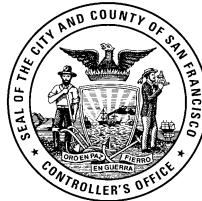


City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

Three-Year Budget Projection for General Fund Supported Operations FY 2011-12 through FY 2013-14

**Joint Report by the Controller's
Office, Mayor's Office, and Board
of Supervisors' Budget Analyst**



Updated April 11, 2011



City and County of San Francisco

Three-Year Budget Projection for General Fund Supported Operations

April 11, 2011

Summary

San Francisco Administrative Code Section 3.6 requires a three-year budget report to be issued annually by the Controller, the Mayor's Budget Director, and the Budget Analyst for the Board of Supervisors. This report provides updated expenditure and revenue projections for Fiscal Years (FY) 2011-12, FY 2012-13 and FY 2013-14, assuming no changes to current policies and staffing levels.

Table 1 summarizes the projected changes in General Fund Supported revenues and expenditures over the next three years and compares them to the FY 2010-11 Original Budget. As shown in Table 1, this report projects shortfalls of \$306 million in FY 2011-12, \$480 million in FY 2012-13, and \$642 million in FY 2013-14. Details behind these projections are provided in the Appendix.

Table 1: Summary of General Fund Supported Projected Budgetary Surplus / (Shortfall) (\$ Millions)

Sources	FY 2010-11			
	Original Budget	FY 2011-12 Projection	FY 2012-13 Projection	FY 2013-14 Projection
Use of prior year fund balance & reserves	\$ 100	\$ 99	\$ 27	\$ 17
Regular Revenues & Transfers	3,677	3,715	3,821	3,933
Subtotal - Sources	3,777	3,814	3,848	3,949
Uses				
Salaries & Fringe Benefits	1,997	2,107	2,246	2,404
Other Expenditures, Reserves & Transfers	1,779	2,013	2,083	2,188
Subtotal - Uses	3,777	4,120	4,328	4,592
Projected Surplus/(Shortfall)	\$ -	\$ (306)	\$ (480)	\$ (642)

While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next three years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

Key Assumptions

Key assumptions affecting the FY 2011-12 through FY 2013-14 projections are:

- **No major changes to service levels and number of employees:** This projection assumes no major changes to policies, service levels, or the number of employees from FY 2010-11 budgeted levels, except for those on-going mid-year reductions and supplemental appropriations approved by the Board of Supervisors and the Mayor as of the Six Month Report issued on February 9, 2011. This projection does not include potential savings due to changes proposed in departmental FY 2011-12 budget submissions.
- **Continued modest economic recovery:** This projection assumes the economic recovery that began in 2010 will continue and will be reflected in modest tax revenue increases before reaching prior peak levels in FY 2012-13 or after.
- **Preliminary estimate of state budget reduction:** Due to the State's severe budget shortfall, we expect significant cuts in State funding. However, the exact amount will not be known until the State budget is finalized. Our projections assume a \$30.0 million reduction in State funding, the same assumption included in the FY 2010-11 Original Budget.
- **No change in closed labor agreements and inflationary increase on open labor agreements:** This projection assumes no change to closed collective bargaining agreements and that all open agreements have no increases or mirror patterns of other unions through FY 2012-13. In FY 2012-13, the twelve furlough days in effect in many labor agreements during the two prior fiscal years will expire, resulting in an effective wage increase of 4.6%. Beginning in FY 2013-14 open contracts are assumed to have salary increases equal to the change in the Consumer Price Index (CPI), which is currently 2.9% for FY 2013-14.
- **Controller's FY 2010-11 Six-Month Report ending fund balance:** To estimate the fund balance available at the end of FY 2010-11 to support the FY 2011-12 budget, this report uses the \$89.2 million ending fund balance projection from the Controller's Six-Month Report published on February 9, 2011. FY 2010-11 projections will be updated in the Controller's Nine-Month Budget Status Report in early May 2011.
- **Retirement plan employer contribution increases:** This projection assumes employer pension contributions to the San Francisco Employee Retirement System (SFERS) in accord with a projection scenario within the Cheiron consulting group Actuarial Valuation as of July 1, 2010 provided to the Retirement Board in January 2011. The projection that we used assumes that the plan achieves its target 7.75% investment return each year. This scenario anticipates a rise in SFERS employer contributions from 13.6% in FY 2010-11 to 18.1% (or \$225.8 million of General Fund Supported funds) in FY 2011-12, to 21.0% (\$261.8 million) and 26% (\$323.9 million) in FY 2012-13 and FY 2013-14, respectively. Employer contributions to the California Public Employees' Retirement System, which covers some public safety personnel, are assumed to rise at a similar rate.
- **Average growth rate on health and dental insurance:** For FY 2011-12, health and dental insurance premiums are projected to increase by 3.7%, reflecting increases in health coverage costs across California's ten largest counties offset by other projected changes in plan utilization. This projection also assumes that the employer cost of health and dental

insurance will increase by 6.3% for FY 2012-13 and 6.7% for FY 2013-14. For retiree health benefits, this report assumes that the City will continue its "pay-as-you-go" practice of funding the amounts currently due for retirees. The growth in this obligation has been estimated based on projected actual cost increases of 10.9%, 11.3%, and 11.2% in FY 2011-12, FY 2012-13, and FY 2013-14, respectively.

- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, and contracts with Community-Based Organizations and other non-personnel operating costs will increase by the CPI rates of 1.8%, 2.7%, and 2.9% for FY 2011-12, FY 2012-13, and FY 2013-14, respectively.
- **10-Year Capital Plan and inflationary increases on equipment funding:** This projection assumes that capital projects and facilities maintenance costs will increase and decrease over the next three years based on the levels assumed in the 10-Year Capital Plan. This projection assumes equipment funding will increase to \$5 million in FY 2011-12 and increase by CPI in the following years.
- **Rainy Day Reserve withdrawals assumed:** Our projections assume the City will not be eligible to withdraw from the Rainy Day Reserve Economic Stabilization Reserve in any of the three years. However, we estimate that the San Francisco Unified School District (SFUSD) will be eligible to withdraw its maximum 25% of the Rainy Day Reserve in each of the three years due to declining inflation-adjusted per-pupil revenues. Withdrawals are at the discretion of the Mayor and Board of Supervisors. This report assumes the maximum withdrawals for the SFUSD for FY 2011-12, FY 2012-13, and FY 2013-14.

Key Factors That Could Affect These Forecasts

As with all projections, substantial uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **Outcome of State Budget-Balancing Efforts:** It is possible that the final State budget could contain significantly more reductions in funding to the City than the \$30 million preliminary budget assumption used in this forecast.
- **Pace of Local Economic Recovery:** Our projections assume continued recovery in tax revenues from the improvements experienced in FY 2009-10 and projected for FY 2010-11. However, the speed of the recovery will depend heavily on job growth and changes in business activity and tourism.
- **Collective Bargaining Agreement Negotiations:** Other than approved wage increases in collective bargaining agreements and CPI in open contracts, this report does not assume any contract changes due to on-going labor negotiations with unions. Wage or benefit increases versus these assumptions would increase the deficit, while decreases would reduce the deficit.
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases:** Fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2011-12 budget. No increases have been assumed in this projection.
- **Potential New Revenue Proposals and Charter Amendments in Future Elections:** The Board of Supervisors has discussed a range of potential new revenue proposals and

Charter amendments that could affect employee pension and health benefit costs if approved by the voters in future elections. Potential effects of future elections are not factored into this report.

Schedule of Upcoming Reports Containing Budget Projections

- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2010-11 .
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2011-12 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

Appendix: Projected Changes to General Fund Supported Revenues and Expenditures

Table A-1: Key Changes to General Fund Supported Sources and Uses

Table A-2a: Reserve Withdrawal & Appropriation Amounts

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Table A-3a: Summary of General Fund Supported Operating Revenues and Transfers In

Table A-3b: Growth Factors for General Fund Supported Sources

Table A-4a: Baselines and Select Mandated Expenditures, Projected Budget

Table A-4b: Baselines and Select Mandated Expenditures, Change from Prior Year

Appendix: Projected Changes to Revenues and Expenditures

Table A-1: Key Changes to General Fund Supported Sources & Uses

(\$ Millions)		Change from Prior Year Budget		
		FY 2011-12	FY 2012-13	FY 2013-14
SOURCES	Fund Balances & Reserves			
Increase / (Decrease)	Change in Starting Fund Balances	10.3	(64.2)	4.1
	Changes to Reserves	(10.4)	(8.2)	(14.6)
	<i>Subtotal Fund Balance & Prior Year Reserves</i>	<i>(0.1)</i>	<i>(72.4)</i>	<i>(10.5)</i>
	General Fund Supported Revenues & Transfers In			
	General Fund Taxes, Revs and Transfers net of items below	105.0	84.5	95.6
	Other General Fund Supported Revs (Public Health, Human Svc)	(20.5)	21.7	16.6
	Federal Stimulus Funds	(47.1)	-	-
	Preliminary State Budget Assumption	-	-	-
	<i>Subtotal General Fund Supported Revenues & Transfers In</i>	<i>37.4</i>	<i>106.2</i>	<i>112.2</i>
	TOTAL CHANGES TO SOURCES	37.3	33.8	101.7
USES	Salaries & Benefits			
Decrease / (Increase)	Annualization of Partial Year Positions	(4.8)	-	-
	Projected Costs of Closed Labor Agreements	(24.3)	(83.5)	(3.6)
	Projected Costs of Open Labor Agreements	-	-	(57.9)
	Health & Dental Benefits - Current Employees	(7.4)	(12.1)	(13.6)
	Health & Dental Benefits - Retired Employees	(9.1)	(10.5)	(11.6)
	Retirement Benefits - Employer Contribution Rates	(60.0)	(39.2)	(67.6)
	Other Misc. Costs (Unemployment Insurance & Work Days)	(4.3)	7.1	(4.1)
	<i>Subtotal Salaries & Benefits</i>	<i>(110.0)</i>	<i>(138.2)</i>	<i>(158.4)</i>
	Citywide Operating Budget Costs			
	Public Education Enrichment Fund Annual Contribution	(16.4)	(2.4)	(2.5)
	Baseline & Mandate Requirements (MTA, Library, Children, Edu)	(18.2)	(17.5)	(19.4)
	Capital, Facilities Maintenance, Equipment, & Technology	(54.4)	10.7	(7.5)
	Inflation on non-personnel costs and grants to non-profits	(17.7)	(26.5)	(29.1)
	Debt Service & Lease Financings	(5.9)	(7.7)	(1.1)
	Payroll & Human Resources Information System (Project eMerge)	(2.3)	0.9	0.2
	Workers' Compensation	(0.6)	(3.8)	(2.0)
	Other Citywide Costs	(4.0)	0.8	(1.7)
	<i>Subtotal Citywide Operating Budget Costs</i>	<i>(119.4)</i>	<i>(45.4)</i>	<i>(63.1)</i>
	Departmental Costs			
	City Administrator - Convention facilities subsidy	(17.9)	(6.2)	(7.3)
	Elections - Number of elections	(12.1)	10.7	(5.7)
	Ethics Commission - Public Financing of Elections	(4.9)	5.5	(0.0)
	Fire - Engine 35 return to service	(2.5)	-	-
	Public Housing and Affordable Housing (HOPE SF)	(6.3)	(3.9)	(4.5)
	Human Resources - Collective bargaining expenses	(1.2)	0.7	(0.4)
	Human Services - Aid	(2.9)	(5.5)	(6.4)
	Police - Multi-year Hiring Plan and Expiration of COPS Grant Funding	(5.4)	(2.8)	(2.9)
	Public Health - Hospital Expenditures	(10.5)	(5.2)	(5.2)
	Public Health - Delivery System Reform Incentive Pool (DSRIP)	(20.4)	(6.0)	-
	Public Health - Electronic Medical Records Implementation	(8.8)	(9.2)	(5.2)
	Public Health - Other Costs	(11.1)	(3.7)	(2.0)
	Sheriff - Jail Staffing	(7.7)	-	-
	All Other Departmental Savings / (Costs)	(2.6)	1.4	(2.6)
	<i>Subtotal Departmental Costs</i>	<i>(114.3)</i>	<i>(24.2)</i>	<i>(42.1)</i>
	TOTAL CHANGES TO USES	(343.7)	(207.8)	(263.5)
	Projected Surplus (Shortfall) vs. Prior Year	(306.4)	(174.1)	(161.8)
	Cumulative Projected Surplus (Shortfall)	(306.4)	(480.5)	(642.3)

Notes to Table A-1

SOURCES - Fund Balances & Reserves

Change in Starting Fund Balances: This report projects a net gain in General Fund Supported starting fund balances of \$10.3 million in FY 2011-12, comprised of:

Loss of prior year General Fund Supported fund balances: This represents the loss of \$78.9 million in prior year General Fund Supported fund balances used to support the FY 2010-11 budget that is not available in FY 2011-12.

Gain of FY 2011-12 starting General Fund Supported balances: This report projects a gain of the \$89.2 million from the balance at the end of FY 2010-11 as projected in the Controller's Six-Month Budget Status Report.

Changes to Reserves: The net cost of changes to reserves is estimated to be \$10.4 million, \$8.2 million, and \$14.6 million in FY 2011-12, FY 2012-13, FY 2013-14, respectively. Key changes to reserves are summarized below and reflected in Table A-2a and Table A-2b.

Rainy Day Reserve: For years in which General Fund revenues decline, the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Charter also allows withdrawals of up to 25% of the Rainy Day Reserve for the San Francisco Unified School District (SFUSD) in years when inflation-adjusted per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. Based on the projected changes in City revenues, this report does not project a City withdrawal from the Rainy Day Reserve in FY 2011-12. The projected FY 2010-11 year-end balance of the reserve is \$33.4 million. Based on an anticipated decline in SFUSD revenue in FY 2011-12, this report assumes the maximum FY 2011-12 withdrawal for the SFUSD of \$8.4 million.

Recreation & Park Reserve: This report projects that \$3.5 million of Recreation & Park Budget Savings Incentive Reserves will support the FY 2011-12 budget, which represents an increase of \$2.3 million compared to the amount that supported the FY 2010-11 budget.

General Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve rising from \$25.0 million in FY 2011-12 to 1.0% of regular General Fund revenues in FY 2012-13 (projected at \$29.1 million) to 1.25% of General Fund revenues in FY 2013-14 (projected at \$43.1 million).

Budget Stabilization Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates a deposit of \$5.5 million into the Budget Stabilization Reserve in FY 2013-14.

Salaries and Benefits Reserve: This report projects increasing the salary and benefits reserve by CPI in Fiscal Years 2011-12, 2012-13 and 2013-14 from the \$11.7 million level appropriated in the FY 2010-11 budget to support costs related to labor agreements not budgeted in individual departments.

Litigation Reserve: This report projects increasing the Litigation Reserve by CPI in Fiscal Years 2011-12, 2012-13 and 2013-14 from the \$11.0 million level appropriated in the FY 2010-11 budget to support annual City liabilities related to claims, settlements and judgments.

Table A-2a: Reserve Withdrawal & Appropriation Amounts

	Orig. Budget FY 2010-11	Projected Budget, \$ Millions		
		FY 2011-12	FY 2012-13	FY 2013-14
Reserve Withdrawals Used to Support Budget				
Rainy Day Reserve	\$ 12.3	\$ -	\$ -	\$ -
Recreation & Park Reserve	1.2	3.5	-	-
Total Withdrawals	\$ 13.5	\$ 3.5	\$ -	\$ -
Appropriations to Reserves				
General Reserve	\$ 25.0	\$ 25.0	\$ 29.1	\$ 37.6
Budget Stabilization Reserve	-	-	-	5.5
Salaries & Benefits Reserve	11.7	11.9	12.2	12.6
Litigation Reserve	11.0	11.2	11.5	11.8
Total Appropriations	\$ 47.7	\$ 48.1	\$ 52.9	\$ 67.5

Table A-2b: Net Budgetary Impact of Changes to Reserves

	Change from Prior Year Budget, \$ Millions		
	FY 2011-12	FY 2012-13	FY 2013-14
Increase (Decrease) in Reserve Withdrawals Used to Support Budget			
Rainy Day Reserve	\$ (12.3)	\$ -	\$ -
Recreation & Park Reserve	2.3	(3.5)	-
Subtotal Changes to Withdrawals	\$ (10.0)	\$ (3.5)	\$ -
Decrease (Increase) in Appropriations to Reserves			
General Reserve	\$ -	\$ (4.1)	\$ (8.5)
Budget Stabilization Reserve	-	-	(5.5)
Salaries & Benefits Reserve	(0.2)	(0.3)	(0.4)
Litigation Reserve	(0.2)	(0.3)	(0.3)
Subtotal Changes to Appropriations	\$ (0.4)	\$ (4.7)	\$ (14.6)
Net Budgetary Impact of Changes to Reserves	\$ (10.4)	\$ (8.2)	\$ (14.6)

SOURCES – Revenues and Transfers In

General Context Underlying Revenue Estimates

Economic recovery continues: Our projections assume continued recovery in tax revenues from the improvements experienced in FY 2009-10 and projected for FY 2010-11. Most local tax revenues bottomed out in FY 2008-09 or FY 2009-10, and are projected to return to pre-recessionary levels in FY 2012-13 or after. The exceptions to this pattern are property tax, which is discussed below, and real property transfer tax and parking tax, which have already recovered in part due to tax and base rate increases, respectively. The speed of the recovery will depend heavily on job growth and changes in business activity and tourism.

Employment grows slowly: Private employment, a key lagging indicator, reached a trough in 2010, is expected to recover very modestly in 2011, and then grow at a rate of 2% per year thereafter, with payroll tax revenues returning to pre-recession levels in FY 2012-13. San Francisco entered the recession late and its unemployment rate has been below that of the state and other large cities. This was partly because it experienced less of a residential construction-related boom in employment before the recession. However, while economic employment in tech-heavy cities in Silicon Valley is recovering rapidly, San Francisco's employment base relies more heavily on finance and professional services industries, which are projected to recover very slowly.

Sales tax revenues are reset at a lower level: San Francisco's decline in sales tax revenue came later and was slightly milder than the losses experienced by other jurisdictions in the state and Bay Area during the recession. Receipts are highly correlated with employment and inflation, which are both projected to increase slowly in the next few years.

Hotel tax revenue rebounds: Hotel tax receipts are projected to continue their current recovery and reach prior peak levels by FY 2012-13. Compared to other local tax revenues, hotel tax is projected to recover more quickly due to changes in international business activity and tourism. Increasing occupancy rates will allow hotel operators to increase room rates, which lag occupancy rates in a recovery.

Real estate transactions continue at current rates: Real property transaction levels and transfer taxes rebounded in FY 2009-10 and are increasing in the current year, due in part to increased transfer tax rates approved by the voters in November 2010. The effect of this rate increase will continue through the projection period.

Modest increase in property tax revenues: Projections assume the residential portion of the property tax base will remain relatively stable, while commercial property tax revenues (after reserving for potential appeals and refunds) will slowly increase. Recent commercial transactions indicate that while there have been some distress sales at deeply discounted prices, there are also many buyers seeking high quality, well-leased properties. Considering the mix of factors affecting property tax collections (discussed in more detail below), we project revenues will have an 0.4% increase in FY 2011-12 from our FY 2010-11 forecast and then rise by 3.1% in FY 2012-13 and 3.6% in FY 2013-14.

Statewide economic activity recovers slowly: Revenues from state sales taxes that are allocated to local governments for public safety, health, and social services have begun to recover in the current year, and are projected to grow at rates similar to or slightly greater than local sales tax.

Tables A-3a and A-3b summarize revenue and transfer-in sources for the three-year projection. Highlights are noted below.

General Fund Revenues and Transfers In: General Fund Revenues and Transfers In are projected to increase by \$63.3 million in FY 2011-12 from FY 2010-11 Original Budget levels, followed by an increase of \$84.3 million in FY 2012-13 and an increase of \$96.5 million in FY 2013-14. Significant changes are discussed below.

Property Tax: After taking into account the potential effect of redevelopment tax increment requirements discussed below, the General Fund share of property tax, which was budgeted at \$984 million in FY 2010-11, is projected to increase to \$1,019 million by fiscal year end, to \$1,023 million in FY 2011-12, \$1,055 million in FY 2012-13 and \$1,093 million in FY 2013-14. These projections are based on the following key assumptions:

- Base roll growth increases allowed under Proposition 13 of 0.753% in FY 2011-12, 1.67% in FY 2012-13 and 1.77% in FY 2013-14. These estimates are calculated using California Department of Finance forecasted CPI. The maximum CPI increase allowed under Proposition 13 is 2%.
- The General Fund share of prior year supplemental and escape assessments is estimated to be \$29 million in FY 2011-12, \$31 million in FY 2012-13, and \$36 million in FY 2013-14.
- Funds set aside for assessment appeals decline 10% in FY 2011-12 compared to FY 2010-11 levels and 15% in FY 2012-13 and FY 2013-14, assuming that market values gradually improve from recent lows through FY 2013-14.
- This report assumes gross tax increment draw by the Redevelopment Agency of \$122 million in FY 2011-12 (compared to \$108 million originally budgeted in FY 2010-11), \$130 million in FY 2012-13, and \$127 million in FY 2013-14. These figures reflect additional planned debt service requirements and additional increment dedicated to Mission Bay North and South areas. After taking into account the 57% General Fund share of base property taxes and the formula-based pass-through of tax increment back to the General Fund, the net year-over-year effect on General Fund property tax revenues is a decrease of \$2.8 million in FY 2011-12, a further decrease of \$3.6 million in FY 2012-13, and an increase of \$1.3 million in FY 2013-14.

The Governor's proposed State budget includes a measure to eliminate redevelopment agencies and direct uncommitted increment back to schools and local governments. As of this writing, this proposal has not been passed by the Legislature, and the potential impacts to the City's General Fund are uncertain. Should the proposal be passed, the Controller's Office will provide an updated projection as to its General Fund impacts.

Other Local General Fund Tax Revenues: This group of locally generated revenues is projected to increase by \$93.9 million in FY 2011-12 from FY 2010-11 Original Budget levels, followed by increases of \$49.6 million and \$47.9 million in FY 2012-13 and FY 2013-14, respectively. The increase in FY 2011-12 is primarily due to the recovery of property transfer tax revenue and the higher tax rates approved by voters in November 2010, the higher property tax revenue discussed above, and higher payroll tax receipts. Wage inflation, more than employment, is driving of projected payroll tax revenue

increases. Increases in FY 2012-13 and FY 2013-14 are due to a modest expansion anticipated across a range of revenues.

Federal Stimulus Funds: The Federal Stimulus' enhanced Federal Medical Assistance Percentage (FMAP) funding will expire on June 30, 2011, requiring the San Francisco General Hospital, Laguna Honda Hospital, and the Human Services Agency to backfill \$47.1 million in lost revenues to cover General Fund expenditures and subsidies.

State Funds: Due to the State's severe budget shortfall, we expect significant cuts in State funding, however, specific figures will not be known until the State budget is finalized. These projections include a \$30.0 million preliminary assumption for reductions in State funding.

Additionally, we anticipate a decrease of \$18.2 million in social service, health, and mental health subventions, partially offset by increases in local allocations of state sales tax and vehicle license fee revenue, bringing the total FY 2011-12 decline in General Fund state subventions to \$8.7 million, followed by increases of \$4.2 million and \$6.0 million in FY 2012-13 and FY 2013-14, respectively. The Governor's proposed State budget includes measures that would realign state responsibilities for various criminal justice and health and human services programs from the state to local governments. These revenue projections do not reflect the proposed realignment of revenues to pay for these activities.

Other General Fund-Supported Revenues: Other General Fund Supported revenues are projected to decrease by \$20.5 million in FY 2011-12, then increase by \$21.7 million in FY 2012-13 and \$16.6 million in FY 2013-14.

Human Services Agency Revenues: The Human Services Agency (HSA) is projected to draw incremental State and Federal revenues to pay for approximately 38% of additional salaries and fringe benefit costs, resulting in incremental revenue increases of \$3.2 million, \$2.8 million, and \$2.6 million in FY 2011-12, FY 2012-13, and FY 2013-14, respectively. In addition, HSA is projecting the loss of \$4.7 million in state and federal revenues in FY 2011-12.

Public Health Revenues: The Department of Public Health (DPH) projects a revenue decrease of \$19.0 million in FY 2011-12, followed by increases of \$18.9 million in FY 2012-13 and \$14.0 million in FY 2013-14. These revenues are offset by increasing expenditures listed in the Uses section below. The revenue changes include:

Patient Revenues: Patient revenues at San Francisco General and Laguna Honda Hospital are projected to increase by \$23.8 million in FY 2011-12, \$10.0 million in FY 2012-13, and \$10.0 million in FY 2013-14.

AB 1383/SB 188 Hospital Fee: This projection reflects the loss in FY 2011-12 of \$88.0 million in AB1383/SB188 Hospital Fee revenue budgeted in FY 2010-11.

Delivery System Reform Incentive Pool (DSRIP)/Medicaid Section 1115 Waiver: In FY 2011-12, DPH projects to receive \$39.9 million in incentive payments in order to achieve federally mandated performance milestones as part of Health Care Reform. In FY 2012-13, DPH is expecting an additional \$3.0 million in revenue followed by a loss of \$1.0 million in FY 2013-14. These

milestones will require the department to make additional investments in expanding capacity across their system of care. The investments will be addressed in the Uses section below.

Electronic Medical Records: DPH is undertaking a project to create electronic medical records in order to qualify for additional incentive payments included in Federal Stimulus legislation and to avoid potential penalties for failing to implement Meaningful Use of electronic medical records by FY 2012-13. The department anticipates gaining \$9.9 million in revenue in FY 2011-12, an additional \$5.9 million in FY12-13 and an additional \$5.0 million in FY 2013-14. This revenue will be offset by required expenditures described in the Uses section below.

Other Public Health Revenues: DPH is projecting a decrease of \$4.6 million in other revenues in FY 2011-12, including the loss of \$4.3 million in federal grant funds and \$4.0 million in one-time retroactive Medi-Cal revenues. These reductions are offset by an increase of \$3.7 million from the Low-Income Health Plan (LIHP). Increased expenditures related to the Low-Income Health Plan are reflected in the Uses section below.

Table A-3a: Summary of General Fund Supported Operating Revenues and Transfers In (\$ Millions)

	FY 2009-10	FY 2010-11		FY 2011-12	FY 2012-13	FY 2013-14
	Year-End Actuals	Original Budget	Current Projection	Projection	Projection	Projection
Property Taxes	\$ 1,060.3	\$ 984.8	\$ 1,019.0	\$ 1,023.0	\$ 1,055.0	\$ 1,093.0
Business Taxes	353.5	342.4	362.0	379.8	400.3	422.1
Sales Tax	96.6	98.0	101.4	104.5	107.6	110.8
Hotel Room Tax	135.5	157.2	148.9	159.3	172.1	182.4
Utility Users Tax	94.5	97.5	90.4	92.3	95.1	98.1
Parking Tax	66.5	65.3	67.8	69.9	73.8	77.8
Real Property Transfer Tax	83.7	70.9	103.8	118.8	124.7	129.7
Stadium Admission Tax	2.4	2.3	2.3	2.3	2.4	2.4
Access Line Tax (FY09 incl. \$37.1m 911 fee re	41.5	37.3	37.3	37.8	38.4	39.0
Subtotal - Local Tax Revenues	1,934.5	1,855.7	1,932.8	1,987.7	2,069.3	2,155.3
Licenses, Permits & Franchises	24.2	23.2	23.2	23.4	23.6	23.8
Fines, Forfeitures & Penalties	17.3	3.8	5.5	3.8	3.8	3.8
Interest & Investment Income	8.4	9.5	6.8	4.7	4.8	6.4
Rents & Concessions	18.7	22.3	24.1	22.7	19.6	20.1
Subtotal - Licenses, Fines, Interest, Rent	68.6	58.9	59.6	54.6	51.8	54.1
Social Service Subventions	181.9	203.0	200.1	200.1	200.1	200.1
Other Grants & Subventions	30.5	33.6	37.2	6.8	6.8	6.8
Subtotal - Federal Subventions	212.4	236.6	237.3	206.8	206.8	206.8
Social Service Subventions	140.4	133.6	128.1	128.1	128.1	128.1
Health & Welfare Realignment - Sales Tax	96.1	94.2	96.1	99.9	103.4	106.5
Health & Welfare Realignment - VLF	43.3	43.9	42.0	42.8	42.8	43.2
Health/Mental Health Subventions	78.7	107.8	87.0	95.0	95.0	95.0
Public Safety Sales Tax	65.8	63.8	67.7	68.8	69.4	71.9
Motor Vehicle In-Lieu (County & City)	2.3	1.7	1.7	1.7	1.7	1.7
Other Grants & Subventions	27.6	19.9	19.9	19.9	19.9	19.9
Preliminary State Budget Assumption	-	(30.0)	-	(30.0)	(30.0)	(30.0)
Subtotal - State Subventions	454.1	434.9	442.5	426.2	430.4	436.4
General Government Service Charges	30.8	35.8	35.8	36.2	36.5	36.9
Public Safety Service Charges	21.9	20.9	20.6	20.8	21.0	21.2
Recreation Charges - Rec/Park	11.4	11.0	11.0	11.1	11.2	11.3
MediCal, MediCare & Health Svc. Chgs.	56.8	53.5	51.3	51.8	52.3	52.8
Other Service Charges	12.4	15.5	15.2	15.4	15.6	15.7
Subtotal - Charges for Services	133.2	136.7	133.9	135.3	136.6	138.0
Recovery of General Government Costs	7.9	9.4	9.4	9.5	9.6	9.7
Other General Fund Revenues	19.8	21.5	21.8	7.4	7.4	7.4
TOTAL REVENUES	2,830.6	2,753.7	2,837.3	2,827.5	2,912.0	3,007.6
Transfers in to General Fund						
Airport	28.1	28.5	29.9	30.0	29.8	30.7
Other Transfers	64.1	85.7	86.2	73.6	73.6	73.6
Total Transfers-In	92.2	114.2	116.0	103.6	103.4	104.3
TOTAL GF Revenues and Transfers-In	2,922.8	2,867.8	2,953.3	2,931.2	3,015.4	3,111.9

Table A-3b: Growth Factors for General Fund Supported Sources

	FY 2011-12		FY 2012-13		FY 2013-14	
	% Chg from FY 2010-11 Original Budget	% Chg from FY 2010-11 Current Projection	% Chg from FY 2011-12 Projection	% Chg from FY 2012-13 Projection		
Property Taxes	3.9%	0.4%	3.1%	3.6%		
Business Taxes	10.9%	4.9%	5.4%	5.4%		
Sales Tax	6.6%	3.0%	3.0%	3.0%		
Hotel Room Tax	1.3%	7.0%	8.0%	6.0%		
Utility Users Tax	-5.3%	2.2%	3.0%	3.1%		
Parking Tax	7.0%	3.0%	5.6%	5.5%		
Real Property Transfer Tax	67.4%	14.5%	5.0%	4.0%		
Stadium Admission Tax	2.0%	2.0%	2.0%	2.0%		
Access Line Tax	1.5%	1.5%	1.5%	1.5%		
Subtotal - Tax Revenues	7.1%	2.8%	4.1%	4.2%		
Licenses, Permits & Franchises	0.8%	0.8%	0.8%	0.8%		
Fines, Forfeitures & Penalties	0.0%	-30.9%	0.0%	0.0%		
Interest & Investment Income	-51.1%	-31.0%	2.0%	34.0%		
Rents & Concessions	1.7%	-5.7%	-13.6%	2.3%		
Subtotal - Licenses, Fines, Interest, Rent	-7.3%	-8.3%	-5.1%	4.4%		
Social Service Subventions	-1.5%	0.0%	0.0%	0.0%		
Other Grants & Subventions	-79.8%	-81.8%	0.0%	0.0%		
Subtotal - Federal Subventions	-12.6%	-12.8%	0.0%	0.0%		
Social Service Subventions	-4.1%	0.0%	0.0%	0.0%		
Health & Welfare Realignment - Sales Tax	6.0%	4.0%	3.5%	3.0%		
Health & Welfare Realignment - VLF	-2.6%	2.0%	0.0%	1.0%		
Health/Mental Health Subventions	-11.8%	9.2%	0.0%	0.0%		
Public Safety Sales Tax	7.7%	1.5%	1.0%	3.5%		
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%		
Other Grants & Subventions	0.1%	0.0%	0.0%	0.0%		
Preliminary State Budget Assumption	0.0%	n/a	0.0%	0.0%		
Subtotal - State Subventions	-2.0%	-3.7%	1.0%	1.4%		
General Government Service Charges	0.8%	1.0%	1.0%	1.0%		
Public Safety Service Charges	-0.3%	1.0%	1.0%	1.0%		
Recreation Charges - Rec/Park	1.0%	1.0%	1.0%	1.0%		
MediCal, MediCare & Health Svc. Chgs.	-3.2%	1.0%	1.0%	1.0%		
Other Service Charges	-0.5%	1.0%	1.0%	1.0%		
Subtotal - Charges for Services	-1.1%	1.0%	1.0%	1.0%		
Recovery of General Government Costs	1.0%	1.0%	1.0%	1.0%		
Other Revenues	-65.5%	-66.0%	0.0%	0.0%		
TOTAL REVENUES	2.7%	-0.3%	3.0%	3.3%		
Transfers in to General Fund						
Airport	5.5%	0.6%	-0.7%	2.9%		
Other Transfers	-14.1%	-14.6%	0.0%	0.0%		
Total Transfers In	-9.2%	-10.7%	-0.2%	0.8%		
TOTAL GF Revenues and Transfers-In	2.2%	-0.8%	2.9%	3.2%		

USES – Salaries and Benefits

This report projects General Fund Supported salaries and fringe benefits to increase by \$110.0 million in FY 2011-12, \$138.2 million in FY 2012-13, and \$158.4 million in FY 2013-14. These increases reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs, as discussed below.

Annualization of Partial Year Positions: In FY 2011-12, the City is projected to incur \$4.8 million of additional costs to annualize positions funded for only a partial year in the FY 2010-11 budget.

Projected Costs of Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be \$24.3 million for FY 2011-12, \$83.5 million for FY 2012-13 and \$3.6 million for FY 2013-14. These costs include the annualization of prior year wage adjustments, the restoration of salaries to pre-furlough levels, and additional approved future wage adjustments as outlined in each collective bargaining agreement.

Projected Costs of Open Labor Agreements: The additional salary and benefit costs for open collective bargaining agreements are projected to be \$57.9 million for FY 2013-14. Most of the agreements will expire by the end of FY 2011-12. The projection for FY 2012-13 assumes salaries for most unions return to pre-furlough levels captured above but no additional increases in the first year of their new contracts. Beginning in FY 2013-14, we assume that these bargaining units receive salary increases equivalent to the Consumer Price Index (CPI). We also assume market wage adjustments where applicable. The CPI increase is projected to be 2.9% for FY 2013-14.

Health and Dental Benefits for Current Employees: The Charter requires the City's contribution for individual health coverage costs to increase based on a survey of California's ten largest counties. The most recently conducted survey resulted in a 6.6% increase (from \$472.85 to \$503.94 per month) in the Charter-required contribution from FY 2010-11 to FY 2011-12. However, due to projected changes in plan utilization, costs related to current employees are projected to increase by only 3.7% or \$7.4 million in FY 2011-12. For FY 2012-13 and FY 2013-14, this report assumes that health and dental benefits for current employees will increase by 6.3% in FY 2012-13 and 6.7% in FY 2013-14.

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 also mandates health coverage for retired City employees. The cost of medical benefits for retirees are projected to increase from \$83.9 million in FY 2010-11 by \$9.1 million to \$93.0 million in FY 2011-12, and increase by \$10.5 million, and \$11.6 million for FY 2012-13 and FY 2013-14, respectively. Not included in these figures are the City's unfunded liability for the benefits accruing to employees, which was estimated at approximately \$4.4 billion as of July 1, 2008, and which would require substantial annual contributions above the City's current "pay-as-you-go" level to be considered fully funded on an actuarial basis. The City's Comprehensive Annual Financial Statement for the Year Ending June 30, 2010 reported that the gap between the City's pay-as-you-go funding and an actuarially defined contribution level was \$247 million. The estimated General Fund-Supported share of this gap is 60%, or \$148 million.

Retirement Benefits - Employer Contribution Rates: Total retirement costs are projected to increase due to recent investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS), the increased cost of SFERS benefits due to Proposition B (June 2008), and lower projected earnings on retirement plan assets. This results in total General Fund Supported employer contributions into SFERS and CalPERS increasing by \$60.0 million in FY 2011-12, \$39.2 million in FY 2012-13, and \$67.6 million in FY 2013-14. This is comprised of contributions into CalPERS and SFERS as follows:

SFERS Contribution Rate Changes – Employer-Share: Employer-share contribution rates are set to increase from 13.56% in FY 2010-11 to 18.09% in FY 2011-12 for covered City employees, as adopted by the Retirement Board in January, 2011. Required employer-share rates included in our projection are based on a projection scenario provided in the San Francisco Employees' Retirement System's (SFERS) actuarial valuation as of July 2010, presented to the SFERS Board in January 2011. This projection assumes required employer-share contribution rates of 21% in FY 2012-13 and 26% in FY 2013-14 as estimated by the Retirement System, resulting in additional retirement contribution costs of \$56.6 million for FY 2011-12, \$36.0 million for FY 2012-13, and \$62.1 million for FY 2013-14.

CalPERS Contribution Rate Changes – Employer-Share: The California Public Employees' Retirement System (CalPERS) has notified the City that the employer contribution rates for employees covered by CalPERS Safety will increase from 18.24% in FY 2010-11 to 22.1% in FY 2011-12. We assume this rate grows by the same growth rate projected for SFERS to 25.7% in FY 2012-13 and 31.8% in FY 2013-14. These contribution rate assumptions result in additional pension costs of \$3.5 million in FY 2011-12, \$3.2 million in FY 2012-13, and \$5.5 million in FY 2013-14.

Other Miscellaneous Salaries and Fringe Benefits Costs

Change in Work Days: Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. FY 2011-12 has a leap year, which will increase costs for 24/7 operations, resulting in \$3.6 million in additional salaries and fringe benefit costs. FY 2012-13 includes 365 days for 24/7 operations and only 260 workdays for regularly scheduled shifts, resulting in a projected \$7.1 million savings in salaries and fringe benefit costs. Finally FY 2013-14 returns to 261 workdays which results in an increase of \$4.1 million from FY 2012-13.

Other Fringe Changes: This category includes changes to costs for unemployment insurance, Long Term Disability, and any changes to the FICA income cap. We project these changes to cost \$0.7 million in FY 2011-12 and remain at these levels for the following two years.

USES –Citywide Operating Budget Costs

Table A-1 displays other non-salary Citywide cost increases of \$119.4 million, \$45.4 million, and \$63.1 million in FY 2011-12, FY 2012-13, and FY 2013-14 respectively.

Public Education Enrichment Fund Annual Contribution: The Public Education Enrichment Fund (PEEF) contribution is projected to increase by the percentage increase in the City's aggregate discretionary revenue in FY 2011-12 and FY 2012-13, as prescribed by Charter Section 16.123-2. Note that the FY 2010-11 budgeted amount of \$44.6 million reflected a decision not to fund the full amount for that year, as allowed by the Charter in budget years when the preceding Joint Report projects a budgetary shortfall of \$100 million or more. This report does not assume a similar reduction for FY 2011-12 or future years.

Baseline and Mandate Requirements: The Charter specifies baseline-funding levels for various programs or functions, including the Municipal Transportation Agency (MUNI and Parking & Traffic), the Library, Public Education, Children's Services, the Human Services Care Fund, and the City Services Auditor. Baseline amounts are generally linked to changes in discretionary City revenues, though some are a function of Citywide expenditures or base-year program expenditure levels. The revenue and expenditure projections assumed in this report result in increased contributions for Charter-mandated baseline requirements of \$18.2 million in FY 2011-12, \$17.5 million in FY 2012-13 and \$20.6 million in FY 2013-14. Details of changes in baseline requirements and select mandated expenditures included in this report are provided in the following tables.

Table A-4a: Baseline & Select Mandated Expenditures, Projected Budget

Baselines & Select Mandated Expenditures	Projected Budget, \$ Millions			
	Orig. Budget FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Municipal Transportation Baseline	\$ 175.0	\$ 185.7	\$ 193.5	\$ 201.3
MTA Transfer In - Lieu of Parking Tax	52.2	55.9	60.1	64.4
Library Preservation Baseline	43.5	46.2	48.3	50.4
Public Education Baseline - Required Appropriation	5.6	5.9	7.8	9.8
Children's Baseline - Required Appropriation	95.4	95.4	95.4	98.1
Human Services Care Fund	13.7	14.2	15.4	15.9
Controller - City Services Auditor	16.6	17.0	17.2	17.2
Total Baselines & Select Mandates	401.9	\$ 420.1	\$ 437.6	\$ 457.0

Table A-4b: Baseline & Select Mandated Expenditures, Change from Prior Year Budget

Baselines & Select Mandated Expenditures	Decrease (Increase) from Prior Year Budget, \$ Millions			
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Municipal Transportation Baseline	\$ (10.7)	\$ (7.8)	\$ (7.9)	
MTA Transfer In - Lieu of Parking Tax		(3.7)	(4.2)	(4.3)
Library Preservation Baseline		(2.6)	(2.1)	(2.2)
Public Education Baseline - Required Appropriation		(0.3)	(1.9)	(2.0)
Children's Baseline - Required Appropriation		-	-	(2.7)
Human Services Care Fund		(0.5)	(1.3)	(0.4)
Controller - City Services Auditor		(0.4)	(0.1)	-
Total Baselines & Select Mandates	\$ (18.2)	\$ (17.5)	\$ (19.4)	

Capital, Facilities Maintenance, Equipment, & Technology: General Fund capital and facilities maintenance cost projections are consistent with those outlined in the FY 2012-21 Capital Plan — currently proposed at \$76.5 million for FY 2011-12, an increase of \$47.2 million from the FY 2010-11 budget, then \$63.6 million in FY 2012-13 and \$68.9 million in FY 2013-14. This report also assumes a level of funding of \$5.0 million in FY 2011-12 for the cash purchase of equipment, an increase of \$2.4 million from the FY 2010-11 budget, and then increasing by CPI in FY 2012-13 and FY 2013-14. Technology investments are projected to increase by \$4.8 million, \$2.1 million, and \$2.1 million in FY 2011-12, FY 2012-13, and FY 2013-14, respectively.

Inflation on Non-Personnel Costs and Grants to Non-Profits: This projection uses the Consumer Price Index (CPI) to estimate inflation in the cost of materials and supplies, professional services, contracts with Community-Based Organizations, and other non-personnel operating costs. These items are projected to increase by 1.8% (\$17.7 million) in FY 2011-12, 2.7% (\$26.5 million) in FY 2011-12, and 2.9 % (\$29.1 million) in FY 2012-13.

Debt Service & Lease Financings: Based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan, as well as an assumed lease-financing program for equipment purchases, total debt service and lease financing costs are projected to increase by \$5.9 million, \$7.7 million, and \$1.1 million in FY 2011-12, FY 2012-13, and FY 2013-14, respectively. This projection does not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection discussed below.

Payroll and Human Resources Information System (Project eMerge): In FY 2011-12 the City's new payroll and human resources information system (Project eMerge) will become operational, requiring an additional \$2.3 million in General Fund appropriation to cover one-time hardware investments and ongoing software support and consulting services. These expenditures will decrease by \$1.0 million in FY 2012-13 and \$0.2 million in FY 2013-14 as start-up costs phase out.

Workers' Compensation: Workers' compensation costs are projected to increase by \$0.6 million, \$3.8 million, and \$2.0 million in FY 2011-12, FY 2012-13, and FY 2013-14, respectively. These projections are based on FY 2008-09 and FY 2009-10 actual claims, and using the California Department of Finance's San Francisco Bay Area medical costs inflation forecast of 2.4%, 3.7% and 5.0% FY 2011-12, FY 2012-13, and FY 2013-14, respectively. Additionally, this report assumes that the number of indemnity claims will remain relatively flat over the next three years.

Other Citywide Costs: Other citywide costs are expected to increase by \$4.0 million in FY 2011-12, decrease by \$0.8 million in FY 2012-13, and increase by \$1.7 million in FY 2013-14. This category includes changes to departmental utility costs, the removal of one-time expenditures and revenues, and other technical base budget adjustments.

USES –*Departmental Costs*

Table A-1 displays other departmental cost increases of \$114.3 million, \$24.2 million, and \$42.1 million in FY 2011-12, FY 2012-13, and FY 2013-14 respectively.

City Administrator – Convention Facilities Fund Subsidy: This projection assumes a General Fund subsidy of \$6.1 million in the Convention Facilities Fund in FY 2011-12 due primarily to increased debt service costs, increased operating costs, and the loss of one-time savings in FY 2010-11. This \$6.1 million subsidy represents a \$17.9 million General Fund cost compared to the \$11.8 million transfer from the Convention Facilities Fund to the General Fund in FY 2010-11. The General Fund subsidy is projected to increase by \$6.2 million in FY 2012-13 and \$7.3 million in FY 2013-14.

Elections Department – Number of Elections: The number of elections and the associated costs for holding elections changes from year to year. Currently three elections are projected for FY 2011-12 (presidential primary, mayoral, and State primary), one election is projected for FY 2012-13 (presidential), and two elections (municipal and State primary) are projected for FY 2013-14. This schedule results in a projected incremental cost of \$12.1 million in FY 2011-12, followed by an incremental savings of \$10.8 million in FY 2012-13, and incremental cost of \$5.7 million in FY 2013-14.

Ethics Commission – Public Financing of Elections: The Ethics Commission administers the Election Campaign Fund, which provides matching funds to candidates for Mayor and the Board of Supervisors. The City must provide \$2.75 per resident for this purpose based on California Department of Finance population estimates. In FY 2011-12 the contribution to the Fund will increase by \$4.9 million due to the restoration of \$5.0 million in Election Campaign funds used to balance the General Fund in FY 2008-09 and FY 2009-10 offset by a \$0.1 million reduction in the required contribution based on new census data on the City's population. The City's contribution into the fund is projected to return to \$1.9 million for FY 2012-13, a \$5.5 million reduction from FY 2011-12, and will increase by less than \$0.1 million in FY 2013-14 based on population projections. Additionally, the Election Campaign Fund has an unspent balance of \$5.0 million that will support the Mayoral election in FY 2011-12.

Fire Department – Engine 35 Return to Service: This report assumes that Fire Engine 35 is returned to service based on the projected completion of station repairs, resulting in a cost of \$2.5 million in FY 2011-12.

Public Housing & Affordable Housing (HOPE SF): HOPE SF is the City's supplemental program to the Federal Housing and Urban Development's HOPE VI program to provide public housing and affordable housing to City residents. The HOPE SF project for San Francisco's public housing is funded in the budget at \$5.0 million annually. In FY 2010-11, the City used a one-time source of \$5.0 million to pay the HOPE SF project. For FY 2011-12, the \$5.0 million cost reflects continuing the program at its current funding level. Additionally, the Human Services Agency and Public Health Department project additional costs of \$1.3 million in FY 2011-12, \$3.9 million in FY 2012-13 and \$4.5 million in FY 2013-14 related to supportive services in subsidized housing units that are scheduled to be added over the next three years.

Human Resources – Collective Bargaining Expenses: The Department of Human Resources will be negotiating new collective bargaining agreements with nearly all City employee unions in FY 2011-12, resulting in increased costs of \$1.2 million. Collective bargaining costs decrease by \$0.7 million in FY 2012-13 and increase by \$0.4 million in FY 2013-14.

Human Services Agency – Aid: The Human Services Agency projects that General Fund Aid will increase by \$2.9 million, \$5.5 million and \$6.4 million in FY 2011-12, 2012-13 and FY 2013-14 respectively. These increases are due primarily to caseload growth for the County Adult Assistance Program (CAAP) and In Home Support Services (IHSS) as well as increased costs for Foster Care resulting from new State service requirements.

Police Department – Multi-Year Hiring Plan and Expiration of COPS Grant Funding: This report assumes the Police Department will conduct three police academy classes of 50 officers in each of the next three fiscal years in order to backfill retiring sworn personnel. The net cost of these classes is an additional \$5.4 million in FY 2011-12 compared to the FY 2010-11 budget. In addition, federal stimulus legislation included Community Orienting Policing Services (COPS) grant funding which covered the cost of 50 officer positions for three years. In FY 2012-13, funding for these positions begins shifting to the General Fund, resulting in a cost of \$2.8 million and an additional cost of \$2.9 million in FY 2013-14.

Public Health: The Department of Public Health projects expenditure increases of \$50.8 million in FY 2011-12, \$24.1 million in FY 2012-13, and \$12.4 million in FY 2013-14. The expenditure changes are summarized below.

Hospital Expenditures: DPH hospital expenditures are projected to increase by \$10.4 million in FY 2011-12, a \$5.2 million in FY 2012-13, and \$5.2 million in FY 2013-14, based largely on regulatory requirements and inflationary costs.

Delivery System Reform Incentive Pool (DSRIP)/Medicaid Section 1115 Waiver: To reach performance milestones required by Health Care Reform, the Department of Public Health must invest across their system of care to redesign and expand primary care access, improve specialty care access and improve quality in inpatient care. DPH anticipates spending an additional \$20.4 million in FY 2011-12 and an additional \$6.0 million in FY 2012-13 to expand capacity and improve quality.

Electronic Medical Records Implementation: As mentioned above, DPH is undertaking a project to create electronic medical records. The department projects spending \$8.8 million in FY 2011-12 to begin implementation of meaningful use and will have additional costs of \$9.2 million in FY12-13 and \$5.2 million in FY13-14. Should the Department not achieve “Meaningful Use” by 2015, it will be assessed penalties for noncompliance.

Other Costs: DPH is projecting other cost increases of \$11.1 million in FY 2011-12, \$3.7 million in FY 2012-13, and \$2.0 million in FY 2013-14. These costs include start-up costs at the new Laguna Honda Hospital, out of network expenses for the Low-Income Health Plan, housing costs related to the Chambers lawsuit settlement, hospital security expenses, and inflationary costs in the public health fund.

Sheriff's Department – Jail Staffing: The Sheriff's Department anticipates a need for \$7.7 million in additional funds to cover permanent salaries for sworn staff in FY 2011-12. This is due to fewer than expected retirements in FY 2010-11, as well as current jail population rates. Additionally, the Sheriff expects the jail population to increase further if the State's public safety realignment proposal is implemented as proposed, forcing the Sheriff to re-open County Jail #6 and resulting in significant cost increases. At the time of this report, the realignment legislation has been passed by the State legislature and signed by the Governor. However, the number of inmates that will be transferred to the City is not known. The legislation currently provides no funding to support these increased costs.

All Other Departmental Costs: All other departmental costs are projected to increase by \$2.6 million in FY 2011-12, decrease by \$1.4 million in FY 2012-13, and increase by \$2.6 million in FY 2013-14. These changes include projected operating deficits in the Open Space Fund, expiration of the Film Rebate Program in FY 2012-13, and the loss of revenue in the Police and Fire department from the Treasure Island Development Authority.

STAFF CONTACTS

Controller's Office: Leo Levenson, Director of Budget & Analysis, Leo.Levenson@sfgov.org

Mayor's Office: Greg Wagner, Budget Director, Greg.Wagner@sfgov.org

Board of Supervisor's Budget Analyst's Office: Severin Campbell, Severin.Campbell@sfgov.org