



Edward Harrington
Controller

John W. Madden
Chief Assistant Controller

May 3, 1999

The Honorable Willie L. Brown, Jr.
Mayor, City and County of San Francisco
Room 200, City Hall

The Honorable Board of Supervisors
Room 244, City Hall

Re: 1998-99 Nine-Month Budget Status Report

Dear Mayor Brown, Ladies and Gentlemen:

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. This report is a nine-month budget status report based on revenues received and appropriations expended through March 31, 1999. The purpose of the report is to apprise the City's policy makers of the current budgetary status and projected year-end revenues and expenditures. It is organized as follows:

- I. Overview
- II. Revenues
- III. Expenditures
- IV. General Fund Subsidized Departments (Municipal Railway and Health)
- V. Issues to Monitor (Workers' Compensation)

I. OVERVIEW

We project a \$100.9 million year-end balance available at the end of fiscal year 1998-99. This amount is based on current revenue and spending patterns and the dollar amount of supplemental appropriation requests currently pending before the Board of Supervisors.

In our last report to you (February 9, 1999) we indicated we projected we would end fiscal year 1998-99 with an \$86.0 million surplus. That number has grown by \$14.9 million primarily due to increased revenues. This amount is available even after assuming that all pending supplemental appropriation requests are approved. This time last year we projected a year-end balance of \$101.7 million for fiscal year 1997-98. A summary of our projected sources and uses of revenues by category follows. The most significant changes from the original budget and year-end projections are summarized below.

Chart A: Nine-Month General Fund Budget Summary -- FY1998-99
(in millions)

	Original Budget	Revised Budget	Year-End Projection	Variance: + to G.F. (- from G.F.)
Sources:				
General Fund beginning balance	101.9	101.9	145.3	43.4
Current revenues	1,649.8	1,664.6	1,726.6	62.0
Transfers in	158.7	156.3	154.1	(2.2)
Total Sources	1,910.4	1,922.8	2,026.0	103.2
Uses:				
Operating expenditures	1,581.5	1,621.2	1,610.1	11.1
Contribution transfers	115.5	131.8	150.3	(18.5)
Other transfers and reserves	188.4	163.5	156.3	7.2
Required set-asides			1.1	(1.1)
Pending supplemental appropriations			7.3	(7.3)
Total Uses	1,885.4	1,916.5	1,925.1	(8.6)
General Fund ending balance	25.0	6.3	100.9	94.6

General Fund Beginning Balance

At the time the budget for 1998-99 was prepared, we anticipated that we would start the current fiscal year with a balance of \$101.9 million in the General Fund Reserve. After the budget was adopted, and when the Comprehensive Annual Financial Report for the year ended June 30, 1998, was completed in November, we reported that the ending balance from the previous fiscal year was \$145.3 million. As a result, there is an additional \$43.4 million budgetary surplus available from 1997-98. Most of this surplus is attributable to higher-than-projected revenues in 1997-98 and unused reserves, as well as budget savings within City departments.

Current Revenues and Transfers In

We project current revenues and transfers to be \$59.8 million higher than the revised budget and \$21.5 million more than reported in the six-month report. The majority of additional revenues come from property-related taxes and business taxes, which have increased primarily because of the continued strength in the economy and increases in property values and real estate transactions. The major changes since the six-month report are an \$8.3 million increase in property-related taxes and a \$3.3 million increase in business taxes. Section II outlines the projected revenues by category.

Operating Expenditures, Transfers and Reserves

Based on current spending patterns, we project operating expenditures to be approximately \$11.1 million less than budget. However, the Health Department requires an additional General Fund contribution transfer of \$19.2 million to cover shortfalls at the General Hospital, in addition to a \$5.6 million supplemental appropriation for Laguna Honda Hospital. Other transfers and reserves are projected to be \$7.2 million below budget, primarily due to close-outs of capital projects and prior year fund balances. Section III outlines projected expenditures by department. Changes between the original budget and the revised budget in the schedule of expenditures in Chart D are due to a carryforward of unexpended appropriations from the previous fiscal year, a supplemental appropriation (as listed in Appendix A) or an allocation from a reserve fund to a department budget.

Required Set-Asides

The Charter specifies that the **Children's Fund** and the **Library Preservation Fund** shall receive at least a minimum level of funding from the General Fund (Sections 16.108 and 16.109). This minimum funding level is adjusted by any change in aggregate City appropriations from the base year. As a result, as General Fund expenditures increase, the minimum funding levels for the Children's Fund and the Library Preservation Fund also increase. Chart B identifies the minimum funding level (baseline) for each fund based on the original 1998-99 budget, and the revised funding level based on projected aggregate City expenditures.

Chart B: Children's Fund and Library Preservation Fund Baseline Funding Levels
(in thousands)

	<u>Required</u>		<u>Actual</u>	
	<u>Original</u>	<u>Revised</u>	<u>G. F. Contribution</u>	<u>Excess G.F.</u>
	<u>Baseline</u>	<u>Baseline</u>	<u>-- Revised Budget</u>	<u>Contribution</u>
Children's Fund	\$55,284	\$57,680	\$58,802	\$1,122
Library Fund	24,922	26,002	29,192	3,190

The 1998-99 General Fund contributions to both funds already exceed our revised baseline calculation of the amounts they are entitled to receive under the Charter. As a result, there are no required increases in the Children's Fund and Library Preservation Fund budgets.

The **budget incentive program** requires that ten percent (10%) of any savings in General Fund expenditures be set aside for this program. Based on projected expenditure savings of \$11.1 million, the set-aside required in 1998-99 would be \$1.1 million.

Pending Supplemental Appropriations

The Board is considering supplemental appropriation requests from various departments of about \$7.3 million (see Appendix A). This amount may be modified by the Mayor and the Board or by additional supplemental requests from departments in the next few months. Our projections assume that these supplementals are approved at the requested funding levels.

General Fund Ending Balance

Based on the original budget, the General Fund ending balance was projected to be \$25 million. Subsequent to the adoption of the budget, the Board approved \$18.7 million in supplemental appropriation requests (see Appendix A). Based on current revenue and expenditure projections, the 1998-99 year-end balance in the General Fund Reserve is projected to be \$100.9 million.

Reserves

Each year, the Board of Supervisors places certain budget items on reserve, requiring subsequent Board approval before these funds can be spent. Appendix B provides a status report on the Board reserves and their remaining balances.

II. REVENUES

Chart C: Schedule of Budgeted and Projected Revenues

Fiscal Year Ending June 30, 1999
As of March 31, 1999
(In thousands)

GENERAL FUND	ACTUAL FY97-98	FISCAL YEAR 1998-99				NOTES
		ORIGINAL BUDGET	REVISED BUDGET	9 MONTH PROJECTION	VARIANCE FAV(UNFAV)	
PROPERTY TAXES	342,050	346,027	346,027	367,903	21,876	(1)
BUSINESS TAXES:						
Business Registration Tax	10,106	10,628	10,628	10,347	(281)	(2)
Gross Receipts Tax	30,662	30,608	30,608	33,042	2,434	(2)
Payroll Tax	182,136	190,027	190,027	191,135	1,108	(2)
Total Business Taxes	222,904	231,263	231,263	234,524	3,261	(2)
OTHER LOCAL TAXES:						
Sales Tax	112,950	114,135	114,135	115,606	1,471	(3)
Hotel Room Tax	83,502	85,627	85,627	84,407	(1,220)	(4)
Utility Users Tax	56,604	56,087	56,087	55,485	(602)	(5)
Parking Tax	16,808	17,198	17,198	17,875	677	(6)
Real Property Transfer Tax	44,007	42,350	42,350	54,000	11,650	(7)
Admission Tax	2,934	3,199	3,199	3,276	77	(8)
Total Other Local Taxes	316,805	318,596	318,596	330,649	12,053	
LICENSES, PERMITS & FRANCHISES						
Licenses & Permits	6,612	7,145	7,145	7,046	(99)	
Franchise Tax	7,892	7,764	7,764	8,066	302	(9)
Total Licenses, Permits & Franchises	14,504	14,909	14,909	15,112	203	
FINES, FORFEITURES & PENALTIES	1,431	2,522	4,922	5,958	1,036	(10)
INTEREST/INVESTMENT INCOME	28,257	21,502	21,687	24,809	3,122	(11)
RENTS & CONCESSIONS						
Garages - Rec/Park	6,621	5,963	5,963	5,942	(21)	(8)
Rents and Concessions - Rec/Park	12,576	13,107	13,107	12,791	(316)	(8)
Other Rents and Concessions	1,904	3,118	3,118	3,658	540	(12)
Total Rents and Concessions	21,101	22,188	22,188	22,391	203	
INTERGOVERNMENTAL REVENUES						
Federal Subventions						
Social Service Subventions	96,614	129,472	133,582	133,582	-	
Other Grants & Subventions	9,810	7,679	7,679	7,679	-	
Total Federal Subventions	106,424	137,151	141,261	141,261	-	

CHART C (continued): Schedule of Budgeted and Projected Revenues

Fiscal Year Ending June 30, 1999
As of March 31, 1999
(In thousands)

GENERAL FUND	ACTUAL FY97-98	FISCAL YEAR 1998-99				NOTES
		ORIGINAL BUDGET	REVISED BUDGET	9 MONTH PROJECTION	VARIANCE FAV(UNFAV)	
State Subventions						
Social Service Subventions	99,767	99,936	106,607	106,607	-	
Health & Welfare Realignment	152,375	155,900	155,900	155,900	-	(13)
Health/Mental Health Subventions	57,600	60,027	60,486	60,486	-	
Public Safety Sales Tax	58,154	60,538	60,538	60,764	226	(14)
Motor Vehicle In-Lieu - County	42,592	43,402	43,402	44,338	936	(15)
Motor Vehicle In-Lieu - City	32,529	32,890	32,890	33,968	1,078	(15)
Trial Court Funding	32,769	-	-	885	885	(16)
Other Grants & Subventions	16,763	11,842	12,397	13,949	1,552	(17)
Total State Subventions	492,549	464,535	472,220	476,897	4,677	
CHARGES FOR SERVICES:						
General Government Service Charges	14,489	17,142	17,142	16,489	(653)	(18)
Public Safety Service Charges	11,163	10,029	10,424	10,973	549	(19)
Recreation Charges - Rec/Park	9,010	10,932	10,932	9,476	(1,456)	(8)
MediCal, MediCare and health charges	42,231	38,108	38,108	37,823	(285)	(20)
Other Service Charges	4,737	4,359	4,359	4,329	(30)	
Total Charges for Services	81,630	80,570	80,965	79,090	(1,875)	
RECOVERY OF GEN. GOV'T. COSTS	7,791	10,117	10,117	10,117	-	
OTHER REVENUES	2,703	400	477	17,931	17,454	(21)
TOTAL REVENUES	1,638,149	1,649,780	1,664,632	1,726,642	62,010	
TRANSFERS INTO GENERAL FUND:						
Airport	21,184	10,954	10,954	8,700	(2,254)	(22)
Hetch Hetchy	45,703	42,703	42,703	42,703	-	
Other Transfers	103,734	105,074	102,674	102,674	-	
Total Transfers-In	170,621	158,731	156,331	154,077	(2,254)	
TOTAL GENERAL FUND RESOURCES	1,808,770	1,808,511	1,820,963	1,880,719	59,756	

Changes Between Budgeted and Projected Revenues

- (1) **Property taxes** are over budget by approximately \$21.9 million, an increase of \$2.6 million from our six-month report. The overall increase in revenues is due to an increase in assessed property value over the 1997 roll. At the time the budget was adopted, the Assessor projected a 4% increase in the 1998 roll, which was used for the budget projection. The Assessor's final roll was actually 9.2% higher than the prior year. In addition, the Assessor anticipates adding another 1% to the 1998 roll through enrollment of escapes. As a result of these changes, the final 1998 roll on which property taxes will be levied is 6.2% higher than the estimate used for budget projections.

The 1998-99 budget included an additional \$2.3 million in property taxes from the Embarcadero Center, which was reportedly sold for \$1.2 billion in November 1998. In the budget projections, we assumed that the property would be reassessed and added to the roll at the new market value, as reflected in the sales price. It is our understanding that the actual transfer of the property between owners is being structured in phases. At this time, the Assessor's office has not included any increase in assessed value of the Embarcadero Center parcels in their projections for the 1998 roll. As a result, our year-end projection does not include any additional property tax revenues from the Embarcadero Center. Instead, any increase in property taxes from the reassessment of the Embarcadero Center will be captured in subsequent years.

- (2) According to the Tax Collector's figures, **business taxes** are projected to be \$3.3 million over budget this year. This is a 5.2% increase over prior year revenues, even after the new business tax credit, which was approved after the budget was adopted. The business tax growth rate *without* the credit would be nearly 7.0%. This reflects continuing growth in business and employment in San Francisco.
- (3) **Sales taxes** are over budget by \$1.5 million. This is due primarily to an increase in prior year actual revenues, thus increasing the basis for this year's projections. Overall, sales taxes are projected to increase 3.2% over last year's actual revenues.
- (4) **Hotel taxes** allocated to the General Fund are under budget by approximately \$1.2 million. Overall, hotel tax revenues are projected to increase 8.2% over last year's actual revenues. However, last year's actual hotel tax revenues were \$2.0 million less than the basis we used for the 1998-99 budget projection. As a result, even with continued growth in hotel taxes, revenues will be under budget.

In addition to the General Fund allocation, several departments receive a portion of hotel tax revenues as specified by ordinance (No. 254-98). Because the projected growth rate of 8.2% is higher than the budgeted growth rate of 7.5%, these departments should receive their entire budgeted amount of hotel tax revenues, plus any additional growth above 7.5%. The final allocation of hotel tax revenues to specified departments will be based on actual receipts at the end of the fiscal year.

- (5) **Utility user taxes** are below budget by \$0.6 million, primarily due to declines in gas and electric collections. This decrease continues the trend of the past few years.
- (6) **Parking taxes** are over budget by \$0.7 million due to improvements at parking garages which increased the amount of available parking spaces.
- (7) **Real property transfer tax** revenues are up substantially again this year, approximately \$11.6 million over budget. The increase is due to higher property values, a large volume of sales transactions in the residential real estate market, and the sale of several high-priced commercial properties. The year-end projection is \$5.7 million higher than in our six-month report.

The 1998-99 budget included an additional \$9 million in property transfer tax revenues from the Embarcadero Center, which was reportedly sold in November 1998 (\$1.2 billion sales price times 0.75% property transfer tax rate). It is our understanding that the actual transfer of the property between owners is being completed in phases, and that the transfer may be structured in such a way as to reduce the transfer tax liability. To date, the Assessor's office has recorded the sale of two parcels at a combined sales price of \$181.1 million; the property transfer taxes on these sales is \$1.4 million, which is included in our year-end projection.

- (8) **Recreation and Park Department** revenues include the admission tax, garages, rents and concessions from recreation activities and recreation charges for services. In its budget, the department projected approximately a 5% growth in revenues over last year; however, current projections indicate that revenues are slightly lower than last year. Overall, Recreation and Park's FY98-99 revenues are expected to be approximately \$1.7 million less than budgeted. Admission charges at the Japanese Tea Garden, Coit Tower, and the Carousel are down \$0.7 million, due in part to a fee increase which may deter attendance. Green fees and concession revenues from the City's six public golf courses are down \$0.7 million and recreation fees are down \$0.3 million.
- (9) **Franchise tax** revenues are approximately \$0.3 million over budget, due primarily to higher cable payments.
- (10) **Fines, forfeitures and penalties** are over budget by \$1.0 million, due primarily to moving violation revenues which were previously transferred to the state. With the change in trial court funding, these revenues now remain with the cities in which they are levied.
- (11) **Interest and investment** income is expected to be \$3.5 million over budget, due to larger than expected cash balances available to earn interest.
- (12) **Rents and concessions** revenues are over budget by \$0.5 million due to increased events and activities on Treasure Island.
- (13) **Health and welfare realignment** revenues are projected to be \$3.1 million over budget. This includes \$0.6 million in revenues that were received for prior years and \$2.5 million in additional revenues this year, due to stronger-than-projected growth in state-wide sales taxes and in vehicle license fees. The entire surplus is offset by revenue shortfalls in the Health Department, as reflected in Section III (Expenditures), so revenues are shown on budget.
- (14) **Public safety sales tax (Prop. 172)** is expected to be approximately \$0.2 million over budget, due to slightly higher growth in state-wide sales tax receipts.
- (15) **Motor vehicle in lieu** subventions are projected to be approximately \$2.0 million over budget, due to a larger prior-year base and slightly higher growth rate.
- (16) The 1997 Lockyer-Isenberg **Trial Court Funding Act** substantially changed the division of responsibilities between the state and counties for funding trial courts. Revenues previously received by the County to fund court operations are now allocated directly to the courts by the

state. Revenues of \$0.9 million reflect a payment received this year for prior year activities, based on the state's final reconciliation under the old funding agreement.

- (17) **Other grants and subventions** are over budget by \$1.6 million, due primarily to recovery of funds under the state-mandated child abduction program.
- (18) **General government service charges**, which are made up of a number of items, are under budget by \$0.7 million, although certain fees are either above or below the budget estimates. In particular, the \$1 surcharge on parking tickets, which previously was remitted to the state, is down \$3.2 million from budget because the fee is now recorded in revenues of the Municipal Railway (Proposition M).

The **City Planning Department** estimates that they will collect an additional \$2.9 million in planning fees because of the continued boom in the building industry. Of this amount, \$2.4 million is included in the year-end projection; the department is planning to use the remaining excess fee revenues for system upgrades, and has submitted a supplemental appropriation request. The surplus planning fees partially offset the shortfall in parking fees in this category.

- (19) **Public safety service charges** are expected to be \$0.5 million over budget, mainly due to higher fees collected for towing surcharges related to the "Unclog the Streets" program and to street space permits paid by contractors for construction work.
- (20) **Health service charges** are below budget by \$0.3 million due to a projected shortfall in EMS revenues. While the Fire Department has experienced an increase in the number of emergency calls, overall revenues are down because more responses are being reimbursed at the basic life support (BLS) rate, which is lower than the advanced life support (ALS) rate.
- (21) **Other revenue** includes a one-time recovery of property tax revenues that were allocated to the Educational Revenue Augmentation Fund (ERAF) in prior years. Based on a preliminary review by the California State Controller, the City anticipates that it will reduce the allocation to ERAF by \$17.6 million this year, which represents overpayments between 1993-94 and 1996-97.
- (22) The **Airport** transfers 15% of concession revenues to the General Fund, in return for general City services. Construction activities, delays in opening new rental and concession facilities, and a decline in international travel due to the Asian economic crisis have all affected concession revenues. As a result, the transfer to the General Fund is \$2.3 million below budget.

III. EXPENDITURES

Chart D: Schedule of Budgeted and Projected Expenditures

Fiscal Year Ending June 30, 1999 As of March 31, 1999 (In Thousands)					
		Fiscal Year 1998-99			
GENERAL FUND	ACTUAL FY 1997-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS (DEFICIT)
PUBLIC PROTECTION					
Adult Probation	7,893	\$7,588	\$7,690	\$7,590	\$100 (1)
Animal Care and Control	2,222	2,441	2,469	2,469	0
Co. Agriculture - Wts./Measures	1,036	1,232	1,238	1,238	0
District Attorney	28,067	31,093	31,369	31,369	0
Environment	330	298	366	316	50 (1)
Fire Department	145,442	145,427	147,875	147,875	0
Juvenile Court	21,067	21,765	23,168	23,068	100 (1)
Police Department	208,301	213,936	215,752	216,271	(519) (2)
Public Administrator/Guardian	2,960	3,331	3,358	3,358	0
Public Defender	10,285	11,018	11,028	11,028	0
Sheriff	67,907	62,028	65,917	65,917	0
Trial Courts	31,798	28,011	28,208	28,208	0
Total Public Protection	\$527,308	\$528,168	\$538,438	\$538,707	(\$269)
PUBLIC WORKS, TRANSPORTATION AND COMMERCE					
Clean Water	116	152	152	152	0
Emergency Communications	0	9,847	5,686	5,386	300 (1)
Parking and Traffic Commission	\$25,740	31,654	32,875	31,275	1,600 (3)
Permit Appeals	282	315	321	321	0
Public Works	10,579	14,269	14,855	14,855	0
PUC Light, Heat and Power	4,781	4,870	4,930	4,930	0
Telecommunications & Info. Services	1,404	4,967	2,121	2,121	0
Total Public Works, etc.	\$42,902	\$66,074	\$60,940	\$59,040	\$1,900
HUMAN WELFARE AND NEIGHBORHOOD DEVELOPMENT					
Business and Economic Developme	793	2,106	1,968	1,968	0
Comm. on the Status of Women	1,797	2,242	2,243	2,203	40 (1)
Human Rights Commission	\$1,490	1,648	1,734	1,684	50 (1)
Human Services	302,584	362,874	374,280	367,573	6,707 (4)
Total Human Welfare, etc.	\$306,664	\$368,870	\$380,225	\$373,428	\$6,797
COMMUNITY HEALTH					
Community Health Network	51,160	58,765	59,934	59,934	0
Medical Examiner	\$3,343	3,557	3,732	3,632	100 (1)
Public Health	302,884	336,488	353,348	353,348	0
Total Community Health	\$357,387	\$398,810	\$417,014	\$416,914	\$100

Chart D (continued): Schedule of Budgeted and Projected Expenditures

Fiscal Year Ending June 30, 1999					
As of March 31, 1999					
(In Thousands)					
	Fiscal Year 1998-99				VARIANCE
GENERAL FUND	ACTUAL FY 1997-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS (DEFICIT)
CULTURE AND RECREATION					
Academy of Sciences	1,583	1,615	1,615	1,615	0
Art Commission	531	649	745	745	0
Asian Art Museum	1,601	1,488	1,511	1,511	0
Children, Youth & Families	0	493	683	623	60 (1)
County Educational Office	\$1,121	1,121	1,121	1,121	0
Fine Arts Museum	4,416	4,842	4,855	4,855	0
Law Library	207	263	263	263	0
Recreation and Park	59,359	62,750	64,178	64,178	0
Total Culture, etc.	\$68,818	\$73,221	\$74,971	\$74,911	\$60
GENERAL ADMINISTRATION & FINANCE					
Administration Services	1,184	1,834	1,571	1,571	0
Assessor/Recorder	8,322	9,319	8,435	8,355	80 (1)
Board of Supervisors	\$6,648	\$8,522	8,395	8,195	200 (1)
City Attorney	13,127	12,411	11,973	11,973	0
City Planning	6,161	8,315	8,471	7,971	500 (1)
Civil Service	560	610	623	553	70 (1)
Controller	13,414	14,363	14,617	14,617	0
Ethics Commission	372	476	480	480	0
General City Responsibility	22,647	35,362	36,319	35,319	1,000 (5)
Human Resources	13,684	14,317	14,773	14,773	0
Mayor	18,375	20,641	23,404	23,304	100 (1)
Real Estate	956	1,246	1,246	1,246	0
Registrar	3,642	2,770	2,672	2,672	0
Purchaser	1,718	3,056	3,032	2,732	300 (1)
Treasurer/Tax Collector	12,246	13,620	13,599	13,349	250 (1)
Total General Admin.	\$123,056	\$146,862	\$149,610	\$147,110	\$2,500
TOTAL GENERAL FUND EXPS.	\$1,426,135	\$1,582,005	\$1,621,198	\$1,610,110	\$11,088
TRANSFERS OUT OF GENERAL FUND:					
Contribution to MUNI		\$52,397	\$68,720	\$68,720	0
Contribution to SFGH		13,720	13,720	32,908	(19,188) (6)
Contribution to LHH		21,658	21,658	21,658	0
Contribution to Library		27,711	27,711	27,011	700 (1)
Other Transfers and Reserves		188,385	163,485	156,335	7,150 (7)
Total Transfers Out:		\$303,871	\$295,294	\$306,632	(\$11,338)
TOTAL GENERAL FUND USES		\$1,885,876	\$1,916,492	\$1,916,742	(\$250)

Changes in Departmental Expenditures

- (1) Based on current spending patterns, several departments are projected to end the year under budget because of salary and fringe benefit savings.
- (2) The **Police Department** expenditures for overtime and workers compensation are over budget by \$1.5 million and \$1.0 million respectively, based on expenditures during the first nine months of the fiscal year. At this time the Police Department is projecting that the overtime deficit will be offset by other salary savings. The Airport is reimbursing the Police for \$0.5 million of workers compensation costs attributed to Airport Police. A supplemental appropriation will be required to offset the other \$0.5 million workers compensation deficit. The Police Department is also preparing a supplemental appropriation request for additional equipment, which is listed in Appendix A.
- (3) The **Parking and Traffic Commission** will end the year with a \$1.6 million surplus from two sources: (i) salary savings of \$0.8 million; and (ii) payment of \$0.8 million for bond debt which was made from the Offstreet Parking Fund rather than the operating fund.
- (4) The **Department of Human Services** is projecting a savings of \$6.7 million due to reductions in general assistance and CalWORKS caseloads, revised start-up dates for new programs, and additional state revenue allocations.
- (5) **General City Responsibility** has a projected surplus of \$1.0 million for the retired subsidy portion of Health Service charges.
- (6) The **Health Department** is projecting a shortfall of \$19.2 million at San Francisco General Hospital. Details of the department's revenue and expenditure projections are discussed in more detail in Section IV.
- (7) There is a projected savings of \$7.15 million in **Other Transfers and Reserves**. Closeouts of \$3.7 million will occur in various capital and programmatic projects; \$0.75 million was saved in the San Francisco Finance Corporation's lease payments; \$1.2 million represents accumulated savings in the Road Fund; and \$1.5 million from the salary reserve related to cost-of-living adjustments that were lower than expected.

IV. GENERAL FUND SUBSIDIZED DEPARTMENTS

Municipal Railway

The Municipal Railway experienced serious operational problems last summer that affected revenues as well as operating expenses. In response, the Board approved a supplemental appropriation for \$14.8 million. The supplemental appropriation covers a projected shortfall of approximately \$3.3 million in passenger cash fares, which is partially offset by increases in other revenue sources. The supplemental appropriation also provides for additional expenditures of \$1.0 million in salaries and benefits, \$3.7 million in contractual services, \$5.0 million in materials and supplies, and \$5.1 million in other operating expenses. Chart E reflects the supplemental appropriation increase of \$14.8 million in the revised budget column. At this time, the Municipal Railway is projected to remain within the revised budget.

Chart E: Municipal Railway Projected Sources and Uses

Fiscal Year Ending June 30, 1999
As of March 31, 1999
(In Thousands)

	FY 98-99				
	ACTUAL FY 97-98	ORIGINAL BUDGET	REVISED BUDGET	CURRENT PROJECTION	SURPLUS/ (DEFICIT)
Department Revenues:					
Passenger Fares	\$97,909	\$99,972	\$97,094	\$97,026	(\$68)
Sales Tax Allocation - MTC	27,829	30,053	30,053	30,053	0
Operating Assistance	546	0	0	0	0
MTC Bridge Toll Allocation	23,639	30,031	30,031	30,031	0
Other	33,846	31,212	31,740	31,151	(589)
Total Department Revenues	\$183,769	\$191,268	\$188,918	\$188,261	(\$657)
Proposition M Revenues:					
Parking Tax	\$16,808	\$17,198	\$17,198	\$17,875	\$677
Garage Rents	9,513	8,521	8,521	9,032	511
Traffic Fines/Meter Transfers	57,277	61,684	61,684	61,153	(531)
Total Other Financing Sources	\$83,598	\$87,403	\$87,403	\$88,060	\$657
General Fund Subsidy	\$52,110	\$52,397	\$70,309	\$70,309	\$0
TOTAL SOURCES	\$319,477	\$331,068	\$346,630	\$346,630	\$0
Expenditures:					
Personal Services	\$231,746	\$240,497	\$243,066	\$243,066	0
Contractual Services	20,299	24,376	28,056	28,056	0
Materials and Supplies	22,518	24,354	29,378	29,378	0
Claims	9,283	7,783	7,783	7,783	0
Workers' Compensation	16,417	16,049	19,594	19,594	0
Other Operating Expenses	7,656	10,819	11,563	11,563	0
Facilities Maint. & Capital Projects	11,558	7,190	7,190	7,190	0
TOTAL USES	\$319,477	\$331,068	\$346,630	\$346,630	\$0
PROJECTED SURPLUS/(DEF)	\$0	\$0	\$0	\$0	\$0

Health Department

The Health Department is projecting substantial revenue and expenditure variances in each division. Overall, department revenues are down \$45.7 million for a variety of reasons. The department projects that it will be able to reduce expenditures by \$20.9 million. The net shortfall in the department is \$24.8 million, as summarized in Chart F. The Board of Supervisors is considering a supplemental appropriation request of \$5.6 million for Laguna Honda Hospital. Assuming this supplemental is approved, the remaining shortfall in the Health Department would be \$19.2 million.

Chart F: Health Department Projected Surplus/(Deficit)

Fiscal Year Ending June 30, 1999

As of March 31, 1999

(In Thousands)

<u>Division</u>	Over/(Under) <u>Revenues</u>	Budgeted Amount <u>Expenditures</u>	Net Surplus/ <u>(Deficit)</u>
Community Health Network			
S.F. General Hospital	(\$30,614)	\$3,517	(\$27,097)
Laguna Honda Hospital	(7,765)	2,165	(5,600)
Primary Care	(2,695)	3,541	846
Forensics	<u>(33)</u>	<u>33</u>	<u>0</u>
Subtotal	(41,107)	9,256	(31,851)
Population Health & Prevention	<u>(4,614)</u>	<u>11,677</u>	<u>7,063</u>
Total	<u>(\$45,721)</u>	<u>20,933</u>	<u>(\$24,788)</u>

Revenues:

Revenues at San Francisco General Hospital (SFGH) are \$30.6 million below budget. The most significant factors affecting these revenues are: (1) high patient census at SFGH which has resulted in citywide hospital diversions of Medi-cal and Medicare patients; (2) a higher than expected number of uninsured patients; (3) additional recognition of bad debt; (4) lower reimbursement based on changes to medical acuity of some Medicare patients; and (5) disallowances of Medi-cal and Medicare costs from prior years, which must be applied to current year revenues. Health and Welfare Realignment revenues, which are projected to be \$3.1 million over budget, are included in the SFGH revenue figures, and offset a portion of the revenue loss.

Revenues at Laguna Honda Hospital (LHH) are \$7.8 million below budget. The primary factor affecting revenues is the reduced census at LHH as required by the Health Care Finance Administration. This reduction has been implemented consistent with the department's plan of correction. Census reductions at LHH have resulted in lower Medi-cal revenues combined with a larger proportion of uninsured patients.

Primary Care revenues are down \$2.7 million. Revenues for Population Health & Prevention divisions are \$4.6 below budget.

Expenditures:

In response to projected revenue shortfalls, the department has instituted an aggressive expenditure reduction plan. This plan includes personnel reductions, deferral of equipment and capital purchases, reduction of administrative expenses, and delay of new programs. The department anticipates that it can reduce expenditures at SFGH by \$3.5 million, LHH by \$2.2 million, Primary Care by \$3.5 million, and Population Health & Prevention programs by \$11.8 million.

Shortfall:

Overall, the department is projecting a shortfall of \$24.8 million. The department has submitted a supplemental appropriation request to correct the \$5.6 million shortfall for Laguna Honda Hospital, which is now before the Board of Supervisors. The department is preparing a request for \$19.2 million to support the General Hospital through the end of the fiscal year.

V. ISSUES TO MONITOR

Workers' Compensation

Workers' compensation continues to be an area of budgetary concern. Chart G reflects the Human Resources Department's projected year-end workers' compensation spending by department. The estimates are based on nine-month actuals as well as prior year spending patterns. Overall, these projections result in an \$4.9 million projected deficit in the City's workers' compensation budget.

With the exception of the Police Department, all other departments with workers compensation deficits will likely be able to absorb these increases within their existing budget, and are, therefore, being shown on budget in the expenditure section.

Chart G: Projected Workers' Compensation Spending
 (in thousands)

Department	FY 97-98 Actual	FY 98-99 Budget	FY 98-99 Rev.Budget	9-Month Actual	Current Projection	Surplus/ (Deficit)
General Fund:						
Juvenile Court	\$879	\$795	\$795	\$576	\$769	\$26
District Attorney	171	256	256	149	199	\$57
Recreation & Park	1,694	1,423	1,423	1,488	1,984	(\$561)
Human Services	792	797	797	973	1,297	(\$500)
Police	5,844	5,463	5,463	4,825	5,982	(\$519)
Fire	5,262	4,781	4,781	3,938	5,251	(\$470)
Public Health	790	682	682	976	1,202	(\$520)
Sheriff	815	840	1,129	878	1,144	(\$15)
Parking & Traffic	1,910	1,724	1,724	1,721	2,255	(\$531)
Other GF Depts.	1,700	1,209	1,209	1,078	1,440	(\$231)
Total General Fund	19,857	17,970	18,259	16,602	21,523	(3,264)
General Fund Subsidized:						
Public Library	157	132	132	172	230	(98)
Municipal Railway	16,417	16,048	19,594	14,696	19,594	0
SF General Hospital	2,843	2,666	2,666	2,540	3,386	(720)
Laguna Honda Hospital	1,921	1,638	1,638	1,823	2,431	(793)
Total GF Subsidized	21,338	20,484	24,030	19,231	25,641	(1,611)
GRAND TOTAL	\$41,195	\$38,454	\$42,289	\$35,833	\$47,164	(\$4,875)

Conclusion

The funds available appear to be sufficient to carry the City through the rest of the fiscal year, with a remaining balance of \$100.9 million that can be applied to future years. My staff and I are available to respond to any comments or questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Harrington". The signature is fluid and cursive, with a prominent flourish at the end.

Edward Harrington

Attachments:

Appendix A: Status of Supplemental Appropriations which impact the General Fund Reserve
Appendix B: Status of Board Reserves

cc: Department Heads
Matthew Hymel, Mayor's Budget Office
Harvey Rose, Board of Supervisors Budget Analyst

APPENDIX A
Status of Supplemental Appropriations
which impact the General Fund Reserve
Fiscal year 1998-99 (as of March 31, 1999)

<u>Approved Supplemental Appropriations</u>	<u>Changes Approved</u>	<u>Changes Pending</u>
MUNI -- Metro Recovery, salaries, equipment	\$14,784,305	
Caltrain/Peninsula Corridor Joint Powers Board Payment	830,921	
Mayor's Office of Criminal Justice -- Hate Crimes Prevention	50,000	
Fire Department -- EMS Services	1,685,431	
Sheriff -- Jail Salaries, Food Service, Substance Abuse Beds	<u>1,307,516</u>	
Total Changes Approved:	<u><u>\$18,658,173</u></u>	
 <u>Supplementals Pending at the Board *</u>		
Animal Care and Control -- Treatment of Horses		36,551
Ethics Commission -- Electronic Filing System		56,000
Public Health -- Professional and Pharmacy Services		1,158,352
Public Health -- Mental Health Services		84,237
Police Department -- bullet trap and gun melt equipment		370,000
Community Health Network -- Laguna Honda Revenues and Feasibility Planning		<u>5,599,962</u>
Total Changes Pending:		<u><u>\$7,305,102</u></u>

* These amounts are subject to Mayor or Board changes.

APPENDIX B
Status of Board Reserves
Fiscal Year 1998-99
As of March 31, 1999

<u>RESERVE</u>	<u>BEGINNING BALANCE</u>	<u>CHANGES PENDING OR APPROVED</u>	<u>BALANCE AFTER CHANGES</u>
Electronic Meter Program	\$1,660,166	\$0	\$1,660,166
Security for Parking Facility Bo	1,500,000	0	1,500,000
Universal Health Care	500,000	0	500,000
Childcare Furnishings/Fixtures	350,000	0	350,000
High Quality Childcare Program	2,000,000	2,000,000	0
Tivoli Licensing	49,999	0	49,999
Parking Citation Program	4,471,460	4,471,460	0
Rec. Customer Svc. Program	75,000	75,000	0
Rec. Graffiti Removal Program	100,497	100,497	0
Rec. Program Enhancements	325,000	325,000	0
Rec. Summer Day Camp	75,000	75,000	0
Rec. Youth Space	75,000	0	75,000
Rec. Youth/Teen Ctr. Lease	100,000	0	100,000
875 Stevenson Improvements	464,880	0	464,880
Tivoli Systems Project	<u>1,000,000</u>	<u>1,000,000</u>	<u>0</u>
Total	<u>\$12,747,002</u>	<u>\$8,046,957</u>	<u>\$4,700,045</u>