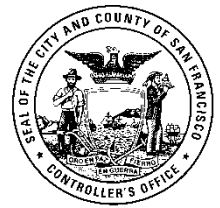


# City and County of San Francisco

Office of the Controller

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



*May 8, 2015*





# City and County of San Francisco

## Office of the Controller

FY 2014-15 Nine-Month Budget Status Report

May 8, 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 March 31, 2015, 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 \$337.1 million, of which \$137.1 million has been appropriated in the FY 2015-16 budget. The drivers of increased fund balance are 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 \$80.6 million versus the assumptions contained in the Six-Month Report.
- The Update to the City's Proposed Five Year Financial Plan, issued on March 12, 2015, projected shortfalls over the next two fiscal years of \$87.7 million, comprised of \$21.2 million in FY 2015-16 and \$66.5 million in FY 2016-17. Application of this additional current year fund balance will reduce these shortfalls to a combined \$7.1 million over the two years.
- Projected revenue growth results in a \$60.4 million total deposit to the Rainy Day Economic Stabilization and One-Time reserves. No deposit was projected in the Six-Month Report. This deposit entirely offsets deposits to the City's Budget Stabilization Reserve projected in the Six-Month Report. Economic reserves, including the Budget Stabilization Reserve, the General Reserve, and the City's portion of the Rainy Day Reserve, are projected to total \$273.4 million at year end, or 6.8% of General Fund revenues. 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. The exception to this trend is the Public Utilities Commission (PUC), where ending balances are expected to be \$34.6 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	185.7
Baseline Contributions	(12.9)
Departmental Operations	65.0
Approved & Projected Supplemental Appropriations	(2.4)
Projected Use of General Reserve	2.4
<b>Subtotal Current Year Revenues and Expenditures</b>	<b>237.8</b>
<b>C. Withdrawals from / (Deposits) to Reserves</b>	<b>(59.4)</b>
<hr/>	
<b>D. FY 2014-15 Projected Ending Balance</b>	<b>337.1</b>
Previous Projection (Six Month Budget Status Report)	256.5
<b>E. Change from Prior Projection</b>	<b>80.6</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 \$185.7 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 volumes and transaction values in the top tax tier. Business tax improvements are largely the result of higher than expected job and wage 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>9-Month Projection</b>	<b>Surplus (Shortfall)</b>
Property Taxes	1,232.9	1,245.0	1,252.0	19.1
Business Taxes	572.4	595.3	612.4	40.0
Sales Tax - Local 1% and Public Safety	227.5	232.9	236.4	9.0
Hotel Room Tax	318.4	337.2	341.6	23.3
Utility User & Access Line Taxes	134.8	136.4	140.4	5.6
Parking Tax	84.9	84.9	86.5	1.7
Real Property Transfer Tax	235.0	267.0	304.0	69.0
Interest Income	6.9	8.9	10.1	3.3
Citywide Realignment Revenue	194.7	196.3	196.0	1.3
Motor Vehicle In-Lieu	-	0.6	0.6	0.6
Franchise Taxes	17.0	16.6	16.6	(0.4)
Transfers In from Other Funds	179.3	179.3	192.6	13.3
<b>Total Citywide Revenues</b>	<b>3,203.6</b>	<b>3,300.4</b>	<b>3,389.3</b>	<b>185.7</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 \$12.9 million compared to budget. The Public Library transfer is net of a \$2.9 million reduction because 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>9-Month Projection</b>	<b>Variance</b>
<b>Aggregate Discretionary Revenues (ADR)</b>	<b>2,737.0</b>	<b>2,790.3</b>	<b>2,867.7</b>	<b>130.7</b>
				-
MTA Baseline 9.2% ADR	251.6	256.5	263.6	12.0
Library Baseline 2.3% ADR	62.6	63.2	62.6	0.1
Public Education Fund Baseline 0.3% ADR	4.0	4.0	4.2	0.2
<b>Total Baseline Transfers</b>	<b>318.1</b>	<b>323.7</b>	<b>330.4</b>	<b>12.3</b>
80% Parking Tax in Lieu Transfer to MTA	68.6	67.9	69.2	0.6
<b>Total Baselines and In-Lieu Transfers</b>	<b>386.7</b>	<b>391.6</b>	<b>399.6</b>	<b>12.9</b>

**Departmental Operations**

The Controller's Office projects a net departmental operations surplus of \$65.0 million summarized in Table 4 below and further 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 / (Shortfall)</b>
<b>Net Shortfall Departments</b>			
General City Responsibility (1)	(11.6)	-	(11.6)
Fire Department	(4.0)	-	(4.0)
City Attorney	(0.5)	-	(0.5)
<b>Subtotal Departments with Net Deficits</b>	<b>\$ (16.1)</b>	<b>\$ -</b>	<b>\$ (16.1)</b>
<b>Net Surplus Departments</b>			
Public Health	8.4	19.8	28.2
Public Works (1)	4.6	12.4	16.9
Human Services Agency	(13.5)	31.3	17.8
Police	(0.7)	4.5	3.8
City Administrator	0.3	3.0	3.2
Recreation & Parks	2.3	-	2.3
City Planning	1.3	0.1	1.4
Sheriff	0.1	1.1	1.2
Treasurer/Tax Collector	(0.5)	1.5	1.0
Elections	0.1	0.9	1.0
Other Net Surplus	0.1	4.2	4.3
<b>Subtotal Departments with Net Surplus</b>	<b>\$ 2.5</b>	<b>\$ 78.6</b>	<b>\$ 81.1</b>
<b>TOTAL</b>	<b>\$ (13.6)</b>	<b>\$ 78.6</b>	<b>\$ 65.0</b>

(1) Variances in these departments are offsetting. \$11.6 million in bond reimbursements budgeted in GEN will be recognized as expenditure savings in DPW, at a level of \$12.5 million, for a net General Fund impact of \$0.9 million.

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. On May 6, 2015, the Budget and Finance Committee approved a supplemental appropriation to shift funding from savings in permanent salaries and other categories to cover over expenditures in overtime at the Department of Emergency Management, the Department of Public Health, the Fire Department, the Public Utilities Commission and the Sheriff's Department. Such a supplemental is required under 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.

### **Projected Use of General Reserve**

This report assumes the use of \$2.4 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 \$2.4 million and increase the amount needed to fund the reserve by \$2.4 million more than is currently budgeted in FY 2015-16.

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

A total of \$78.5 million is projected to be deposited into reserves, or \$59.4 million more than budgeted. General Fund revenue growth is projected to cause a combined deposit of \$60.4 million to the three Rainy Day Reserve accounts, which entirely offsets what would otherwise be a \$51.0 million deposit to the Budget Stabilization Reserve from real property transfer tax revenue above the five-year average. This report projects deposits of \$15.8 million to the Citywide Budget Savings Incentive Reserve due to projected departmental expenditure savings and \$2.3 million to the Recreation and Park Savings Incentive Reserve due to better than expected garage and permit revenue. A discussion of the status of reserves is included in Appendix 3.

### **D. Projected Ending Fund Balance: \$337.1 Million**

Based on the above assumptions and projections, this report anticipates an ending available General Fund balance for FY 2014-15 of \$337.1 million, \$200.0 million above the \$137.1 million appropriated in the FY 2015-16 budget.

### **E. Improvement versus Last Projection: \$80.6 Million**

The projected ending fund balance of \$337.1 million is \$80.6 million higher than the Six-Month Report projection of \$256.5 million.

### **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 track the issue.
- The effect of a recent appeals court decision holding that changes to supplemental cost of living allowances (COLAs) applied to pension benefits. If upheld, this ruling could increase the City’s pension liability and retirement contribution rates, therefore, we will continue to monitor this issue.

### **I. Nine-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 \$150.8 million above revised budget. Of this total, \$185.7 million is due to improvements in citywide revenue as property transfer tax, business tax, and hotel tax revenues are projected to surpass budgeted levels. These gains are offset by decreases in federal subventions received by the Human Services Agency and the Department of Public Works, decreases in other revenues as a result of changes to how reimbursements for capital projects are accounted for 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)	Year End Actual	Original Budget	Revised Budget	6-Month Projection	9-Month Projection	Surplus/ (Shortfall)
<b>PROPERTY TAXES</b>	\$ 1,177.4	\$ 1,232.9	\$ 1,232.9	\$ 1,245.0	\$ 1,252.0	\$ 19.1
<b>BUSINESS TAXES</b>	562.9	572.4	572.4	595.3	612.4	40.0
<b>OTHER LOCAL TAXES</b>						
Sales Tax	133.7	136.1	136.1	140.4	142.7	6.7
Hotel Room Tax	310.1	318.4	318.4	337.2	341.6	23.3
Utility Users Tax	86.8	91.7	91.7	91.7	95.7	3.9
Parking Tax	83.5	84.9	84.9	84.9	86.5	1.7
Real Property Transfer Tax	261.9	235.0	235.0	267.0	304.0	69.0
Stadium Admission Tax	2.4	1.3	1.3	1.3	1.3	-
Access Line Tax	43.8	43.0	43.0	44.7	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>1016.6</b>	<b>106.2</b>
<b>LICENSES, PERMITS &amp; FRANCHISES</b>						
Licenses & Permits	10.7	10.1	10.1	10.7	10.6	0.4
Franchise Tax	16.3	17.0	17.0	16.6	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>27.2</b>	<b>0.0</b>
<b>FINES, FORFEITURES &amp; PENALTIES</b>	<b>5.3</b>	<b>4.2</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>10.1</b>	<b>3.3</b>
<b>RENTS &amp; CONCESSIONS</b>						
Garages - Rec/Park	12.4	10.7	10.7	10.7	10.7	-
Rents and Concessions - Rec/Park	11.9	9.5	9.5	9.5	9.5	-
Other Rents and Concessions	2.7	2.5	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>22.7</b>	<b>-</b>
<b>INTERGOVERNMENTAL REVENUES</b>						
<b>Federal Government</b>						
Social Service Subventions	218.5	229.5	229.5	217.9	219.6	(9.9)
Other Grants & Subventions	-1.3	5.4	15.4	18.2	4.6	(10.8)
<b>Total Federal Subventions</b>	<b>217.2</b>	<b>234.9</b>	<b>244.9</b>	<b>236.0</b>	<b>224.2</b>	<b>(20.8)</b>
<b>State Government</b>						
Social Service Subventions	164.3	197.1	197.1	195.6	194.4	(2.7)
Health & Welfare Realignment - Sales Tax	133.4	133.0	133.0	132.8	132.5	(0.5)
Health & Welfare Realignment - VLF	32.2	29.9	29.9	31.4	31.4	1.5
Health & Welfare Realignment - CalWORKs MOE	20.1	26.7	26.7	24.1	26.7	-
Health/Mental Health Subventions	83.9	97.2	97.2	91.0	91.0	(6.2)
Public Safety Sales Tax	87.5	91.4	91.4	92.5	93.7	2.3
Motor Vehicle In-Lieu	0.7	-	-	0.6	0.6	0.6
Public Safety Realignment (AB109)	33.5	31.8	31.8	32.1	32.1	0.3
Other Grants & Subventions	27.4	17.2	17.2	16.7	17.2	-
<b>Total State Grants and Subventions</b>	<b>583.0</b>	<b>624.4</b>	<b>624.4</b>	<b>616.9</b>	<b>619.7</b>	<b>(4.7)</b>
<b>Other Regional Government</b>						
Redevelopment Agency	2.2	2.6	2.6	2.2	2.2	(0.5)
<b>CHARGES FOR SERVICES:</b>						
General Government Service Charges	46.8	52.7	53.1	57.8	62.1	8.9
Public Safety Service Charges	32.7	33.6	33.6	33.6	33.6	-
Recreation Charges - Rec/Park	17.2	19.3	19.3	19.3	21.6	2.3
MediCal,MediCare & Health Service Charges	60.5	79.5	79.5	75.3	75.5	(4.0)
Other Service Charges	14.6	15.7	15.7	15.7	15.7	-
<b>Total Charges for Services</b>	<b>171.8</b>	<b>200.8</b>	<b>201.2</b>	<b>201.5</b>	<b>208.4</b>	<b>7.2</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>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>9.2</b>	<b>(12.4)</b>
<b>TOTAL REVENUES</b>	<b>3,721.0</b>	<b>3,870.0</b>	<b>3,880.4</b>	<b>3,956.9</b>	<b>4,017.8</b>	<b>137.4</b>
<b>TRANSFERS INTO GENERAL FUND:</b>						
Airport	38.0	38.4	38.4	38.8	38.8	0.4
Other Transfers	175.7	140.9	140.9	140.9	153.8	12.9
<b>Total Transfers-In</b>	<b>213.6</b>	<b>179.3</b>	<b>179.3</b>	<b>179.7</b>	<b>192.6</b>	<b>13.3</b>
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>\$ 3,934.7</b>	<b>\$ 4,049.2</b>	<b>\$ 4,059.7</b>	<b>\$ 4,136.6</b>	<b>\$ 4,210.4</b>	<b>\$ 150.8</b>

**Property Tax** revenue in the General Fund is projected to be \$19.1 million (1.5%) above budget, \$7.0 million (0.6%) above the Six-Month Report projection level, and \$74.6 million (6.3%) over prior year actual revenue. The improvement since the Six-Month Report is due to a decrease of \$7.0 million in the amount of General Fund revenues required to fund assessment appeals. Property tax set asides to special revenue funds are increased by \$2.3 million, as shown below.

#### Property Tax Set Asides

	Original Budget	6-Month Projection	9-Month Projection	Variance
Children's Fund	51.6	52.1	52.5	0.9
Open Space Fund	43.0	43.4	43.8	0.7
Library Preservation Fund	43.0	43.4	43.8	0.7
<b>Total</b>	<b>137.7</b>	<b>139.0</b>	<b>140.0</b>	<b>2.3</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 \$40.0 million (6.9%) above budget, and \$49.5 million (8.8%) 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. Much of the wage growth can be attributed to the Information Sector, which saw a 35% increase in wages over this period. Excluding the Information Sector, San Francisco still saw wage growth of 9.7%.

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 receipts 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 and business formation.

**Local Sales Tax** revenues are projected to be \$6.7 million (4.9%) above budget, and \$9.0 million (6.8%) over prior year actual revenues. FY 2014-15 average growth in the first two quarters is 7.0% 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, though at a slower pace in the remaining quarters mainly from a negative growth in auto sales, ending the year at 6.8% above prior year actual revenue.

**Hotel Room Tax** revenues are projected to be \$23.3 million (7.3%) above budget and \$31.6 million (10.2%) 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 seven months of FY 2014-15 was approximately 12.3% over the same period prior year. In addition, room rates are at an all-time high of approximately \$267 per night during the same period. 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 \$3.9 million (4.3%) over budget and \$8.9 million (10.2%) over prior year actual revenues. Telephone user tax revenues are projected to increase by 9.6% over prior year and gas and electric revenues are projected to increase by 10.9%. About half of this increase is due to a one-time, one month shift in when revenues were recorded, which attributed revenue earned in the prior year to the current year. Water user tax revenue represents a small portion of overall utility users tax but is projected to increase by 10.6% from prior year.

**Parking Tax** revenues are projected to be \$1.7 million (1.9%) above budget and \$3.0 million (3.7%) 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 8A.105.

**Real Property Transfer Tax** revenues are projected to be \$69.0 million (29.4 %) above budget and \$42.1 million (16.1%) 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 to four years. A significant driver of property transfer tax is the escalation of value seen in San Francisco real estate, and the large number of high value properties transacting. The composition of sales in the first three quarters of the fiscal year was heavily concentrated in high value sales; \$162.7 million (61%) of transfer tax revenue was generated from property sales in excess of \$10 million, a 59% increase over the same period in FY 2013-14.

**Access Line Tax** revenue projections are unchanged from the Six-Month Report, \$1.7 million (3.8%) above budget, and \$0.9 million (2.0%) above prior year actual revenues. Growth is

consistent with telephone utility user tax revenue increases and reflects similar underlying growth in business activity.

**Interest & Investment** revenues are projected to be \$3.3 million (48%) above budget in the General Fund and \$1.2 million above the Six-Month Report projection. Average monthly pooled interest rates were higher than budgeted, and revenues through March were above budgeted amounts due to increased cash in the pool. The revenue surplus is net of a reduction in interest revenue of \$0.3 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 \$25.5 million below budget primarily due to \$22.3 million in reductions to CalWORKs and IHSS allocations as a result of underspending at the Human Service Agency, which also result in expenditure savings in the department; a \$10 million reduction in budgeted federal reimbursement revenue at the Department of Public Works (DPW) that will instead be received as a \$10 million transfer into the General Fund; and \$6.2 million in reductions to state health and mental health 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.

These reductions are partially offset by: an increase of \$10.9 million of Medi-Cal payments related to the Affordable Care Act; an increase of \$2.3 million in public safety sales tax receipts due to statewide sales tax growth, the increase in the county allocation ratio for San Francisco, and a one-time allocation correction for multiple prior years; a \$0.2 million increase in AB109 Public Safety realignment; and, an increase of \$1.0 million 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 2013-14 growth.

## Appendix 2. General Fund Department Budget Projections

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

GENERAL FUND (\$ MILLIONS)	Expenditures - Revised Budget	Expenditures -Projected Year End	Revenue Surplus/ (Deficit)	Expenditure Savings/ (Deficit)	Net Surplus/ (Deficit)	Notes
<b>PUBLIC PROTECTION</b>						
Adult Probation	33.3	32.9	-	0.4	0.4	1
Superior Court	32.0	31.5	-	0.5	0.5	2
District Attorney	39.6	39.5	-	0.1	0.1	3
Emergency Management	45.6	45.3	-	0.3	0.3	4
Fire Department	316.5	316.5	(4.0)	-	(4.0)	5
Juvenile Probation	36.4	36.0	(0.0)	0.4	0.4	6
Public Defender	30.1	29.8	-	0.3	0.3	7
Police	464.0	459.6	(0.7)	4.5	3.8	8
Sheriff	168.2	167.2	0.1	1.1	1.2	9
<b>PUBLIC WORKS, TRANSPORTATION &amp; COMMERCE</b>						
Public Works	38.3	25.9	4.6	12.4	16.9	10
Economic & Workforce Development	28.0	28.0	0.5	-	0.5	11
Board of Appeals	1.0	1.0	-	-	-	
<b>HUMAN WELFARE &amp; NEIGHBORHOOD DEVELOPMENT</b>						
Children, Youth and Their Families	32.8	32.8	-	-	-	
Human Services Agency	750.7	724.3	(13.5)	31.3	17.8	12
Human Rights Commission	2.4	2.2	-	0.1	0.1	13
Status of Women	5.7	5.6	-	0.1	0.1	14
<b>COMMUNITY HEALTH</b>						
Public Health	1,073.1	1,053.3	8.4	19.8	28.2	15
<b>CULTURE &amp; RECREATION</b>						
Asian Art Museum	9.0	9.0	-	-	-	
Arts Commission	5.9	5.9	-	-	-	
Fine Arts Museum	13.5	13.5	-	-	-	
Law Library	1.5	1.4	-	0.1	0.1	16
Recreation and Park Department	81.7	81.7	2.3	-	2.3	17
Academy of Sciences	4.5	4.5	-	-	-	
<b>GENERAL ADMINISTRATION &amp; FINANCE</b>						
City Administrator	52.7	49.7	0.3	3.0	3.2	18
Assessor/Recorder	16.6	15.7	(0.9)	0.9	-	19
Board of Supervisors	13.6	13.5	-	0.1	0.1	20
City Attorney	9.4	9.4	(0.5)	(0.0)	(0.5)	21
Controller	13.4	13.4	0.4	-	0.4	22
City Planning	30.5	30.4	1.3	0.1	1.4	23
Civil Service Commission	0.8	0.8	-	-	-	
Ethics Commission	2.6	2.6	0.1	-	0.1	24
Human Resources	11.9	11.9	-	-	-	
Health Service System	0.6	(0.1)	-	0.7	0.7	25
Mayor	16.1	16.1	-	-	-	
Elections	13.3	12.4	0.1	0.9	1.0	26
Technology	2.1	2.0	-	0.1	0.1	27
Treasurer/Tax Collector	26.4	25.0	(0.5)	1.5	1.0	28
<b>GENERAL CITY RESPONSIBILITY</b>	<b>126.0</b>	<b>126.0</b>	<b>(11.6)</b>	<b>-</b>	<b>(11.6)</b>	<b>29</b>
<b>TOTAL GENERAL FUND</b>	<b>3,550.8</b>	<b>3,477.1</b>	<b>(13.6)</b>	<b>73.7</b>	<b>65.0</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 \$0.4 million primarily due to lower than expected salary and benefits costs in the current hiring plan.

### **2. Superior Court**

The Superior Court projects a savings of \$0.5 million in General Fund Supported costs, mainly from savings in Grand Jury Criminal and Civil Defense related expenditures.

### **3. District Attorney**

The District Attorney projects to end the year with expenditure savings of \$0.1 million. Savings are primarily from salary and benefit savings due to staff turnover.

### **4. Emergency Management**

The Department of Emergency Management projects to end the fiscal year with a net surplus of \$0.3 million due to savings from salary and fringe benefits and lower than expected debt services payments. A supplemental reappropriation has been requested to transfer salary and benefit savings to support a projected shortfall in overtime expenditures, as required by Administrative Code section 3.2. Overtime spending increases are mainly due to maintaining minimum staffing requirements and improving emergency call response times.

### **5. Fire Department**

The Fire Department currently projects a net shortfall of \$4.0 million. A net revenue deficit of \$4.0 million is projected, due to a shortfall in Ground Emergency Medical Transport (GEMT) ambulance fee reimbursement and net insurance revenue of \$4.9 million, partially offset by a \$0.9 million surplus of other revenue and fees, including overtime service and plan check fees. Expenditures are expected to be within budget. A supplemental reappropriation has been requested to transfer salary and benefit savings to support a projected shortfall in overtime salaries at the Airport, as required by Administrative Code Section 3.2.

### **6. Juvenile Probation**

The Juvenile Probation Department projects to end the fiscal year with a net surplus of \$0.4 million due to expected salary and benefit savings of \$0.3 million and workers compensation savings of \$0.1 million. Revenues are expected to be on budget.

### **7. 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.

### **8. Police Department**

The Police Department projects a net surplus of \$3.8 million due to a revenue deficit of \$0.7 million from parking garage permits, false alarm response, and lower than expected other public safety fee revenue, and an expenditure surplus of \$4.5 million due to salary and benefit savings from greater than expected retirements.

## **9. Sheriff**

The Sheriff's Department is projected to end the fiscal year with a net surplus of \$1.2 million. A \$0.8 million shortfall in State revenue from a lower than expected re-entry pod prisoner population is more than offset by revenues from housing prisoners for the U.S. Marshalls Service. Net expenditures are projected to be \$1.1 million under budget, due largely to savings in permanent salaries, benefits, and worker's compensation costs. A supplemental reappropriation has been requested to transfer permanent salary and benefit savings to support a projected shortfall in overtime salaries, per Administrative Code section 3.2.

## **10. Public Works**

The Department of Public Works projects a net surplus of \$16.9 million. This surplus is primarily due to the application of \$12.5 million of bond proceeds for project expenditure abatement, and is offset by a shortfall of \$11.6 million in budgeted revenue in General City Responsibility, for a net General Fund surplus of \$0.9 million. Additional revenues above budget of \$4.6 million include \$3.0 million in street space permit fees and right-of-way encroachment assessment revenues, and \$1.4 million in reimbursements for prior year expenditures on the Fourth Street Bridge.

## **11. 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.

## **12. Human Services Agency**

The Human Services Agency projects to end the fiscal year with a \$17.8 million surplus due to \$31.3 million projected expenditure savings, which is offset by \$13.5 million lower than budgeted revenue. Overall expenditure savings are comprised of \$8.4 million in childcare support, \$3.5 million in in-home supportive services, \$1.5 million in foster care and adoption support, \$3.1 million in other aid and assistance, and \$14.8 million in all other programs. The overall revenue shortfall is due to \$7.5 million in reductions in child care support, \$2.9 million less in in-home supportive services revenue, \$0.4 million lower than budget in foster care and adoption support, and \$2.6 million less in other aid and assistance.

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

The proposal to administer the State's CalWORKs Stage 3 Childcare subsidies through the Human Services Agency was not enacted, resulting in over-budgeting of both expenditure and revenue by \$6.8 million. CalWORKs Stage 1 and 2 Childcare have additional expenditure savings and revenue shortfalls due to lower than expected caseloads.

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

The In-Home Supportive Services Program is projecting expenditure savings of \$3.5 million due to lower than expected contract costs and Maintenance of Effort amount. This is offset by \$2.9 million in reduced revenue, for a net savings of \$0.6 million.

### ***Foster Care and Adoptions***

Lower than expected caseloads across Foster Care and Adoptions also results in projected expenditure savings of \$1.5 million and associated revenue shortfalls of \$0.4 million, for a net surplus of \$1.1 million



**Other Aid Assistance Programs**

Most of the savings in this category is due to lower than expected caseloads across the County Adult Assistance and in the CalWORKs programs. The total combined expenditure savings of \$3.1 million and associated revenue shortfalls of \$2.6 million results in a net surplus of \$0.5 million.

**Other Programs**

Expenditure savings in all other programs are projected due primarily to salary savings of \$9.8 million from higher vacancy rates associated with new positions at the start of the fiscal year, contract under-expenditures of \$4.0 million, and \$0.9 million in additional program savings.

**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>
Child Care Support	(7.5)	8.4	0.9
In Home Supportive Services (IH)	(2.9)	3.5	0.6
Foster Care & Adoption Support	(0.4)	1.5	1.1
Other Aid Assistance/Programs	(2.6)	3.1	0.5
All Other Programs	0	14.8	14.8
<b>Total All Programs</b>	<b>\$ (13.5)</b>	<b>\$ 31.3</b>	<b>\$ 17.8</b>

**13. Human Rights Commission**

The Human Rights Commission projects \$0.1 million surplus at the end of the fiscal year, mainly from salary and benefit savings due to vacancies.

**14. Department on the Status of Women**

The Department on the Status of Women projects to end the fiscal year with \$0.1 million expenditure savings.

**15. Public Health**

The Department of Public Health projects to end the fiscal year with a net General Fund surplus of \$28.2 million. Overall department revenues are projected to be \$8.4 million more than budgeted, and expenditures are projected to be \$19.8 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	(1.6)	4.7	3.1
Laguna Honda Hospital	9.0	(3.0)	6.1
San Francisco General Hospital	1.0	18.1	19.1
<b>Total</b>	<b>8.4</b>	<b>19.8</b>	<b>28.2</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 \$1.6 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 of a property sale. These revenue shortfalls are partially offset by Primary Care revenues \$5.6 million above budget mainly due to higher than expected revenues from capitation revenues from increased enrollment under the Affordable Care Act (ACA). Expenditures are expected to be \$4.7 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 \$6.1 million net surplus at Laguna Honda Hospital. A \$9.0 million revenue surplus is 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. Expenditures of \$3.0 million above budget are projected due to unanticipated overtime needs, under-budgeting of fringe benefit costs, and services of other departments. A supplemental reappropriation has been requested to transfer salary savings to support overtime expenditures as required by code.

**San Francisco General Hospital**

The Department projects \$19.1 million surplus at San Francisco General Hospital. Revenues are \$1.0 million above budget. An unfavorable variance in capitation revenues has improved from \$34.5 million in the Six-Month Report to \$16.2 million, reflecting higher capitation rates than previously projected. This shortfall is offset by a \$17.2 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 \$18.1 million. The department 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, \$7.0 million below budget in pharmaceutical usage, and a \$4.7 million 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 has been requested to transfer salary savings to support a projected shortfall in overtime expenditures.

**16. Law Library**

The Law Library projects savings of \$0.1 million due to savings in salary and benefits.

**17. Recreation and Park**

The Recreation and Park department projects an overall surplus due to increased revenues of \$2.3 million from garage and paid parking, Golden Gate Park admissions, special event permits, and facility rental operations. The department projects expenditures to be within budget.

**18. City Administrator**

The City Administrator projects a \$3.2 million surplus at year end. A revenue surplus of \$0.3 million is projected due to strong revenues for City Hall Events. Expenditure savings of \$3.0 million are projected, due mostly to \$1.4 million in salary and benefits savings resulting from vacancies and hiring delays. In addition, \$0.3 million in work order savings, and \$1.2 million in additional expenditure savings are projected across the department.

**19. 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.

**20. Board of Supervisors**

The Board of Supervisors projects \$0.1 million surplus at the end of the fiscal year, mainly from salary and benefit savings.

**21. City Attorney**

The City Attorney's Office projects a \$0.5 million year-end revenue shortfall. This 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. Increases to work order recoveries in the final quarter of the year may address the projected shortfall.

**22. Controller**

The Controller projects to end the year with a net surplus of \$0.4 million, due to a revenue surplus from expired checks to vendors.

**23. City Planning**

The City Planning Department projects to end the year with a net surplus of \$1.4 million, due to a \$1.3 revenue surplus from planning application and building permit fees plus \$0.1 million of non-salary expenditure savings. The projected revenue surplus is net of a \$3.0 million transfer of fee revenue to support the caseload backlog reduction project in FY 2014-15 and a \$0.4 million revenue deferral from current year fee collections, bringing the FY 2014-15 year end deferred account balance to \$9.6 million.

**24. Ethics Commission**

The Ethics Commission projects a \$0.1 million surplus at year end, due to higher than budgeted fee revenues.

**25. Health Service System**

The Health Service System projects a \$0.7 million surplus at the end of the fiscal year, mainly from salary and benefit savings due to delays in hiring.

**26. Elections**

The Department of Elections is projecting a net surplus of \$1.0 million due to a revenue surplus of \$0.1 million and expenditure savings of \$0.9 million. The revenue surplus is comprised primarily of ballot argument fees above budgeted amounts. The expenditure surplus is due to overall salary and benefit savings.

**27. Department of Technology**

The Department of Technology projects a \$0.1 million surplus, primarily due to projected savings in salary and benefits expenditures.

**28. Treasurer/Tax Collector**

The Treasurer/Tax Collector projects to end the year with a net surplus of \$1.0 million. Expenditure savings are primarily due to \$1.5 million in anticipated salary and benefit savings, offset by a \$0.5 million revenue shortfall. The revenue shortfall is comprised of a \$0.3 million reduction to interest revenue as described in the Interest and Investment Income section of Appendix 1 and a \$0.2 million shortfall in insufficient fund fee revenue due to a change in banking policy.

**29. General City Responsibility**

General City Responsibility contains funds that are allocated for use across various City departments. Savings of \$6.6 million in retiree health costs are projected due to lower 2015 monthly benefit rates and a change in payment schedule effective December 2014. These savings, as well as savings of \$11.0 million projected in the Six-Month Report from reduced exposure to legal claims, have been more than offset by new risks, including an appeals court decision regarding supplemental cost of living allowances on pensions. In addition, \$11.6 million in budgeted reimbursements of capital planning costs from bond proceeds will be realized as expenditure savings in Public Works. Total reimbursable costs of \$12.6 million are included in the Public Works projection, for a net positive General Fund impact of \$0.9 million.

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 and the Six-Month Report issued on February 10, 2015.

## 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	\$ -	\$ (2.4)	\$ 55.6	\$ 11.5	\$ -	\$ 67.1
Rainy Day Economic Stabilization City Reserve	24.6	30.2	-	54.8	-	-	54.8
Rainy Day One-Time Reserve	22.9	20.1	(12.2)	30.8	-	(2.7)	28.1
Budget Stabilization Reserve	132.3	-	-	132.3	14.9	-	147.2
<b>Subtotal Economic Stabilization Reserves</b>	<b>\$ 237.8</b>	<b>\$ 50.3</b>	<b>\$ (14.7)</b>	<b>\$ 273.4</b>	<b>\$ 26.4</b>	<b>\$ (2.7)</b>	<b>\$ 297.1</b>
<b>Percent of General Fund Revenues</b>				<b>6.8%</b>			
Rainy Day Economic Stabilization SFUSD Reserve	35.7	10.1	(11.1)	34.6	-	-	34.6
Budget Savings Incentive Fund	32.1	15.8	(28.4)	19.5	-	-	19.5
Recreation & Parks Savings Incentive Reserve	12.9	2.3	(5.9)	9.2	-	(1.8)	7.5
Salary and Benefits Reserve	24.3	-	(24.3)	-	14.0	(14.0)	-
<b>Total, All Reserves</b>	<b>\$ 342.7</b>	<b>\$ 78.5</b>	<b>\$ (84.4)</b>	<b>\$ 336.9</b>	<b>\$ 40.4</b>	<b>\$ (18.5)</b>	<b>\$ 358.7</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, for a total Reserve use of \$2.4 million. The remaining \$55.6 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 to the required level in the proposed budget as described 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.

**Rainy Day Economic Stabilization Reserve:** Charter Section 9.113.5 establishes Rainy Day Economic Stabilization Reserves for the City (City Reserve) and the San Francisco Unified School District (School 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. Prior to Proposition C, passed in November 2014, these two reserves were combined with a balance of \$60.3 million at the beginning of FY 2014-15. SFUSD received an appropriated withdrawal from the reserve in FY 2014-15 of \$11.1 million to offset the impact of declines in inflation-adjusted per pupil revenue. Pursuant to Proposition C the remaining balance of \$49.2 was split equally between the City and School reserves with \$24.6 million deposited to each.

Proposition C establishes that deposits to the Rainy Day Economic Stabilization reserves are to be split with 75% going to the City Reserve and 25% going to the School Reserve. Of a total projected deposit of \$40.3 million, \$30.2 million will be allocated to the City Reserve and \$10.1 million to the School Reserve. 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 projected deposit of \$20.1 million and budgeted withdrawal of \$12.2 million results in a projected year-end balance of \$30.8 million. The FY 2015-16 budget includes a use of \$2.7 million.

**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. Projected real property transfer tax revenues above the five year average would result in a calculated reserve deposit of \$51.0 million, however, deposits to the Budget Stabilization Reserve are net of any made to the Rainy Day Reserve, which total \$60.4 million as described above. There are thus no projected deposits to the Budget Stabilization Reserve, and the projected ending balance for FY 2014-15 is \$132.3 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 \$15.8 million and budgeted uses of \$28.4 million result in a projected year end balance of \$19.5 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. Revenues above budget are projected to result in a deposit of \$2.3 million in the current fiscal year, leaving a projected ending balance of \$9.2 million. Note that the current budget also appropriated \$1.8 million in uses for FY 2015-16.

**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 May 4, 2015, the Controller's Office has transferred \$1.8 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, Q3)		1.1
Training and development		0.5
Paperless pay implementation		0.1
Public Safety, including wellness, premium, and one-time payouts		0.0
Visual Display Terminal Insurance (Q1, Q2, Q3)		0.1
<b>Total Transfers to Departments</b>		<b>1.8</b>
<b>Anticipated Allocations</b>		
Public Safety, including wellness, premium, and one-time payouts		8.0
Citywide Premium, Retirement and Severance payouts		1.5
Training, Tuition, and Other Reimbursements		3.8
Retiree Health		1.6
SEIU as needed temporary employees healthcare (Q4)		0.4
Surviving Spouse benefits		0.7
Citywide Retirement and Other Fringe Benefits		6.3
Life Insurance premiums		0.2
<b>Total Anticipated Allocations</b>		<b>22.5</b>
<b>Total Uses</b>		<b>24.3</b>
<b>Net Surplus / (Shortfall)</b>	<b>\$</b>	<b>0.0</b>



## Appendix 5. Other Funds Highlights

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

	Prior Year		FY 2014-15					Estimated Year-end Balance	Notes
	FY 2013-14 Year End Fund Balance	Fund Balance Used in FY 2014-15 Budget	Starting Available Fund Balance	Sources Surplus/ (Deficit)	Uses Savings/ (Deficit)	Net Operating Surplus/ (Deficit)			
<b><u>SELECT SPECIAL REVENUE AND INTERNAL SERVICE FUNDS</u></b>									
Building Inspection Operating Fund	\$ 56.3	\$ 26.2	\$ 30.0	\$ 7.2	\$ 8.4	\$ 15.6	\$ 45.6	1	
Children's Fund	4.6	4.7	(0.1)	0.8	-	0.8	0.7	2	
Public Education Special Fund	8.0	2.9	5.1	(1.2)	0.2	(1.0)	4.1	3	
Convention Facilities Fund	30.6	10.5	20.1	1.0	3.9	5.0	25.1	4	
Golf Fund	0.9	-	0.9	0.6	-	0.6	1.5	5	
Library Preservation Fund	20.4	0.7	19.7	0.4	5.0	5.4	25.1	6	
Local Courthouse Construction Fund	0.2	-	0.2	(0.1)	0.1	(0.1)	0.1	7	
Open Space Fund	7.0	0.9	6.2	0.7	2.1	2.8	9.0	8	
Telecomm. & Information Systems Fund	8.5	4.0	4.5	1.9	(1.2)	0.8	5.3	9	
General Services Agency-Central Shops Fund	1.1	-	1.1	-	-	-	1.1	10	
Arts Commission Street Artist Fund	(0.1)	-	(0.1)	(0.2)	-	(0.2)	(0.3)	11	
War Memorial Fund	2.8	1.4	1.5	0.2	0.7	0.8	2.3	12	
Gas Tax Fund	4.6	-	4.6	(2.3)	(0.0)	(2.4)	2.2	13	
Neighborhood Beautification Fund	(0.8)	-	(0.8)	1.2	-	1.2	0.4	14	
<b><u>SELECT ENTERPRISE FUNDS</u></b>									
Airport Operating Funds	\$ 93.7	\$ 58.6	\$ 35.1	\$ 6.4	\$ 49.4	\$ 55.8	\$ 90.9	15	
MTA Operating Funds	185.3	20.0	165.3	31.0	0.0	31.0	196.3	16	
Port Operating Funds	27.3	12.3	15.0	27.6	5.3	32.9	47.9	17	
PUC Hetch Hetchy Operating Funds	33.4	-	33.4	(20.1)	15.7	(4.4)	28.9	18	
PUC Wastewater Operating Funds	111.2	-	111.2	(22.4)	21.6	(0.8)	110.4	19	
PUC Water Operating Funds	228.5	50.6	177.9	(37.1)	7.7	(29.4)	148.5	20	
DPH Laguna Honda Debt Service Funds	21.8	0.4	21.4	-	-	-	21.4	21	

**Select Special Revenue & Internal Services Funds**

**1. Building Inspection Fund**

The Building Inspection Department operating fund began the year with \$30.0 million in available fund balance with \$26.2 million appropriated in the current year. The Department projects a \$7.2 million surplus in operating revenues due to higher than expected permit volumes, and expenditures to be \$8.4 million under budget largely due to salary savings, resulting in a projected fiscal year-end available fund balance of \$45.6 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 \$0.8 million better than budget due to estimated increases in property tax set-aside revenue. The projected fiscal year-end available fund balance is \$0.7 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. A revenue shortfall of \$1.2 million and decreases in City Grant expenditures of \$0.2 million result in a projected fiscal year-end available fund balance is \$4.1 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 \$1.0 million, work order savings of \$0.4 million, and debt service savings of \$3.5 million are projected, resulting in a projected fiscal year-end available fund balance of \$25.1 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 \$0.6 million in increased revenues, due to increased concession and golf fee revenue. A fund balance of \$1.5 million is estimated by year end.

**6. Library Preservation Fund**

The Library Preservation Fund began the fiscal year with \$19.7 million in available fund balance. The Department projects a revenue surplus of \$3.3 million including a \$3.9 million improvement to General Fund baseline contributions and \$0.6 million in reduced property taxes, library services and lease revenue. This is supplemented by a \$5.0 million reduction in expenditures on salaries and non-personnel services. This revenue surplus and expenditure savings results in a return of \$2.9 million to the General Fund, or the portion of net surplus attributable to the baseline transfer. The net result is a projected fiscal year end available fund balance of \$25.1 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 \$0.2 million revenue shortfall and \$0.1 expenditure saving are projected, leading to an anticipated year end fund balance 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 a revenue surplus of \$0.7 million due to increases in the property tax set-aside. An expenditure surplus of \$2.1 million is projected, due to savings in salary and benefits. A year-end fund balance of \$9.0 million is projected.

**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 \$0.8 million revenue surplus, resulting in a fiscal year-end available fund balance of \$5.3 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 \$1.5 million. The Department projects revenues surplus of \$0.2 million from unexpected, one-time bookings and concessions revenues, and expenditure savings of \$0.7 million from the delay of Veterans Building construction, resulting in a projected year end fund balance of \$2.3 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, showing as a shortfall in the current year. Expenditures are on budget, resulting in a projected year end fund balance of \$2.2 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. A \$1.2 million revenue surplus due to tax year 2014 payroll tax revenues allocated to the fund will result in a projected year end fund balance of \$0.4 million.

## Select Enterprise Funds

### 15. Airport Operating Fund

The Airport began the fiscal year with \$35.1 million in available fund balance. The department projects a revenue surplus of \$6.4 million, and net expenditure savings of \$49.4 million, for a net operating surplus of \$55.8 million. The revenue projection is comprised of an \$11.7 million shortfall in non-operating revenue, offset by \$18.1 million in increased operating revenue. This revenue shortfall is projected to be offset by \$49.4 million in expenditure savings, including \$28.6 million in post-employment benefits that will not be needed in the current year, \$9.2 million in non-personnel expenditure savings, \$8.9 million in salary and benefit savings, \$2.2 million in savings in materials and supplies, \$2.2 million in equipment and services for other departments savings, offset by a \$1.8 million increase to the Annual Service Payment. A fund balance of \$90.9 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 net of appropriating of \$20.0 million from fund balance in the FY 2015-16 budget. The Agency is projected to end the year with a net operating surplus of \$31.0 million, resulting in a projected year-end fund balance of \$196.3 million. The \$31.0 million surplus is due to stronger revenues including \$13.5 million of parking fees and fines, \$5.0 million from transit fares, \$8.0 million from operating grants, \$5.3 million from General Fund Baseline transfers, \$3.8 million from other revenues offset by a \$5.0 million shortfall in taxi medallion sales.

The Agency projects to end the year on budget for expenditures. The \$3.1 million in labor costs and the \$1.2 million in materials and supplies over budget are offset by \$4.3 million savings in non-personnel services. The \$3.1 million over-expenditure in labor costs is the result of overtime costs, temporary salaries, premium, holiday pay, one-time payment and overhead costs exceeding budget by \$23.5 million which is offset by savings of \$11.8 million in fringe benefits, \$7.5 million in regular salaries, and \$1.1 million in labor cost recoveries above budget. The \$4.3 million savings in non-personnel services includes \$3.7 million from claims and \$5.9 million from professional services offset by higher than budget costs of \$2.9 million in worker's compensation and \$2.4 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 \$27.6 million revenue surplus due to \$5.4 million in operating revenue designated in the budget as reserves that is planned to support future capital appropriations. Additionally, there is \$1.1 million in unanticipated Maritime revenue, \$3.8 million additional real estate revenue from parking and commercial rent, and \$0.4 million in development fees and other miscellaneous revenue. In addition, a surplus of \$16.9 million in one-time revenue, which includes a \$15.3 million pre-payment of non-refundable rent from Pacific Gas & Electric for use of Port property for a power line in the Southern Waterfront, and \$1.6 million payment to facilitate construction of Daggett Park is projected.

The Port projects \$5.3 million in expenditure savings consisting of \$1.2 million in savings from annual projects due to the preservation of funds for contingency purposes, such as oil spills and hazardous material clean-up, \$1.4 million in non-personnel savings primarily due to \$0.6 million in reduced activities and payments to the Port's cargo terminal operator, \$0.4 million savings in various professional and maintenance services, \$0.2 million in utilities expense savings, and \$0.2 million in security expense savings. Other expenditure savings

include salary and benefits savings of \$1.8 million due to staff vacancies, \$0.5 million in savings from services of other departments, \$0.3 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 \$32.9 million and a fiscal-year end available operating fund balance of \$47.9 million, which the Port plans to utilize to meet its 15% operating reserve requirement, support the FY2015-16 capital budget, and fund other high priority capital projects.

**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 \$20.1 million mainly due to reduced power available for sale because 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 \$19.7 million in projected expenditure savings, including \$7.6 million in general reserves to go unspent to supplement fund balance, \$4.0 million contingency reserves for power purchases, and \$5.2 million savings from reduced power purchases due to postponement of maintenance on generating units, which offset by \$1.6 million to fund the PG&E's settlement resulting in a projected net operating deficit of \$0.5 million. To implement the Community Choice Aggregation (CCA) program, the Department is requesting use of fund balance of \$4 million to loan to CCA as short-term working capital needed for the initial start-up period resulting in a projected year-end fund balance of \$28.9 million.

**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 \$22.4 million lower than budget mainly due to lower treated flow and water use by customers. The shortfall is offset by \$21.6 million in projected expenditure savings including \$20.2 million from the General Reserve budgeted and planned to go unspent to build up fund balance reserves, and \$1.5 million from salary and benefit savings due to vacant positions. This results in a projected net operating deficit of \$0.8 million and a projected fiscal year-end fund balance of \$110.4 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 \$37.1 million lower than budget, mainly due to lower water sales. The shortfall is offset by \$7.7 million of expenditure savings primarily from lower debt service costs and general reserve savings. This results in a projected net deficit of \$29.4 million and a projected fiscal year-end fund balance of \$148.5 million.

On May 5, 2015, the California State Water Board approved emergency regulations to increase water conservation by an average of 25 percent in urban areas. The measures call for cities and water agencies to reduce water usage by amounts ranging from 8% to 36%. The PUC is currently estimating the impact of these changes on its water sales to both retail and wholesale customers.

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

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 March 2015	Straight Line Projection	Surplus/ (Deficit)	\$ Million	Percent
<b>MTA</b>										
Municipal Railway	52.2	53.2	46.3	53.3	35.6	37.4	49.9	(14.3)	(3.3)	-7%
Parking & Traffic	2.1	2.5	2.3	2.4	1.6	2.2	2.9	(1.3)	0.5	18%
Subtotal - MTA	54.3	55.7	48.7	55.6	37.2	39.6	52.8	(15.6)	(2.8)	-5%
<b>Police</b>										
General Fund Operations	13.1	10.7	13.0	14.3	17.3	12.8	17.0	0.2	2.7	16%
Special Law Enforcement Services (10B)	8.6	10.4	10.5	10.3	7.1	7.1	7.1	-	(3.2)	-45%
Grants & Other Non-10B Special Revenues	1.5	2.1	2.4	1.9	1.9	1.3	1.7	0.3	(0.2)	-13%
Airport	1.4	1.8	1.8	1.1	1.5	0.8	1.1	0.4	0.0	0%
Municipal Transportation Agency				0.1	-	0.1	0.1	(0.1)	(0.0)	-11%
Subtotal - Police	24.6	24.9	27.7	27.7	27.7	22.0	29.3	(1.6)	1.6	6%
<b>Public Health</b>										
SF General	4.2	5.1	5.1	5.2	4.5	4.4	5.9	(1.4)	0.7	12%
Laguna Honda Hospital	5.6	5.7	6.4	5.6	6.0	4.5	5.9	0.1	0.3	6%
All Other Non-Hospital Operations	0.8	0.8	1.1	1.2	0.7	1.0	1.4	(0.6)	0.2	14%
Subtotal - Public Health	10.6	11.6	12.6	11.9	11.3	9.9	13.2	(1.9)	1.3	10%
<b>Fire</b>										
General Fund Operations	27.7	32.6	40.4	38.0	35.7	23.0	30.6	5.1	(7.4)	-24%
Grants & Other Special Revenues	-	-	-	0.1	(0.1)	0.2	0.3	(0.4)	0.2	74%
Airport	2.5	2.8	3.1	4.5	3.7	2.9	3.8	(0.1)	(0.7)	-17%
Port	0.3	0.2	0.3	0.3	0.4	0.2	0.3	0.0	0.1	21%
PUC Hetch Hetchy				0.0	-	-	-	-	(0.0)	0%
Subtotal - Fire	30.5	35.6	43.8	42.8	39.7	26.3	35.1	4.7	(7.7)	-22%
<b>Sheriff</b>										
General Fund Operations	5.3	7.6	9.8	9.7	9.6	9.5	12.7	(3.1)	2.9	23%
Grants & Other Special Revenues	0.5	0.8		0.8	0.3	0.6	0.8	(0.4)	(0.0)	0%
Subtotal - Sheriff	5.8	8.4	10.7	10.5	9.9	10.1	13.4	(3.5)	2.9	22%
<b>Subtotal - Top 5</b>	<b>\$ 125.8</b>	<b>\$ 136.2</b>	<b>\$ 143.4</b>	<b>\$ 148.6</b>	<b>\$ 125.9</b>	<b>\$ 107.9</b>	<b>\$ 143.8</b>	<b>\$ (17.9)</b>	<b>\$ (4.7)</b>	<b>-3%</b>
Public Utilities Commission	5.9	6.2	6.0	6.9	4.0	5.2	7.0	(3.0)	0.1	2%
Recreation & Park	1.4	1.1	1.6	1.2	1.3	0.7	0.9	0.4	(0.3)	-27%
Human Services Agency	0.6	0.6	0.8	2.9	0.5	2.9	3.9	(3.4)	1.0	25%
Fine Arts Museum	0.8	0.9	0.7	0.9	0.6	0.6	0.8	(0.2)	(0.0)	-2%
Public Works	1.4	1.5	2.0	2.3	1.7	1.8	2.4	(0.7)	0.0	2%
Juvenile Probation	0.8	0.9	1.4	1.5	0.7	1.1	1.5	(0.7)	0.0	0%
Airport Commission	2.2	2.2	2.5	3.0	3.0	2.4	3.2	(0.2)	0.3	8%
Elections	0.4	0.4	0.3	0.2	0.4	0.2	0.3	0.2	0.1	21%
Emergency Management	1.4	1.2	1.1	1.6	1.1	1.7	2.3	(1.2)	0.7	29%
All Other Departments	3.2	2.9	4.0	3.9	2.21	2.89	3.86	(1.7)	(0.0)	0%
<b>Total</b>	<b>\$ 144.0</b>	<b>\$ 154.1</b>	<b>\$ 163.8</b>	<b>\$ 172.9</b>	<b>\$ 141.6</b>	<b>\$ 127.5</b>	<b>\$ 170.0</b>	<b>\$ (28.3)</b>	<b>\$ (2.9)</b>	<b>-2%</b>
<b>Top 5 % of Total</b>	<b>87.4%</b>	<b>88.4%</b>	<b>87.6%</b>	<b>85.9%</b>	<b>88.9%</b>	<b>84.6%</b>	<b>84.6%</b>			
Change from Prior Year Actual	\$ 14.0	\$ 12.0	\$ 9.7	\$ 9.1	\$ (31.3)		\$ (2.9)			
<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>\$ 3,000.3</b>	<b>\$ 1,966.1</b>	<b>\$ 2,621.5</b>			
Overtime as a % of Total Gross Salaries	5.7%	5.8%	5.8%	6.0%	4.7%	6.5%	6.5%			

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