offset by \$51.8 million in expenditure savings, including \$28.6 million in post-employment benefits that will not be needed in the current year, \$11.1 million in non-personnel expenditure savings, \$3.8 million in salary and benefit savings, \$2.2 million in savings in materials and supplies, \$1.8 million less in equipment expenditures, and \$6.4 million in other projected operating budget savings. A fund balance of \$84.8 million is projected by year-end.

#### **16. Municipal Transportation Agency (MTA) Operating Funds**

MTA began the fiscal year with \$165.3 million in available operating fund balance, following appropriation of \$20 million in the FY 2015-16 budget. The Agency is projected to end the year with a net operating surplus of \$14.1 million, resulting in a projected year-end fund balance of \$179.4 million. The Agency projects a revenue surplus of \$13.9 million, including \$3.5 million from parking meter collections, \$2.7 million from parking garage and lot rentals, \$2.1 million from transit fare revenue, \$3.0 million in increased operating grants, \$5.3 million from General Fund baseline transfers, and \$2.3 million in interest earnings and other revenues, offset by a \$5.0 million shortfall in taxi medallion sales.

The Agency projects to end the year with \$0.1 million in expenditure savings. This is comprised of \$4.2 million in labor costs over budget, \$3.2 million savings in non-personnel services and \$1.1 savings in materials and supplies. The \$4.2 million over-expenditure in labor costs is the result of overtime costs, temporary salaries, premium and one-time payment costs exceeding budget by \$24.6 million offset by savings of \$7.6 million in fringe benefits and \$9.8 million in regular salaries as well as \$3.0 million in labor cost recoveries above budget. The \$3.2 million savings in non-personnel services includes \$5.3 million savings in claims and \$5.7 million savings in professional services, partially offset by over expenditures of \$6.0 million in worker's compensation and \$1.8 million in credit card processing fees.

#### **17. Port Operating Fund**

The Port Operating Fund began the fiscal year with \$15.0 million in available fund balance. The Department projects a \$2.3 million revenue surplus due to \$1.8 million in increased real estate revenues from parking and commercial industrial rent revenue, a \$0.1 million surplus due to permits and miscellaneous revenue, and a \$0.4 million increase in maritime revenues. The maritime revenue is a result of a \$0.8 million surplus from dockage and harbor services offset by a \$0.4 shortfall in ship repair due to lower recoveries from the PUC shore-side power rebate program, and cruise revenue due to delays parking and special events at James R. Herman Cruise Terminal at Pier 27.

The Port projects a \$3.2 million expenditure savings consisting of a \$1.0 million savings from annual projects due to the preservation of funds for contingency purposes, such as oil spills and hazardous material clean-up which the Port expects to go without incident, and \$1.1 million in non-personnel savings primarily due to a \$0.5 million in reduced activities and payments to the Port's cargo terminal operator, \$0.3 million savings due to planned delay in the software procurement, and \$0.3 million savings in various professional and maintenance services. Other expenditure savings include salary and benefits savings, projected to be \$0.3 million due to staff vacancies, \$0.5 million in savings from services of other departments, \$0.2 million in savings from materials and supplies, and \$0.1 million savings in debt service as a result of the lower than expected interest rates from the sale of the

revenue bonds. This results in a projected net operating surplus of \$5.5 million and a fiscal-year end available operating fund balance of \$20.5 million.

**18. Public Utilities Commission – Hetch Hetchy Operating Fund**

The Hetch Hetchy Operating Fund began the fiscal year with \$33.4 million in available fund balance. The Department projects a net revenue shortfall of \$16.3 million mainly due to reduced power available for sale as a result of lower Hetch Hetchy hydroelectric generation, less power sales than assumed in budget for the Central Subway tunnel boring project and WSIP construction projects. This shortfall is offset by \$14.2 million in projected expenditure savings, including \$7.6 million in general reserves to go unspent to supplement fund balance and \$4.0 million contingency reserves for power purchases, resulting in a projected net operating deficit of \$2.1 million and year-end fund balance of \$31.3 million.

Hetch Hetchy Water and Power operations are affected by the drought. If drought conditions worsen, it may be necessary to purchase supplemental power to cover the municipal loads.

**19. Public Utilities Commission – Wastewater Operations Fund**

The Wastewater Operations Fund began the fiscal year with \$111.2 million in available fund balance. The Department projects revenue to be \$23.1 million lower than budget mainly due to lower treated flow and water use by customers. The shortfall is offset by \$21.8 million in projected savings from the General Reserve budgeted and planned to go unspent to build up fund balance reserves. This results in a projected net operating deficit of \$1.3 million and a fiscal year-end available fund balance of \$109.9 million.

**20. Public Utilities Commission – Water Operating Fund**

The Water Operating Fund began the fiscal year with a net \$177.9 million in available fund balance. Water Department revenues are projected to be \$41.1 million lower than budget, mainly due to lower water sales. The shortfall is offset by \$7.6 million of expenditure savings primarily from lower debt service costs and general reserve. This results in a projected net deficit of \$33.5 million and a fiscal year-end available fund balance of \$144.4 million.

If California's severe drought conditions persist and result in lower water sales, PUC's reserves will cover much of the revenue loss in the short term. The PUC resets wholesale water rates annually to recover costs of service, so this revenue loss mitigation, along with planned water revenue bond refundings to achieve debt service savings, can reduce future years' use of fund balance.

**21. Public Health – Laguna Honda Hospital Debt Service Fund**

The Laguna Honda Hospital Debt Service Fund was established to account for proceeds from the sale of Certificates of Participation issued to finance the construction of the new Laguna Honda Hospital. Proposition A, passed in November 1999, authorized the sale of debt for this construction and required that the City apply all available tobacco settlement revenues, as well as state and federal funds that are required to be used to fund such facilities, to the debt service costs, so as not to increase property taxes. No deposits to or withdrawals from the fund are projected.

# Appendix 6. Overtime Report

## Appendix 1.

5-Year History of Overtime Spending by Department (\$ Millions)

Department	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15				FY 2014-15 Projection Change from Prior Year Actuals	
	Actual	Actual	Actual	Actual	Revised Budget	July through December 2014	Straight Line Projection	Surplus/ (Deficit)	\$ Million	Percent
	<b>MTA</b>									
Municipal Railway	52.2	53.2	46.3	53.3	35.6	26.2	52.4	(16.8)	(0.8)	-2%
Parking & Traffic	2.1	2.5	2.3	2.4	1.6	1.6	3.3	(1.7)	0.9	28%
Subtotal - MTA	54.3	55.7	48.7	55.6	37.2	27.9	55.7	(18.5)	0.1	0%
<b>Police</b>										
General Fund Operations	13.1	10.7	13.0	14.3	15.5	9.0	18.0	(2.5)	3.7	21%
Special Law Enforcement Services (10B)	8.6	10.4	10.5	10.3	5.3	5.3	10.5	(5.3)	0.2	2%
Grants & Other Non-10B Special Revenues	1.5	2.1	2.4	1.9	2.0	0.8	1.5	0.5	(0.3)	-22%
Airport	1.4	1.8	1.8	1.1	1.5	0.5	1.0	0.5	(0.1)	-9%
Municipal Transportation Agency				0.1	-	0.1	0.1	(0.1)	(0.0)	-20%
Subtotal - Police	24.6	24.9	27.7	27.7	24.2	15.6	31.1	(6.9)	3.5	11%
<b>Public Health</b>										
SF General	4.2	5.1	5.1	5.2	4.5	3.0	6.1	(1.5)	0.9	14%
Laguna Honda Hospital	5.6	5.7	6.4	5.6	6.0	3.0	5.9	0.1	0.3	5%
All Other Non-Hospital Operations	0.8	0.8	1.1	1.2	0.7	0.7	1.4	(0.6)	0.2	15%
Subtotal - Public Health	10.6	11.6	12.6	11.9	11.3	6.7	13.4	(2.1)	1.4	11%
<b>Fire</b>										
General Fund Operations	27.7	32.6	40.4	38.0	35.7	17.0	34.0	1.7	(4.0)	-12%
Grants & Other Special Revenues	-	-	-	0.1	(0.1)	0.2	0.5	(0.6)	0.4	83%
Airport	2.5	2.8	3.1	4.5	3.7	2.1	4.3	(0.5)	(0.2)	-4%
Port	0.3	0.2	0.3	0.3	0.4	0.2	0.4	(0.0)	0.1	29%
PUC Hetch Hetchy				0.0	-	-	-	-	(0.0)	0%
Subtotal - Fire	30.5	35.6	43.8	42.8	39.7	19.6	39.1	0.6	(3.7)	-9%
<b>Sheriff</b>										
General Fund Operations	5.3	7.6	9.8	9.7	9.6	6.7	13.5	(3.9)	3.8	28%
Grants & Other Special Revenues	0.5	0.8		0.8	0.3	0.4	0.8	(0.4)	(0.0)	0%
Subtotal - Sheriff	5.8	8.4	10.7	10.5	9.9	7.1	14.3	(4.3)	3.8	26%
<b>Subtotal - Top 5</b>	<b>\$ 125.8</b>	<b>\$ 136.2</b>	<b>\$ 143.4</b>	<b>\$ 148.6</b>	<b>\$ 122.4</b>	<b>\$ 76.8</b>	<b>\$ 153.6</b>	<b>\$ (31.2)</b>	<b>\$ 5.0</b>	<b>3%</b>
<b>Public Utilities Commission</b>	5.9	6.2	6.0	6.9	4.0	3.4	6.8	(2.8)	(0.0)	0%
<b>Recreation &amp; Park</b>	1.4	1.1	1.6	1.2	1.3	0.5	0.9	0.4	(0.3)	-27%
<b>Human Services Agency</b>	0.6	0.6	0.8	2.9	0.5	2.0	4.0	(3.4)	1.0	26%
<b>Fine Arts Museum</b>	0.8	0.9	0.7	0.9	0.3	0.5	0.9	(0.6)	0.1	8%
<b>Public Works</b>	1.4	1.5	2.0	2.3	1.7	1.2	2.4	(0.7)	0.1	4%
<b>Juvenile Probation</b>	0.8	0.9	1.4	1.5	0.7	0.8	1.7	(0.9)	0.2	11%
<b>Airport Commission</b>	2.2	2.2	2.5	3.0	3.0	1.7	3.4	(0.4)	0.4	13%
<b>Elections</b>	0.4	0.4	0.3	0.2	0.4	0.2	0.4	0.1	0.2	48%
<b>Emergency Management</b>	1.4	1.2	1.1	1.6	1.1	1.2	2.3	(1.2)	0.7	29%
<b>All Other Departments</b>	3.2	2.9	4.0	3.9	2.31	2.04	4.08	(1.8)	0.2	5%
<b>Total</b>	<b>\$ 144.0</b>	<b>\$ 154.1</b>	<b>\$ 163.8</b>	<b>\$ 172.9</b>	<b>\$ 137.9</b>	<b>\$ 90.3</b>	<b>\$ 180.5</b>	<b>\$ (42.6)</b>	<b>\$ 7.6</b>	<b>4%</b>
<b>Top 5 % of Total</b>	<b>87.4%</b>	<b>88.4%</b>	<b>87.6%</b>	<b>85.9%</b>	<b>88.7%</b>	<b>85.1%</b>	<b>85.1%</b>			
Change from Prior Year Actual	\$ 14.0	\$ 12.0	\$ 9.7	\$ 9.1	\$ (35.0)		\$ 7.6			
<b>Total Gross Salaries (Cash Compensation)</b>	<b>\$ 2,529.6</b>	<b>\$ 2,634.5</b>	<b>\$ 2,802.2</b>	<b>\$ 2,869.6</b>	<b>\$ 3,056.4</b>	<b>\$ 1,411.6</b>	<b>\$ 2,823.1</b>			
<b>Overtime as a % of Total Gross Salaries</b>	<b>5.7%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>4.5%</b>	<b>6.4%</b>	<b>6.4%</b>			

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