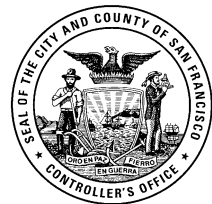


# City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

## **Three-Year Budget Projection for General Fund Supported Operations FY 2010-11 through FY 2012-13**

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



*April 2, 2010*



# City and County of San Francisco

## Three-Year Budget Projection for General Fund Supported Operations

April 2, 2010

### 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) 2010-11, FY 2011-12 and FY 2012-13, 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 2009-10 Original Budget. As shown in Table 1, this report projects shortfalls of \$483 million in FY 2010-11, \$712 million in FY 2011-12, and \$787 million in FY 2012-13. Details behind these projections are provided in the Appendix.

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

	FY 2009-10			
	Original Budget	FY 2010-11 Projection	FY 2011-12 Projection	FY 2012-13 Projection
<b>Sources</b>				
Use of prior year fund balance & reserves	\$ 174	\$ 56	\$ 43	\$ 40
Regular Revenues & Transfers	3,581	3,471	3,474	3,571
<b>Subtotal - Sources</b>	<b>3,755</b>	<b>3,527</b>	<b>3,517</b>	<b>3,611</b>
<b>Uses</b>				
Salaries & Fringe Benefits	1,991	2,113	2,246	2,367
Other Expenditures, Reserves & Transfers	1,763	1,897	1,983	2,031
<b>Subtotal - Uses</b>	<b>3,755</b>	<b>4,010</b>	<b>4,229</b>	<b>4,398</b>
<b>Projected Surplus/(Shortfall)</b>	<b>\$ -</b>	<b>\$ (483)</b>	<b>\$ (712)</b>	<b>\$ (787)</b>

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. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

## Key Assumptions

Key assumptions affecting the FY 2010-11 through FY 2012-13 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 2009-10 budgeted levels, except for those on-going mid-year reductions and supplemental appropriations approved by the Board of Supervisors and the Mayor through March 2010. This projection does not include potential savings due to changes proposed in departmental FY 2010-11 budget submissions.
- **Economic downturn effect on revenues continues through 2010, followed by slow recovery:** For the purpose of projecting tax revenues, this projection assumes the national recession has ended and that most revenues will bottom out in FY 2009-10 and begin recovering in late 2010, followed by a period of modest 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 preliminary budget assumption includes a \$58.0 million reduction in State funding, a \$40.0 million additional reduction from the assumption included in the FY 2009-10 Original Budget.
- **Federal Stimulus Funds assumed extended:** Both houses of Congress have passed bills containing language that would extend the Stimulus' enhanced Federal Medical Assistance Percentage (FMAP) funding through June 30, 2011 from its current expiration date of December 31, 2010. This report assumes that this funding is signed into law, and the additional revenue to the City is estimated at \$22.5 million for FY 2010-11.
- **AB 1383/SB 188 hospital fee not assumed:** The State has submitted a State Plan Amendment to the Center for Medicare and Medicaid Services (CMS) and is in negotiation with CMS. If approved by CMS, the Hospital Fee would increase Medi-Cal rates to private hospitals and fund a \$590 million annual grant to designated public hospitals, including San Francisco General Hospital (SFGH). While the outcome of this process is uncertain, it could result in \$30 million to \$40 million to SFGH for FY 2009-10. The Hospital Fee would expire on December 31, 2010, unless enhanced FMAP payments under American Recovery and Reinvestment Act (ARRA) are extended to June 30, 2011, in which case, the Hospital Fee could be similarly extended. Potential revenues from the fee have not been included in this report's projections since the plan amendment has not yet been approved by the federal government and timing of any receipt of the fees remains uncertain.
- **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 will include salary increases equal to the change in the Consumer Price Index (CPI) for San Francisco Bay Area wage earners as projected by the California Department of Finance, which is currently 2.7%, 2.6%, and 3.1% for FY 2010-11, FY 2011-12, and FY 2012-13, respectively. To the extent that closed labor agreements are renegotiated to achieve salary and/or benefit cost savings, projected shortfalls will be reduced.

- **Controller's FY 2009-10 Six-Month Report ending fund balance:** To estimate the fund balance available at the end of FY 2009-10 to support the FY 2010-11 budget, this report uses the \$29.6 million ending fund balance projection from the Controller's Six-Month Report published on February 9, 2010. This projection does not take into account the potential effect of pending layoffs announced on March 5, 2010 to take effect in May 2010 or on-going labor negotiations. FY 2009-10 projections will be updated in the Controller's Nine-Month Budget Status Report in early May 2010.
- **Retirement plan employer contribution increases:** This projection assumes employer pension contributions to the San Francisco Employee Retirement System (SFERS) reflect a consultant scenario provided to the Retirement Board on January 12, 2010 that would accommodate a potential 14% recovery in retirement assets in FY 2009-10 from prior year declines, followed by 7.75% growth in successive years. This scenario shows a rise in SFERS employer contributions from 9.5% (or \$117.1 million of General Fund Supported funds) in FY 2009-10 to 13.6% (or \$173.2 million) in FY 2010-11, to 16.5% (\$210.8 million) and 19.1% (\$244.0 million) in FY 2011-12 and FY 2012-13, respectively. Employer contributions to the California Public Employees' Retirement System, which covers some public safety personnel, are assumed to rise at a similar rate.
- **Inflationary increase on materials and supplies, professional services, and contracts with community-based organizations:** This projection assumes that the cost of materials and supplies, professional services, and contracts with Community-Based Organizations will increase by the CPI rates of 2.9%, 2.6%, and 3.1% for FY 2010-11, FY 2011-12, and FY 2012-13, respectively.
- **Average growth rate on health and dental insurance:** For FY 2010-11, health and dental insurance premiums are projected to increase by 2.9%, 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 9% for FY 2011-12 and FY 2012-13, which represents a 10-year average historical growth rate for budgeted and actual health and dental premiums. 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 12.0%, 10.0%, and 9.4% in FY 2010-11, FY 2011-12, and FY 2012-13, respectively.
- **10-Year Capital Plan and level equipment funding:** This projection assumes that capital projects and facilities maintenance costs will increase in FY 2010-11 to the level assumed in the 10-Year Capital Plan, and then by 10% annually in FY 2011-12 and FY 2012-13, as assumed in the adopted Plan. This projection assumes the same level of equipment funding for the three-year period as budgeted in FY 2008-09 .
- **Rainy Day Reserve withdrawals assumed:** Our projections assume the City will be eligible to withdraw from the Rainy Day Reserve Economic Stabilization Reserve in all three years. The current balance is \$24.6 million. The Charter allows withdrawals of up to 50% to support the City's budget and 25% for the San Francisco Unified School District (SFUSD) in years when per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. This report assumes the maximum withdrawals for both the City and SFUSD for FY 2010-11, FY 2011-12, and FY 2012-13.

## 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 \$58 million preliminary budget assumption used in this forecast.
- **Collective Bargaining Agreement Negotiations:** Other than approved wage increases in collective bargaining agreements and CPI in open contracts, this report does not assume any potential labor concessions due to on-going labor negotiations with unions .
- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases:** Various fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2010-11 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 and tax proposals and Charter amendments that could affect baseline requirements if approved by the voters in future elections. Potential effects of future elections are not factored into this report.
- **Natural Disasters & Man-Made Disruptions:** As in previous reports, this report does not include any projected costs associated with natural disasters or man-made disruptions.

## 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 2009-10 .
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2010-11 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

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

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 2010-11	FY 2011-12	FY 2012-13
<b>SOURCES</b>				
<b>Fund Balances &amp; Reserves</b>				
Increase /	Change in Starting Fund Balances	(64.9)	(4.6)	-
(Decrease)	Changes to Reserves	(52.4)	(9.2)	(2.3)
	<i>Subtotal Fund Balance &amp; Prior Year Reserves</i>	<i>(117.3)</i>	<i>(13.8)</i>	<i>(2.3)</i>
<b>General Fund Supported Revenues &amp; Transfers In</b>				
	General Fund Taxes, Revs and Transfers net of items below	(80.2)	26.3	71.4
	SF Redevelopment Agency (SFRA) net tax increment draw	(8.3)	(1.4)	(3.5)
	Other General Fund Supported Revs (Public Health, Human Svc)	20.7	23.7	29.0
	Federal Stimulus Funds	(2.4)	(45.1)	-
	Preliminary State Budget Assumption	(40.0)	-	-
	<i>Subtotal General Fund Supported Revenues &amp; Transfers In</i>	<i>(110.1)</i>	<i>3.5</i>	<i>96.8</i>
<b>TOTAL CHANGES TO SOURCES</b>		<b>(227.4)</b>	<b>(10.3)</b>	<b>94.5</b>
<b>USES</b>				
<b>Salaries &amp; Benefits</b>				
Decrease /	Annualization of Partial Year Positions	(1.0)	-	-
(Increase)	Projected Costs of Closed Labor Agreements	(48.2)	(33.0)	(4.0)
	Projected Costs of Open Labor Agreements	(4.3)	(32.3)	(59.6)
	Health & Dental Benefits - Current Employees	(5.7)	(16.7)	(18.2)
	Health & Dental Benefits - Retired Employees	(9.4)	(8.8)	(9.0)
	Retirement Benefits - Employer Contribution Rates	(52.0)	(39.8)	(36.2)
	Other Misc. Costs (Unemployment Insurance & Work Days)	(0.8)	(3.2)	6.2
	<i>Subtotal Salaries &amp; Benefits</i>	<i>(121.4)</i>	<i>(133.8)</i>	<i>(120.9)</i>
<b>Citywide Operating Budget Costs</b>				
	Public Education Enrichment Fund Annual Contribution	(15.5)	(1.1)	(1.8)
	Baseline & Mandate Requirements (MTA, Library, Children, Edu)	11.0	(8.1)	(11.7)
	Base Budget Adjustments	(11.8)	0.1	-
	Annualization of Prior Year Mid-Year Reductions	12.5	-	-
	Capital, Facilities Maintenance, Equipment, & Technology	(51.4)	(8.3)	(8.7)
	Materials, Supplies, and Contracts	(21.9)	(19.4)	(23.1)
	Debt Service & Lease Financings	(3.7)	(3.8)	(2.2)
	Project eMerge (Payroll & Human Resources Information System)	5.5	(1.7)	-
	Workers' Compensation	(2.2)	(1.7)	(1.8)
	Other Citywide Costs	(0.1)	(0.7)	(0.7)
	<i>Subtotal Citywide Operating Budget Costs</i>	<i>(77.6)</i>	<i>(44.7)</i>	<i>(49.9)</i>
<b>Departmental Costs</b>				
	City Administrator - Convention facilities subsidy	(17.4)	(11.0)	2.8
	Elections - Number of elections	5.4	(12.3)	10.7
	Ethics Commission - Public Financing of Elections	(0.1)	(6.0)	6.0
	Public Housing and Affordable Housing (HOPE SF)	(3.0)	-	-
	Human Services - In-Home Support Services	13.1	(1.9)	(2.9)
	Human Services - Aid	(8.0)	(2.3)	(2.4)
	Supportive housing services for pipeline units	(2.5)	(2.9)	(2.1)
	Police - Maintenance of Effort for COPS Grant-Funded Positions	-	-	(6.8)
	Public Defender - Annualization of FY 2009-10 Supplemental	(2.0)	-	-
	Public Health - Chambers Scattered Site Housing	(0.3)	(0.9)	(1.1)
	Public Health - Expiration of Fed. Funds for Community Justice Ctr	(0.5)	-	-
	Public Health - Electronic Medical Records Implementation	(0.9)	(1.6)	0.3
	Public Health - Health Care Coverage Initiative operating costs	(26.7)	-	-
	Public Health - Laguna Honda Hospital Open New Facility	(4.2)	1.1	(2.7)
	Recreation and Park - Golf Fund Subsidy	(0.8)	(0.3)	0.1
	Recreation and Park - Open Space Fund Subsidy	(5.5)	(2.5)	(1.2)
	Superior Court - Indigent Defense	(3.4)	-	-
	All Other Departmental Savings / (Costs)	0.4	(0.1)	0.6
	<i>Subtotal Departmental Costs</i>	<i>(56.3)</i>	<i>(40.6)</i>	<i>1.4</i>
<b>TOTAL CHANGES TO USES</b>		<b>(255.3)</b>	<b>(219.2)</b>	<b>(169.3)</b>
Projected Surplus (Shortfall) vs. Prior Year		<b>(482.7)</b>	<b>(229.5)</b>	<b>(74.8)</b>
Cumulative Projected Surplus (Shortfall)		<b>(482.7)</b>	<b>(712.2)</b>	<b>(787.0)</b>

## Notes to Table A-1

### **SOURCES - Fund Balances & Reserves**

**Change in Starting Fund Balances:** This report projects a loss in General Fund Supported starting fund balances of \$64.9 million in FY 2010-11. Key changes in fund balances are summarized below and reflected in Table A-2a and Table A-2b.

**Loss of prior year General Fund Supported fund balances:** This represents the loss of \$94.5 million in prior year General Fund Supported fund balances used to support the FY 2009-10 budget that is not available in FY 2010-11.

**Gain of FY 2010-11 starting General Fund Supported balances:** This report projects a gain of the \$29.6 million from the balance at the end of FY 2009-10 as projected in the Controller's Six-Month Budget Status Report.

**Changes to Reserves:** The net projected available reserves are estimated to decline by \$52.4 million, \$9.2 million, and \$2.3 million in FY 2010-11, FY 2011-12, FY 2012-13, 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 (as this projection anticipates will happen in FY 2010-11, FY 2011-12, and FY 2012-13), the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Reserve balance is currently \$24.6 million. 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 per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. Based on the projected decline in General Fund revenues, this report assumes the maximum withdrawals for both the City and SFUSD for FY 2010-11, FY 2011-12, and FY 2012-13. This report projects that Rainy Day Reserve withdrawals of \$12.3 million, \$3.1 million, and \$0.8 million will support the FY 2010-11, FY 2011-12, and FY 2012-13 budgets, which represents a decline of \$36.9 million, \$9.2 million, and \$2.3 million compared to the amount that supported the previous year's budget.

**Recreation & Park Reserve:** This report projects that no Recreation & Park Budget Savings Incentive Reserves will support the FY 2010-11 budget, which represents a decline of \$5.6 million compared to the amount that supported the FY 2009-10 budget.

**Litigation Reserve:** This report projects an additional need of \$10.0 million in the Litigation Reserve to support the FY 2010-11 budget. The FY 2009-10 budget included \$1.0 million for the Litigation Reserve due to the availability of unused funds from the prior year. We assume the FY 2010-11 budget will need to include \$11.0 million to restore the reserve to the FY 2009-10 level.

**Table A-2a: Reserve Withdrawal & Appropriation Amounts**

	Orig. Budget		Projected Budget, \$ Millions		
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	
<b>Reserve Withdrawals Used to Support Budget</b>					
Rainy Day Reserve	\$ 49.2	\$ 12.3	\$ 3.1	\$ 0.8	
Recreation & Park Reserve	5.6	-	-	-	
<b>Total Withdrawals</b>	<b>\$ 54.7</b>	<b>\$ 12.3</b>	<b>\$ 3.1</b>	<b>\$ 0.8</b>	
<b>Appropriations to Reserves</b>					
General Reserve	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	
Salaries & Benefits Reserve	13.2	13.2	13.2	13.2	
Litigation Reserve	1.0	11.0	11.0	11.0	
<b>Total Appropriations</b>	<b>\$ 39.2</b>	<b>\$ 49.2</b>	<b>\$ 49.2</b>	<b>\$ 49.2</b>	

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

	Change from Prior Year Budget, \$ Millions		
	FY 2010-11	FY 2011-12	FY 2012-13
<b>Increase (Decrease) in Reserve Withdrawals Used to Support Budget</b>			
Rainy Day Reserve	\$ (36.9)	\$ (9.2)	\$ (2.3)
Recreation & Park Reserve	(5.6)	-	-
<b>Subtotal Changes to Withdrawals</b>	<b>\$ (42.4)</b>	<b>\$ (9.2)</b>	<b>\$ (2.3)</b>
<b>Decrease (Increase) in Appropriations to Reserves</b>			
General Reserve	\$ -	\$ -	\$ -
Salaries & Benefits Reserve	-	-	-
Litigation Reserve	(10.0)	-	-
<b>Subtotal Changes to Appropriations</b>	<b>\$ (10.0)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Budgetary Impact of Changes to Reserves</b>	<b>\$ (52.4)</b>	<b>\$ (9.2)</b>	<b>\$ (2.3)</b>



## ***SOURCES – Revenues and Transfers In***

### **General Context Underlying Revenue Estimates**

**Recovery from the national recession will be slow:** The national recession has ended, and our projections assume most revenues will bottom out in FY 2009-10 and begin recovering in late 2010, a six-month delay from the timing of the recovery projected in the March 2009 Joint Report. This will result in a slight increase in most tax revenues in FY 2010-11 and continued slow growth thereafter, with revenues returning to pre-recessionary levels in FY 2012-13 or after. The exception to this pattern is property tax, as discussed below. The speed of the recovery will depend heavily on job growth and changes in international business activity and tourism.

**Employment grows slowly:** Employment, a key lagging indicator, is in a trough and is projected to remain essentially flat through 2010 before beginning slow growth in 2011. Payroll tax revenues are not expected to return to pre-recession levels until FY 2013-14. San Francisco's unemployment rate is projected to remain below that of the state and other large cities, in part because its economy remains less dependent on residential construction-related employment than other areas, however, employment is projected to recover at a similar, slow rate as the state.

**Sales tax revenues are reset at a lower level:** San Francisco experienced less of a decline in sales tax than other jurisdictions in California and the Bay Area during the early part of the recession, however, rates of decline in local sales tax in the current year are on par with or above those in the state and region. Receipts are highly correlated with employment and inflation, which are both projected to increase slowly in the next few years. In addition, tight credit markets and a sharp increase in personal savings rates will have a long-term dampening effect on sales tax revenue.

**Hotel tax revenue rebounds:** Hotel tax receipts are projected to increase in late 2010 and the first half of 2011, making up for some of the losses experienced in the current fiscal year. Compared to other local tax revenues, hotel tax is projected to recover more quickly due to changes international business activity and tourism, however, there is some risk of weakness if room rates remain heavily discounted for an extended period.

**Real estate transactions continue their recovery from 2009:** Real property transaction levels and transfer taxes have rebounded in the current year and are projected to return to historical average levels, excluding the extraordinary boom in commercial transactions from 2005 to 2007, and up from the near-zero level of commercial transactions of early 2009.

**Commercial real estate values drive property tax revenue:** The residential portion of the property tax base will remain relatively stable in San Francisco, due to low turnover and Proposition 13 limits on annual property tax increases. Even after recent declines, market prices for residential properties still exceed many residential properties' assessed valuations.

In contrast, a significant percentage of the commercial property tax base changed hands and was reassessed in recent years, contributing to a substantial rise in assessed valuation at risk if market values decline. Recent commercial transactions do not indicate a clear trend in the commercial market. While there have been some distress sales at deeply discounted prices, there are also many buyers seeking high quality, well-leased properties at slight, but not substantial discounts.

Considering the mix of factors affecting property tax collections, we project receipts will drop 4.6% in FY 2010-11 due to a substantial decrease in the enrollment backlog, remain flat in FY 2011-12, then grow 2.0% in FY 2012-13. This is substantially slower than the 11% average

annual growth rates in property tax collections experienced during the decade from FY 1998-99 to FY 2007-08.

**Statewide economic activity recovers slowly:** Revenues from state sales tax and vehicle license fees that are allocated to local governments for public safety, health, and social services have continued to decline in the current year, though the rate of reduction has slowed from FY 2008-09. Our projections assume these revenues will begin to trend upward in FY 2010-11. As with local sales tax revenue, future growth will be off of a reduced base.

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 decrease by \$124.5 million in FY 2010-11 from FY 2009-10 Original Budget levels, followed by a decrease of \$3.5 million in FY 2011-12 and an increase of \$67.9 million in FY 2012-13. Significant changes are discussed below.

**Property Tax:** Before taking into account the effect of San Francisco Redevelopment Agency (SFRA) tax increment requirements (discussed separately below), the General Fund share of property tax is projected to decline \$71.8 million (-3.8%) in FY 2010-11 from the FY 2009-10 Original Budget, followed by increases of \$0.4 million (0.1%) in FY 2011-12 and \$23.5 million (2.3%) in FY 2012-13. This assumes little change in the January 2010 valuation basis for FY 2010-11 assessments compared to January 2009 levels, followed by modest increases in valuations at a rate that would reach 2008 levels by January 2014. The projection takes into account the -0.2% State-determined cost of living index change in Proposition 13 base valuations for FY 2010-11, and assumes the maximum 2.0% increases in FY 2011-12 and FY 2012-13. A substantial majority (\$43.9 million) of the FY 2010-11 reduction in revenue is due to a projection of significant reductions in prior year positive supplementals and escapes as the Assessor's Office finishes working through the backlog from growth years.

**SF Redevelopment Agency (SFRA) Net Tax Increment Draw:** This represents the General Fund share of the property tax increment budgeted by the San Francisco Redevelopment Agency (SFRA), offset by the pass-through back to the City required by the State. This amount is primarily driven by anticipated debt service requirements. The net effect of these changes is reduced General Fund property tax revenue of \$8.3 million in FY 2010-11, \$1.4 million in FY 2011-12 and \$3.5 million in FY 2012-13.

**Other Local General Fund Tax Revenues:** This group of locally generated revenues is projected to increase by \$33.5 million in FY 2010-11 from FY 2009-10 Original Budget levels, followed by increases of \$32.5 million and \$39.2 million in FY 2011-12 and FY 2012-13, respectively. The increase in FY 2010-11 is primarily due to the recovery of property transfer tax revenue and the assumption that all growth in hotel tax revenue will be allocated to the General Fund, offset by declines in payroll tax and access line tax revenue. Increases in FY 2010-11 and FY 2011-12 are due to a slow recovery anticipated across a range of revenues.

**Federal Stimulus Funds:** Both Houses of Congress have passed bills containing language that would extend certain provisions of the Federal Stimulus' enhanced Federal Medical Assistance Percentage (FMAP) funding through June 30, 2011 from its current expiration date of December 31, 2010. This additional \$22.5 million for FY 2010-11 of Federal Stimulus funds received by San Francisco General Hospital, Laguna

Honda Hospital, and the Human Services Agency reduce the need for General Fund expenditures and subsidies. This report assumes that as the Federal Stimulus funds expire, the General Fund will backfill these costs, including \$2.4 million in FY 2010-11 and \$45.1 million in FY 2011-12.

**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 \$58.0 million preliminary assumption for reductions in State funding, a \$40.0 million additional reduction from the assumption included in the FY 2009-10 Original Budget. We anticipate an increase of \$4.58 million in other state subvention and a decrease of \$10.1 million in local allocations of state sales tax and vehicle license fee revenue, bringing the total FY 2010-11 decline in General Fund state funds to \$45.5 million, followed by increases of \$6.1 million and \$6.2 million in FY 2011-12 and FY 2012-13, respectively.

**Other General Fund-Supported Revenues:** This category includes projected state sales tax and vehicle license fee realignment funds outside the General Fund, Human Services Agency incremental revenues, and Public Health hospital revenues increasing by \$20.7 million, \$23.7 million, and \$29.7 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively, as described below:

- State sales tax and vehicle license fee realignment funds that are received by San Francisco General Hospital are projected to increase by \$1.6 million in FY 2010-11, \$1.5 million in FY 2011-12, and \$1.6 million in FY 2012-13.
- The Human Services Agency is projected to draw incremental State and Federal revenues to pay for approximately 38% of additional salaries and fringe benefit costs and 50% of Human Services Aid costs. Based on these assumptions, Human Services Agency incremental revenue is projected to increase by \$3.7 million, \$6.3 million, and \$6.7 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively.
- Public Health hospital revenues are projected to increase by \$15.4 million, \$15.9 million, and \$20.7 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively, based on an annual 4.0% growth in Medi-Cal patient service revenues.

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

	FY 2008-09	FY 2009-10		FY 2010-11	FY 2011-12	FY 2012-13
	Year-End Actuals	Original Budget	6-Month Projection	Projection	Projection	Projection
Property Taxes	\$ 1,021.3	\$ 1,058.1	\$ 1,025.0	\$ 978.0	\$ 977.0	\$ 997.0
Business Taxes	387.3	371.8	352.6	355.8	364.3	380.9
Sales Tax	101.7	98.2	95.4	98.0	101.4	104.4
Hotel Room Tax	161.7	117.5	146.8	149.6	161.6	171.3
Utility Users Tax	89.8	87.0	89.4	91.5	93.3	96.6
Parking Tax	64.5	64.1	63.9	64.5	65.8	68.1
Real Property Transfer Tax	49.0	45.3	58.7	63.2	67.9	71.3
Stadium Admission Tax	2.2	2.2	2.3	2.3	2.3	2.4
Access Line Tax (FY09 incl. \$37.1m 911 fee revenue)	47.5	42.9	39.4	37.7	38.4	39.2
<b>Subtotal - Local Tax Revenues</b>	<b>1,924.9</b>	<b>1,887.1</b>	<b>1,873.3</b>	<b>1,840.5</b>	<b>1,872.0</b>	<b>1,931.2</b>
Licenses, Permits & Franchises	24.8	25.1	24.3	24.3	24.7	25.1
Fines, Forfeitures & Penalties	5.6	3.8	7.7	7.7	7.7	7.7
Interest & Investment Income	14.7	11.6	8.8	8.4	12.6	12.6
Rents & Concessions	18.5	19.4	18.6	18.7	18.8	19.2
<b>Subtotal - Licenses, Fines, Interest, Rent</b>	<b>63.6</b>	<b>59.9</b>	<b>59.4</b>	<b>59.0</b>	<b>63.8</b>	<b>64.6</b>
Federal Subventions excluding ARRA Stimulus	167.5	205.9	208.0	193.8	179.9	179.9
Federal General Fund ARRA Stimulus	15.4	29.7	30.0	33.6	-	-
<b>Subtotal - Federal Subventions</b>	<b>182.9</b>	<b>235.6</b>	<b>238.0</b>	<b>227.4</b>	<b>179.9</b>	<b>179.9</b>
Social Service Subventions	133.5	128.0	128.4	128.4	128.4	128.4
Health & Welfare Realignment - Sales Tax	101.9	100.6	92.7	94.6	97.4	100.3
Health & Welfare Realignment - VLF	45.6	46.7	42.9	43.7	45.0	46.4
Health/Mental Health Subventions	85.7	96.7	96.6	96.6	96.6	96.6
Public Safety Sales Tax	63.7	65.1	62.7	64.0	65.9	67.9
Motor Vehicle In-Lieu (County & City)	2.7	1.4	1.4	1.4	1.4	1.4
Other Grants & Subventions	41.9	20.0	24.3	24.3	24.3	24.3
Preliminary State Budget Assumption	-	(18.0)	(18.0)	(58.0)	(58.0)	(58.0)
<b>Subtotal - State Subventions</b>	<b>475.0</b>	<b>440.5</b>	<b>431.0</b>	<b>395.0</b>	<b>401.1</b>	<b>407.3</b>
General Government Service Charges	29.3	33.9	32.2	32.2	32.5	32.8
Public Safety Service Charges	23.9	26.2	21.7	21.7	21.9	22.1
Recreation Charges - Rec/Park	8.8	9.6	9.6	9.6	9.7	9.8
MediCal, MediCare & Health Svc. Chgs.	50.5	54.1	53.3	53.3	53.8	54.3
Other Service Charges	10.0	15.1	15.1	15.1	15.2	15.4
<b>Subtotal - Charges for Services</b>	<b>122.6</b>	<b>138.8</b>	<b>131.8</b>	<b>131.8</b>	<b>133.1</b>	<b>134.4</b>
<b>Recovery of General Government Costs</b>	<b>13.3</b>	<b>8.2</b>	<b>7.4</b>	<b>8.8</b>	<b>8.9</b>	<b>9.0</b>
<b>Other General Fund Revenues</b>	<b>7.7</b>	<b>22.7</b>	<b>22.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
<b>TOTAL REVENUES</b>	<b>2,790.0</b>	<b>2,792.8</b>	<b>2,762.9</b>	<b>2,669.5</b>	<b>2,665.7</b>	<b>2,733.3</b>
<b>Transfers in to General Fund</b>						
Airport	26.8	26.2	26.9	27.2	27.5	27.7
Other Transfers	105.5	59.3	59.8	57.1	57.1	57.1
<b>Total Transfers-In</b>	<b>132.3</b>	<b>85.6</b>	<b>86.7</b>	<b>84.3</b>	<b>84.6</b>	<b>84.9</b>
<b>TOTAL GF Revenues and Transfers-In</b>	<b>2,922.3</b>	<b>2,878.4</b>	<b>2,849.6</b>	<b>2,753.8</b>	<b>2,750.3</b>	<b>2,818.2</b>
<b>GF SUPPORTED (GFS) OPERATIONS , net</b>	<b>830.6</b>	<b>721.7</b>	<b>717.4</b>	<b>736.2</b>	<b>743.2</b>	<b>772.1</b>
<b>TOTAL GFS Revenues &amp; Transfers-In, net</b>	<b>\$ 3,752.9</b>	<b>\$ 3,600.1</b>	<b>\$ 3,567.1</b>	<b>\$ 3,490.0</b>	<b>\$ 3,493.5</b>	<b>\$ 3,590.3</b>
<b>\$ Change from PY Budget</b>	<b>281.9</b>	<b>(84.7)</b>	<b>(117.7)</b>	<b>(110.1)</b>	<b>3.5</b>	<b>96.8</b>

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

	FY 2010-11		FY 2011-12	FY 2012-13
	% Chg from FY 2009-10 AAO Original Budget	% Chg from FY 2009-10 6-Month Projection	% Chg from FY 2010-11 Projection	% Chg from FY 2011-12 Projection
Property Taxes	-7.6%	-4.6%	-0.1%	2.0%
Business Taxes	-4.3%	0.9%	2.4%	4.6%
Sales Tax	-0.2%	2.8%	3.4%	3.0%
Hotel Room Tax	27.3%	1.9%	8.0%	6.0%
Utility Users Tax	5.2%	2.4%	2.0%	3.5%
Parking Tax	0.5%	0.9%	2.0%	3.5%
Real Property Transfer Tax	39.5%	7.5%	7.5%	5.0%
Stadium Admission Tax	3.7%	1.0%	2.0%	2.0%
Access Line Tax	-12.1%	-4.3%	2.0%	2.0%
<b>Subtotal - Tax Revenues</b>	<b>-2.5%</b>	<b>-1.8%</b>	<b>1.7%</b>	<b>3.2%</b>
Licenses, Permits & Franchises	-3.4%	0.1%	1.6%	1.6%
Fines, Forfeitures & Penalties	105.5%	0.0%	0.0%	0.0%
Interest & Investment Income	-27.7%	-5.0%	50.0%	0.0%
Rents & Concessions	-4.0%	0.4%	1.0%	1.9%
<b>Subtotal - Licenses, Fines, Interest, Rent</b>	<b>-1.5%</b>	<b>-0.6%</b>	<b>8.1%</b>	<b>1.2%</b>
Federal Subventions excl. ARRA Stimulus	-5.9%	-6.8%	-7.1%	0.0%
Federal General Fund ARRA Stimulus	13.3%	12.1%	-100.0%	n/a
<b>Subtotal - Federal Subventions</b>	<b>-3.5%</b>	<b>-4.4%</b>	<b>-20.9%</b>	<b>0.0%</b>
Social Service Subventions	0.3%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	-5.9%	2.0%	3.0%	3.0%
Health & Welfare Realignment - VLF	-6.4%	2.0%	3.0%	3.0%
Health/Mental Health Subventions	-0.1%	0.0%	0.0%	0.0%
Public Safety Sales Tax	-1.7%	2.0%	3.0%	3.0%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	21.3%	0.0%	0.0%	0.0%
Preliminary State Budget Assumption	222.2%	n/a	0.0%	0.0%
<b>Subtotal - State Subventions</b>	<b>-10.3%</b>	<b>-8.4%</b>	<b>1.5%</b>	<b>1.6%</b>
General Government Service Charges	-5.1%	0.0%	1.0%	1.0%
Public Safety Service Charges	-17.2%	0.0%	1.0%	1.0%
Recreation Charges - Rec/Park	0.0%	0.0%	1.0%	1.0%
MediCal, MediCare & Health Svc. Chgs.	-1.5%	0.0%	1.0%	1.0%
Other Service Charges	0.0%	0.0%	1.0%	1.0%
<b>Subtotal - Charges for Services</b>	<b>-5.1%</b>	<b>0.0%</b>	<b>1.0%</b>	<b>1.0%</b>
<b>Recovery of General Government Costs</b>	<b>7.8%</b>	<b>19.0%</b>	<b>1.0%</b>	<b>1.0%</b>
<b>Other Revenues</b>	<b>-69.4%</b>	<b>-68.3%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>TOTAL REVENUES</b>	<b>-4.4%</b>	<b>-3.4%</b>	<b>-0.1%</b>	<b>2.5%</b>
<b>Transfers in to General Fund</b>				
Airport	3.7%	1.0%	1.0%	1.0%
Other Transfers	-3.8%	-4.5%	0.0%	0.0%
<b>Total Transfers In</b>	<b>-1.5%</b>	<b>-2.8%</b>	<b>0.3%</b>	<b>0.3%</b>
<b>TOTAL GF Revenues and Transfers-In</b>	<b>-4.3%</b>	<b>-3.4%</b>	<b>-0.1%</b>	<b>2.5%</b>
<b>GF SUPPORTED (GFS) OPERATIONS , net</b>	<b>2.0%</b>	<b>2.6%</b>	<b>1.0%</b>	<b>3.9%</b>
<b>TOTAL GFS Revenues &amp; Transfers-In, net</b>	<b>-3.1%</b>	<b>-2.2%</b>	<b>0.1%</b>	<b>2.8%</b>

## **USES – Salaries and Benefits**

This report projects General Fund Supported salaries and fringe benefits to increase by \$121.4 million in FY 2010-11, \$133.8 million in FY 2011-12, and \$120.9 million in FY 2012-13. 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 2010-11, the City is projected to incur \$1.0 million of additional costs to annualize positions funded for only a partial year in the FY 2009-10 budget.

**Projected Costs of Closed Labor Agreements:** The additional salary and benefit costs of closed labor agreements are projected to be \$48.2 million for FY 2010-11, \$33.0 million for FY 2011-12, and \$4.0 million for FY 2012-13. These costs include the annualization of prior year wage adjustments 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 \$4.3 million for FY 2010-11, \$32.3 million for FY 2011-12, and \$59.6 million for FY 2012-13. Most of the agreements will expire by the end of FY 2010-11. To project the cost of anticipated salary increases, we assume that these bargaining units receive salary increases equivalent to the Consumer Price Index (CPI) projected by the California Department of Finance for the San Francisco Bay Area. We also assume market wage adjustments where applicable. The CPI increase is projected to be 2.7% for FY 2010-11, 2.6% for FY 2011-12, and 3.1% for FY 2012-13.

**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 5.2% increase (from \$449.37 to \$472.85 per month) in the Charter-required contribution from FY 2009-10 to FY 2010-11. Given this increase and other projected changes in plan utilization, costs related to current employees are projected to increase from \$179.9 million in FY 2009-10 by 2.9%, or \$5.7 million, to \$185.6 million in FY 2010-11. For FY 2011-12 and FY 2012-13, this report assumes that health and dental benefits for current employees will increase by the 10-year average historical growth rate for budgeted and actual health and dental premiums, or a 9.0% increase.

**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 \$77.9 million in FY 2009-10 by \$9.4 million to \$87.3 million in FY 2010-11, and increase by \$8.8 million, and \$9.0 million for FY 2011-12 and FY 2012-13, respectively. The projections for FY 2010-11 and FY 2012-13 are based on projected actuarial cost increases of 10.0% and 9.4%. Not included in these figures are the City's unfunded liability for the benefits accruing to employees hired before January 10, 2009, which is currently estimated at approximately \$4 billion 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, 2009 reported that the gap between the City's pay-as-you-go funding and an actuarially defined contribution level for was \$311 million. The estimated General Fund-Supported share of this gap is 61%, or \$190 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 from \$133.5 million in FY 2009-10 to \$189.9 million in FY 2010-11, \$229.7 million in FY 2011-12, and \$265.9 million in FY 2012-13. 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 9.49% in FY 2009-10 to 13.56% in FY 2010-11 for covered City employees, as adopted by the Retirement Board on January 15, 2010. Required employer-share rates included in our projection are based on the San Francisco Employees' Retirement System's (SFERS) actuarial valuation as of January 12, 2010. This projection assumes required employer-share contribution rates of 16.50% in FY 2011-12 and 19.10% in FY 2012-13 as estimated by the Retirement System, resulting in additional retirement contribution costs of \$51.9 million for FY 2010-11, \$37.6 million for FY 2011-12, and \$33.2 million for FY 2012-13.

**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 18.125% in FY 2009-10 to 18.24% in FY 2010-11 and to 20.70% in FY 2011-12. For FY 2012-13, this projection assumes that the CalPERS employer contribution rate will increase by the same percentages as the SFERS rate, described above. These contribution rate assumptions result in additional pension costs of \$0.1 million in FY 2010-11, \$2.2 million in FY 2011-12, and \$2.9 million in FY 2012-13.

#### **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 \$2.4 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 \$6.2 million savings in salaries and fringe benefit costs.

**Unemployment Insurance:** We project increases in the unemployment insurance contribution rate from 0.20% in FY 2009-10 to 0.25% in FY 2010-11 and increasing to 0.30% in FY 2011-12, resulting in increased costs of \$0.8 million in each of FY 2011-12 and FY 2012-13.

## **USES –Citywide and Departmental Operating Costs**

Table A-1 displays other non-salary expenditure cost increases of \$77.6 million, \$44.7 million, and \$49.9 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively.

**Public Education Enrichment Fund Annual Contribution:** The Public Education Enrichment Fund (PEEF) contribution is projected to increase by \$15.5 million from \$42.7 million in FY 2009-10 to \$58.1 million in FY 2010-11, as prescribed by Charter Section 16.123-2, and to increase by the percentage increase in the City’s aggregate discretionary revenue in FY 2011-12 and FY 2012-13. Note that the FY 2009-10 budgeted amount of \$42.7 million reflected a decision not to fund the full \$60.0 million due 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 2010-11 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 decreased contributions for Charter-mandated baseline requirements of \$11.0 million in FY 2010-11 and increased contributions of \$8.1 million and \$11.7 million in FY 2011-12 and FY 2012-13, respectively. 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**

<b>Baselines &amp; Select Mandated Expenditures</b>	<b>Orig. Budget</b>		<b>Projected Budget, \$ Millions</b>		
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Municipal Transportation Baseline	\$ 178.3	\$ 171.5	\$ 174.7	\$ 180.1	
MTA Transfer In - Lieu of Parking Tax	51.3	51.6	52.6	54.5	
Library Preservation Baseline	42.2	40.6	41.4	42.7	
Public Education Baseline - Required Appropriation	5.7	5.4	5.5	5.7	
Children’s Baseline - Required Appropriation	96.9	93.2	95.0	97.9	
Human Services Care Fund	13.7	14.2	15.0	15.0	
Controller - City Services Auditor	12.4	12.9	13.3	13.5	
<b>Total Baselines &amp; Select Mandates</b>	<b>400.4</b>	<b>\$ 389.5</b>	<b>\$ 397.6</b>	<b>\$ 409.3</b>	

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

<b>Baselines &amp; Select Mandated Expenditures</b>	<b>Decrease (Increase) from Prior Year Budget, \$ Millions</b>			
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Municipal Transportation Baseline		\$ 6.8	\$ (3.3)	\$ (5.3)
MTA Transfer In - Lieu of Parking Tax		(0.3)	(1.0)	(1.8)
Library Preservation Baseline		1.6	(0.8)	(1.3)
Public Education Baseline - Required Appropriation		0.2	(0.1)	(0.2)
Children’s Baseline - Required Appropriation		3.7	(1.8)	(2.9)
Human Services Care Fund		(0.6)	(0.8)	-
Controller - City Services Auditor		(0.5)	(0.4)	(0.1)
<b>Total Baselines &amp; Select Mandates</b>		<b>\$ 11.0</b>	<b>\$ (8.1)</b>	<b>\$ (11.7)</b>



**Base Budget Adjustments:** The effect of all base budget changes is a net increased cost of \$11.8 million in FY 2010-11 and savings of \$0.1 million in FY 2011-12. Adjustments to the FY 2010-11 Base Budget include the elimination of one-time costs in the prior year, such as the 2010 Census Project, the annualization of ongoing non-personnel costs, and the loss of one-time revenues, including state reimbursement for the May 2009 special election.

**Annualization of Prior Year Mid-Year Reductions:** This report projects \$12.5 million of savings annualized in the FY 2010-11 budget as a result of the Mayor and Board of Supervisors' Mid-Year Balancing Plan in FY 2009-10.

**Capital, Facilities Maintenance, Equipment, & Technology:** Capital and facilities maintenance cost projections are consistent with those outlined in the FY 2010-18 Capital Plan — currently proposed at \$67.7 million for FY 2010-11, an increase of \$43.8 million from the FY 2009-10 budget, then growing by 10% in each subsequent year. This report also assumes a level of funding of \$6.8 million over the next three years for the cash purchase of equipment, an increase of \$5.7 million from the FY 2009-10 budget. Technology investments are projected to increase by \$1.9 million, \$1.6 million, and \$1.6 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively.

**Materials, Supplies, and Contracts:** This projection uses the Consumer Price Index (CPI) projections from the California Department of Finance for the San Francisco Bay Area to estimate inflation in the cost of materials and supplies, professional services, and contracts with Community-Based Organizations. These items are projected to increase from a base of \$747.5 million in the FY 2009-10 budget by 2.9% (\$21.9 million) in FY 2010-11, 2.6% (\$19.4 million) in FY 2011-12, and 3.1% (\$23.1 million) in FY 2012-13.

**Debt Service & Lease Financings:** Based on current debt repayment requirements as well as an assumed lease-financing program for equipment purchases (\$10.0 million per year over the three-year projection period), total debt service and lease financing costs are projected to increase by \$3.7 million, \$3.8 million, and \$2.2 million in FY 2010-11, FY 2011-12, and FY 2012-13, 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.

**Project eMerge:** Costs related to implementation of the City's new payroll and human resources information system (Project eMerge) are projected to decrease by \$5.5 million in FY 2010-11. Of this savings, \$7.8 million is attributable to the project completion of selected applications in next fiscal year offset by \$2.3 million in operating costs. In FY 2011-12, there are additional operating costs of \$1.7 million.

**Workers' Compensation:** Workers' compensation costs are projected to increase by \$2.2 million, \$1.7 million, and \$1.8 million in FY 2010-11, FY 2011-12, and FY 2012-13, 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 4.4%, 2.4%, and 3.7% FY 2010-11, FY 2011-12, and FY 2012-13, respectively. Additionally, this report assumes that the number of indemnity claims will remain relatively flat over the next three years.

## **USES –Departmental Costs**

**City Administrator – Convention Facilities Fund Subsidy:** This projection assumes an operating deficit of \$4.0 million in the Convention Facilities Fund in FY 2010-11 due to increased debt service costs, lower projected Moscone Center operating revenue, and the loss of a one-time capital contribution from SMG, the company that operates the Moscone Center. This deficit will require a General Fund subsidy of \$4.0 million for FY 2010-11, which is a \$17.4 million General Fund cost compared to the \$13.4 million transfer from the Convention Facilities Fund to the General Fund in FY 2009-10. Increased debt service costs will result in an additional increase in the General Fund subsidy of \$11.0 million in FY 2011-12. Debt service costs are projected to decline slightly in FY 2012-13, resulting in incremental savings of \$2.8 million. This projection assumes that all Hotel Tax revenue growth accrues to the General Fund, and that no additional Hotel Tax revenue growth is allocated to the Convention Facilities Fund during the next three fiscal years.

**Elections Department – Number of Elections:** The number of elections and the associated costs for holding elections changes from year to year. Currently one election (gubernatorial) is projected for FY 2010-11, three elections (presidential primary, mayoral, and State primary) are projected for FY 2011-12, and one election (presidential) is projected for FY 2012-13. This results in projected incremental savings of \$5.4 million in FY 2010-11, followed by an incremental cost of \$12.3 million in FY 2011-12, and incremental savings of \$10.7 million in FY 2012-13.

**Ethics Commission – Public Financing of Elections:** The Ethics Commission administers the Election Campaign Fund for the City which provides public-matching funding to candidates for the Mayor and the Board of Supervisors. The City must provide \$2.75 per resident for this purpose. Additionally, the Election Campaign Fund already has an unspent balance of \$3.9 million, which is projected to be spent by the end of FY 2010-11. Based on the California Department of Finance population growth, there is a projected contribution into the fund of \$2.0 million in FY 2010-11, or \$0.1 million more than the required contribution in FY 2009-10. The projected \$6.0 million cost in FY 2011-12 represents the assumed restoration of Election Campaign funds used to balance the General Fund in FY 2008-09 and FY 2009-10. The City's contribution into the fund for FY 2012-13 is projected to return to the FY 2010-11 level.

**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 2009-10, the City used a one-time source of \$3.0 million to pay for part of the HOPE SF project. For FY 2010-11, the \$3.0 million cost reflects continuing the program at its current \$5.0 million funding level.

**Human Services Agency – In-Home Support Services:** The Human Services Agency projects that its \$81.6 million FY 2009-10 General Fund aid for In-Home Support Services Independent Provider (IHSS IP) wages and benefits budgets will decrease in FY 2010-11 by \$13.1 million due to an increase in the State contribution in wages and benefits from \$10.10 per hour to \$12.10 per hour, offset by increasing service hours. The Department also projects increases of \$1.9 million in FY 2011-12 and \$2.9 million in FY 2012-13 due to increase in service hours.

**Human Services Agency – Aid:** The Human Services Agency projects that its \$40.9 million FY 2009-10 General Fund aid budget (net of In-Home Support Services wage and benefits) will increase by \$8.0 million, \$2.3 million, and \$2.4 million in FY 2010-11, 2011-12, and 2012-13, respectively. Approximately 50% of the increased costs are expected to be offset by State and Federal reimbursements included in the sources section of this report. The FY 2010-11 increase is due to caseload growth for the County Adult Assistance Program and increased costs for the Foster Care program. The cost increases of \$2.3 million in FY 2011-12 and \$2.4 million in FY 2012-13 are primarily due to caseload growth in the County Adult Assistance program.

**Supportive Services Costs for Housing in Construction Pipeline:** The Human Services Agency and Public Health Department project additional costs of \$2.5 million in FY 2010-11, \$2.9 million in FY 2011-12, and \$2.1 million in FY 2012-13 related to supportive services in subsidized housing units which are scheduled to be added over the next three years.

**Police Department - Maintenance of Effort for COPS Grant-Funded Positions:** The Federal stimulus legislation included COPS grant funding for 50 officer positions for FY 2009-10 through FY 2011-12. In FY 2012-13, funding for these positions will shift to the General Fund, resulting in a cost of \$6.8 million.

**Public Defender – Annualization of FY 2009-10 Supplemental Appropriation:** This report assumes the annualization of the FY 2009-10 supplemental appropriation that added new attorneys and paralegals starting on March 15, 2010. The cost of annualizing these positions is \$2.0 million in FY 2010-11.

**Public Health:** The department projects cost increases of \$32.6 million in FY 2010-11, \$1.4 million in FY 2011-12, and \$3.4 million in FY 2012-13. These changes are summarized below.

**Chambers Settlement Scattered Site Housing:** The Public Health Department and Human Services Agency project increases in General Fund expenditures of \$0.3 million, \$0.9 million, and \$1.1 million in FY 2010-11, FY 2011-12, and FY 2012-13, respectively, due to the implementation of the housing portion of the Chambers lawsuit settlement. The goal of the settlement is to ensure that clients are housed in the most appropriate and least restrictive level of care. As a result, the City must provide 500 new City-subsidized affordable housing units over a five year period to house clients who are diverted or transitioning from Laguna Honda Hospital to community living. As additional people are placed and retained in housing, annual costs will increase.

**Expiration of Federal funds for Community Justice Center:** The loss of one-time federal funding for the Community Justice Center results in a cost \$0.5 million in FY 2010-11.

**Electronic Medical Records Implementation:** The Department of Public Health 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 project will improve operational efficiencies and patient care with projected implementation costs of \$0.9 million in FY 2010-11 and \$1.6 million in FY 2011-12, and produce net savings of \$0.3 million in FY 2012-13 when the first incentive payments become available. Successful implementation will qualify the Department to receive total incentive payments estimated at \$7.9 million over a four-year period from

FY 2012-13 through FY 2015-16. Should the Department not achieve Meaningful Use by 2015, it will not only lose the incentive payments but will be assessed penalties for noncompliance.

**Healthy San Francisco Health Care Coverage Initiative (HCCI) Funding:** Funding under Health Care Coverage Initiative (HCCI) for Healthy San Francisco is paid under a State Medicaid Plan that expires in August 2010, which will result in a \$26.7 million additional cost. The State is currently developing a new waiver for review by the Federal government which may include an extension of HCCI, but will not be approved until FY 2010-11. As such, this report does not assume the extension is approved.

**Laguna Honda Hospital New Facility Costs:** This projection assumes additional costs of \$4.2 million in FY 2010-11, \$1.1 million savings in FY 2011-12, and an increase in cost of \$2.7 million in FY 2012-13. The new Laguna Honda Hospital (LHH) is expected to open in late summer/early fall of 2010, moving from a 1920s era building with limited technology and operating systems, into a new state of the art facility. LHH will require additional support for new information and operating systems that do not exist in the current facility. Finally, central to the new model of care for LHH, Nutrition Services operation will transition from a centralized to a decentralized social meal operation that requires additional food service staffing. The FY 2010-11 costs reflect \$0.5 million in FY 2010-11 for facilities maintenance and information technology for the new hospital, \$2.1 million for furniture, fixtures and equipment purchases needed, and \$1.6 million for ongoing operations costs to maintain this existing facility. Additional operating costs which are currently covered in the capital rebuild project will need to be transitioned on to the general fund in FY 2011-12 when the build out of the entire campus is complete, reflecting savings of \$1.1 million in FY 2011-12 and increased costs of \$2.7 million in FY 2012-13.

**Recreation and Park – Golf Fund Subsidy:** This report assumes an increased General Fund subsidy to the Golf Fund of \$0.8 million in FY 2010-11 due largely to a payment to the Open Space Fund to restore funds borrowed in prior years. The Golf Fund is projected to receive an additional subsidy of \$0.3 million in FY 2011-12 assuming additional salaries and fringe benefit cost increases, and a reduced subsidy of \$0.1 million in FY 2012-13 since no PGA tournaments are scheduled that year.

**Recreation and Park – Open Space Fund Subsidy:** This report assumes that the Open Space Fund will require a General Fund subsidy of \$5.5 million in FY 2010-11 due primarily to reduced Property Tax revenue and the loss of available Fund Balance. The General Fund subsidy is projected to increase by \$2.5 million in FY 2011-12 and \$1.2 million in FY 2012-13 due to assumed increases in personnel costs.

**Superior Court – Indigent Defense:** This report assumes additional costs of \$3.4 million projected for FY 2010-11 for the legally-required defense costs of indigent defendants.

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