



Edward Harrington
Controller

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February 9, 2004

The Honorable Gavin Newsom
Mayor, City and County of San Francisco
Room 200, City Hall

The Honorable Board of Supervisors
Room 244, City Hall

Re: FY 2003-04 Six-Month Budget Status Report

Dear Mayor Newsom, Ladies and Gentlemen:

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. This report is the Six-Month Budget Status Report based on sources of funds received and uses of funds from July 1, 2003 expended through December 31, 2003. The purpose of the report is to apprise the City's policy makers of the current and projected budgetary status of the General Fund.

I. OVERVIEW

We project a shortfall of (\$1.26) million for the General Fund balance by the end of the fiscal year 2003-2004 (FY 2003-04). This shortfall is primarily caused by a \$37 million reduction in Motor Vehicle License Fees (the "car tax") over what had been assumed in the City's budget. For comparison purposes, the City ended fiscal year 2002-03 with a \$48 million surplus. Since it would be illegal to end the year with a deficit, steps will need to be taken to bring the budget back into balance by year-end.

The projected year-end balance is based on current revenue and spending patterns. The actual year-end balance may differ due to changes in revenues, spending rates, the amount of supplemental appropriations and releases of reserves ultimately approved by the Mayor and/or the Board. While the narrative on the following pages provides a summary of key revenue changes and departmental operations, **a great deal of uncertainty is still present. Two key assumptions include:**

- 1) the passage of the State's \$15 billion bond in March 2004 to cover State spending for the current year and part of FY 2004-05, and
- 2) a gradual economic recovery takes hold through the second half of FY 2003-04. If the lagging, jobless recovery in the Bay Area continues, additional revenue weakness of \$10 to \$15 million is estimated in the current fiscal year.

We will continue to monitor these factors and provide updated information in the Controller's Nine-Month Report.

Chart A: Six-Month General Fund Budget Summary – FY 2003-04 (millions)

	AAO Original Budget	Revised Budget	Year-End Projection	Savings / (Shortfall)
SOURCES:				
General Fund Beginning Balance	\$ 47.06	\$ 47.06	\$ 47.85	\$ 0.79
Prior Year Reserves	\$ 11.42	\$ 11.42	\$ 15.25	\$ 3.82
Subtotal Sources - Prior Years	\$ 58.48	\$ 58.48	\$ 63.10	\$ 4.62
Current Revenues	\$ 2,053.55	\$ 2,059.27	\$ 2,023.49	\$ (35.78)
Transfer, net	\$ 132.71	\$ 135.53	\$ 135.53	\$ -
Subtotal Sources - Current Year	\$ 2,186.26	\$ 2,194.80	\$ 2,159.02	\$ (35.78)
Carryforwards, net		\$ 75.49	\$ 75.49	\$ -
Total Sources	\$ 2,244.74	\$ 2,328.77	\$ 2,297.61	\$ (31.16)
USES:				
Operating Expenditures, net	\$ 1,844.97	\$ 1,894.00	\$ 1,883.61	\$ 10.40
General Fund Contribution Transfers	\$ 275.19	\$ 275.19	\$ 275.10	\$ 0.09
Projects, Capital, Facilities Maintenance	\$ 86.17	\$ 124.75	\$ 124.75	\$ -
Reserves	\$ 13.41	\$ 13.41	\$ 13.41	\$ -
Required Set-Asides - Budget Savings			\$ 2.00	\$ (2.00)
Pending Supplemental Appropriations				\$ -
Total Uses	\$ 2,219.74	\$ 2,307.35	\$ 2,298.86	\$ 8.49
GENERAL FUND ENDING BALANCE	\$ 25.00	\$ 21.42	\$ (1.26)	\$ (22.67)

General Fund Beginning Balance & Prior Year Reserves

At the time the budget for FY 2003-04 was prepared, we anticipated starting the current fiscal year with a General Fund Beginning Balance of \$47.06 million and Prior Year Reserves of \$11.42 million. When the Comprehensive Annual Financial Report for the year ended June 30, 2003, was completed in February 2004, we confirmed that the ending balance from the previous fiscal year was \$47.85 million, along with Prior Year Reserve balances of \$15.25 million. As a result, there is an additional \$4.62 million of prior year sources available from FY 2002-03 that was not anticipated when the current budget was adopted. This surplus was primarily due to litigation-related reserve balances.

Current Revenues and Transfers In

We project revenues and transfers to be \$35.78 million lower than the revised FY 2003-04 budget largely due to a projected \$68 million State funding shortfall of which an estimated \$56 million pertains to VLF reductions and a lagging recovery in the Bay Area. Our revenue projections are based on realized revenues through the first six months of FY 2003-04, discussions with industry and department experts, and analysis of key economic indicators and forecasts. The current projection of general tax revenues is **predicated upon a recovery during the second half of FY 2003-04**. If this does not materialize, we project an additional revenue shortfall of \$10 to \$15 million would likely result.

The \$35.78 million shortfall is attributed mainly to the loss of more Vehicle License Fee backfill revenue than previously assumed in the budget, along with economic weakness in the following key tax revenues: Sales Tax, Hotel Room Tax, and Parking Tax. These tax revenues have been adversely affected by the lagging recovery in the Bay Area. Property Transfer Tax revenue is better than originally expected and nearly offsets the weakness exhibited in more cyclical or economically sensitive revenues. Section II (Chart C) provides the revenue and transfer detail.

At this point in our fiscal year, *key projection uncertainty* is still present for Payroll Tax, Sales Tax and Hotel Room Tax revenues. Payroll Tax returns will not be due until the end of February 2004, and with limited wage increase data for 2003 and the difficult-to-assess impact of no New Jobs Tax Credits, a great deal of uncertainty still exists in projecting this revenue. As for Sales Tax and Hotel Room Tax, achieving our projected revenue is dependent upon an economic recovery during the second half of FY 2003-04. Additionally, definitive evidence that a mid-fiscal year recovery is taking hold will not be known with certainty for Sales Tax until March 2004, since there is always a three-month lag in receiving calendar quarter actuals data from the State. This delay affects all California jurisdictions. Key projection uncertainty also stems from the possibility of **further State Budget reductions** if the proposed \$15 billion bond is not approved by California voters in March 2004.

Current Operating Expenditures & Transfers Out

Based on current spending patterns, we project overall department expenditures and transfers to result in \$10.49 million in savings. Section III (Chart D) outlines projected year-end surpluses or deficits for each department, along with the impact net of departmental revenue performance.

Some General Fund Supported departments are projected to have expenditure savings, others shortfalls. Additionally, some departments have revenue surpluses, while others have projected revenue shortfalls. The tables on the following page summarize projected variances from budget for all departmental sources and uses for FY 2003-04. The first table includes departments that project a net shortfall after considering both revenue and expenditure projections. The second table summarizes departments that are projected to have net savings, and therefore ultimately contribute to the year-end projected fund balance. To a large degree, departmental savings reported in this report are a reflection of the Mayor's Office initiative to closely monitor and control spending during the first half of the fiscal year given the uncertainty tied to State revenue impacts.

Departments with a Net Shortfall, US\$ Millions

		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Sheriff	\$	(0.50)	(1.60)	(2.10)
Fire Department		1.38	(3.40)	(2.02)
Public Works		(1.40)	0.24	(1.16)
General City		-	(1.00)	(1.00)
City Planning		(1.44)	0.52	(0.92)
District Attorney		0.32	(1.17)	(0.85)
Trial Courts		-	(0.52)	(0.52)
Juvenile Probation		(0.34)	-	(0.34)
Police Department		(0.32)	-	(0.32)
Aging and Adult Services		(0.39)	0.30	(0.09)
Academy of Sciences		-	(0.04)	(0.04)
Total Projected Shortfall	\$	(2.69)	(6.67)	(9.36)

Departments Contributing Net Savings, US\$ Millions

		SOURCES	USES	NET
		Surplus / (Short)	Under / (Over)	Savings /
		Budget	Budget	(Shortfall)
Human Services	\$	(4.07)	13.90	9.82
Public Health (DPH, SFGH, LHH)		-	1.84	1.84
Emergency Communications		-	0.87	0.87
Public Defender		-	0.44	0.44
Assessor / Recorder		-	0.35	0.35
Controller		-	0.25	0.25
Asian Art Museum		(0.05)	0.26	0.21
Mayor		-	0.15	0.15
Public Finance & Business Affairs		-	0.13	0.13
Telecomm. & Info. Services		-	0.11	0.11
Administration Services		(0.41)	0.51	0.10
Treasurer / Tax Collector		-	0.05	0.05
Environment		-	0.04	0.04
Human Rights Commission		-	0.04	0.04
Board of Supervisors		-	0.03	0.03
Total Projected Savings	\$	(4.53)	18.96	14.43

Contribution Transfers Out, Reserves & Required Set-Asides

Contribution Transfers Out - San Francisco General & Laguna Honda Hospitals: Based on the current projected revenues and expenditures, San Francisco General and Laguna Honda Hospitals will have a net surplus of \$1.56 million and \$0.56 million respectively.

Contribution Transfers Out - Baselines: The Charter specifies that the Children's Services, Library Preservation, and Municipal Transportation (i.e. the Municipal Railway (MUNI) and Parking & Traffic) shall receive a minimum appropriation amount (baseline) from the General Fund. The required baselines are adjusted as discretionary revenues change throughout the budget year. Chart B outlines the General Fund Appropriation, the Current Required Baseline, and the Projected Excess / (Deficit) Contribution needed given the projections outlined in this report.

Children's Services is projected to have \$8.70 million in excess contributions given projected discretionary revenues. **As was the case in the prior year, a reduction in the Children's Services baseline is not assumed in this report.** The Library, MUNI and Parking & Traffic baselines reflect the need for additional contributions of \$0.88 million, \$0.43 million and \$0.71 million, respectively. The projected shortfalls for three of the baselines is due to technical adjustment increases to revenues following the June 1 submission to the Board and final FY 2002-03 year-end carryforward balances.

For FY 2002-03 and FY 2003-04, Baselines were and are effectively held harmless for most of the State revenue shortfall because the State reduced principally subvention revenues like the Vehicle License Fee, and subvention revenues fall outside of the Baseline discretionary revenue calculation. However, for FY 2004-05 Governor Schwarzenegger's proposal includes a reduction to the City's General Fund Property Tax revenue (i.e. increase the ERAF shift). Since property taxes are discretionary, next year Baselines will be negatively impacted if the Governor's proposal is adopted.

Chart B: Baselines

Baseline	FY 2003-04		
	AAO General Fund Appropriation	Current Required Baseline	Projected Excess/(Deficit) Contribution as of 6-Month Report
Children's Services	\$80,238,384	\$71,535,014	\$8,703,370
Library Preservation	\$29,481,203	\$30,362,105	(\$880,902)
Municipal Railway	\$95,414,850	\$95,849,563	(\$434,713)
Parking & Traffic	\$33,608,000	\$34,320,000	(\$712,000)
Total	\$238,742,437	\$232,066,682	\$6,675,755

State Revenue Loss Reserves: The FY 2003-04 Adopted Budget included a \$30.00 million State Revenue Loss assumption, which was intended to bridge any shortfalls resulting from the State's FY 2003-04 Adopted Budget. The actual projected State Revenue Loss of \$68.19 million or \$38.19 million more than originally assumed in the budget. This additional \$38.19 million is attributed to: 1) \$17.31 million of Vehicle License Fee (VLF) reductions related to the State backfilling Health & Welfare Realignment, 2) \$19.73 million of VLF reductions related to the State increasing local government's 'loan' to the State for the foregone VLF backfill during the first 3 months of FY 2003-04¹, and 3) \$1.15 million in additional departmental programmatic reductions.

Required Set-Asides - Savings Incentive Account: In addition, Section 3.17 of the Administrative Code requires the greater of \$2.00 million or 10 percent of departments' year-end appropriation savings are set-aside in a **Savings Incentive Account**. Based on current projections, \$2.00 million will be needed to fund this account at year-end.

Supplemental Appropriations

General Fund supplemental appropriation requests approved by the Board used \$3.58 million of the General Reserve. Supplemental appropriation requests pending approval by the Board total \$2.02 million. Supplemental appropriations are outlined in **Appendix A**. To the degree that these or other anticipated supplementals are approved using the General Reserve, the projected year-end balance will be reduced.

Expenditure Reserves

Each year, the Board of Supervisors places certain budget items on reserve, requiring subsequent Board approval before these funds can be spent. **Appendix B** provides a status report on the Board reserves and their remaining balances as of January 31, 2004. For projection purposes, this report assumes that all of these Board reserves are released and expended. To the degree these reserves are not released and not expended by year-end, the projected year-end balance would increase.

General Fund Ending Balance

Based on the current revenue and expenditure projections, the City's year-end General Fund balance would be (\$1.26) million – in a shortfall position. This represents a significant drop from our actual FY 2003-04 beginning fund balance of \$47.85 million, which was used as one-time funding in the development of the current year budget. Since it would be illegal to end the year in a deficit, steps will need to be taken to bring the budget back into balance by year-end.

¹ The State's FY 2003-04 adopted budget assumed that California local governments would forego receiving VLF backfill for the first 90 days of the fiscal year at a net cost to cities and counties of \$825 million. Governor Schwarzenegger subsequently announced that the new projected cost to local government would be \$1.30 billion, or \$475 million more than previously adopted by the Legislature.

II. Sources of Funds, Revenues & Transfers In, Chart C

GENERAL FUND (millions)	FY 2002-03	FISCAL YEAR 2003-04 (Current Year, CY)			
	Prior Year (PY) Actuals	Original Budget	Revised Budget	6-Month Projection	Surplus / (Shofterfall) from Revised
PROPERTY TAXES	518.69	\$ 527.74	527.77	527.77	0.00 (1)
BUSINESS TAXES:					
Business Registration Tax	10.55	\$ 6.53	6.53	6.53	0.00 (2)
Payroll Tax	265.58	\$ 282.09	282.09	282.09	0.00 (3)
Total Business Taxes	276.13	\$ 288.62	288.62	288.62	0.00
OTHER LOCAL TAXES:					
Sales Tax	115.58	\$ 122.51	122.51	118.01	(4.50) (4)
Hotel Room Tax	74.73	\$ 90.05	90.05	87.85	(2.20) (5)
Utility Users Tax	71.38	\$ 68.36	68.36	68.86	0.50 (6)
Parking Tax	29.72	\$ 32.66	32.66	31.50	(1.16) (7)
Real Property Transfer Tax	51.48	\$ 55.00	55.00	61.00	6.00 (8)
Admission Tax	2.86	\$ 2.67	2.67	2.67	0.00
Total Other Local Taxes	345.73	\$ 371.25	371.25	369.90	(1.36)
LICENSES, PERMITS & FRANCHISES					
Licenses & Permits	5.48	\$ 6.05	6.05	5.10	(0.95) (9)
Franchise Tax	10.73	\$ 11.02	11.02	11.02	0.00 (10)
Total Licenses, Permits & Franchises	16.22	\$ 17.07	17.07	16.12	(0.95)
FINES, FORFEITURES & PENALTIES	5.59	\$ 31.68	31.68	31.55	(0.13) (11)
INTEREST & INVESTMENT INCOME	15.91	\$ 12.51	12.51	12.51	0.00 (12)
RENTS & CONCESSIONS					
Garages - Rec/Park	6.23	\$ 7.74	7.04	7.04	0.00
Rents and Concessions - Rec/Park	11.03	\$ 11.95	11.95	11.95	0.00
Other Rents and Concessions	0.31	\$ 0.32	0.32	0.32	0.00
Total Rents and Concessions	17.58	\$ 20.02	19.32	19.32	0.00
INTERGOVERNMENTAL REVENUES					
Federal Subventions					
Social Service Subventions	142.94	\$ 154.04	155.83	155.83	0.00
Other Grants & Subventions	8.86	\$ 2.88	2.88	2.88	0.00
Total Federal Subventions	151.79	\$ 156.91	158.70	158.70	0.00
State Subventions					
Social Service Subventions	126.40	\$ 126.59	130.58	124.86	(5.72) (13)
Health & Welfare Realignment	129.60	\$ 132.56	132.56	133.86	1.31 (14)
Health/Mental Health Subventions	63.63	\$ 69.35	69.35	69.35	0.00
Public Safety Sales Tax	64.28	\$ 65.32	65.32	65.32	0.00
Motor Vehicle In-Lieu	103.90	\$ 112.61	112.61	86.61	(26.00) (15)
Other Grants & Subventions	27.58	\$ (6.13)	(6.13)	(13.94)	(7.81) (16)
Total State Subventions	515.38	500.30	504.29	466.06	(38.23)
CHARGES FOR SERVICES:					
General Government Service Charges	21.97	\$ 25.74	25.74	23.98	(1.76) (17)
Public Safety Service Charges	10.83	\$ 15.93	15.93	15.63	(0.30) (18)
Recreation Charges - Rec/Park	4.19	\$ 5.37	5.37	5.37	0.00
MediCal, MediCare & Health Service Charges	37.82	\$ 43.03	43.61	44.21	0.60 (19)
Other Service Charges	7.09	\$ 7.14	7.14	7.14	0.00
Total Charges for Services	81.89	\$ 97.21	97.79	96.33	(1.46)
RECOVERY OF GEN. GOV'T. COSTS	11.95	\$ 9.36	9.36	15.70	6.34 (20)
OTHER REVENUES	9.01	\$ 20.88	20.92	20.92	0.00
TOTAL REVENUES	1,965.86	\$ 2,053.55	2,059.27	2,023.49	(35.78)
TRANSFERS INTO GENERAL FUND:					
Airport	21.15	\$ 25.27	25.27	25.27	0.00 (21)
Other Transfers	88.11	\$ 117.45	120.27	120.27	0.00 (22)
Total Transfers-In	109.26	\$ 142.73	145.55	145.55	0.00
TOTAL GENERAL FUND RESOURCES	2,075.13	\$ 2,196.28	2,204.82	2,169.03	(35.78)

Notes to Sources of Funds Schedule:

- (1) **Property Tax** revenues are projected to be on budget. While San Francisco's assessed valuation grew 4.7 percent in FY 2003-04 from FY 2002-03, this growth is being offset primarily by the surge in appeals and weaker supplemental activity compared to prior years. This projection incorporates the surge of assessment appeals, where owners representing some 22.3 percent of total assessed valuation are currently appealing for lower assessed valuation – of which a portion of the requested reduction may be granted. These appeal levels have not been seen since the economic downturn in the early 1990s. Supplemental sales activity and corresponding General Fund revenues are also down from \$36.00 million in FY 2000-01, \$28 million in FY 2001-02 and \$19.61 million in FY 2002-03 to an estimated level of \$12 million for FY 2003-04. The projected impact to the three dedicated funds is illustrated below:

Children's Fund	On Budget
Library Preservation Fund	On Budget
Open Space Fund	On Budget

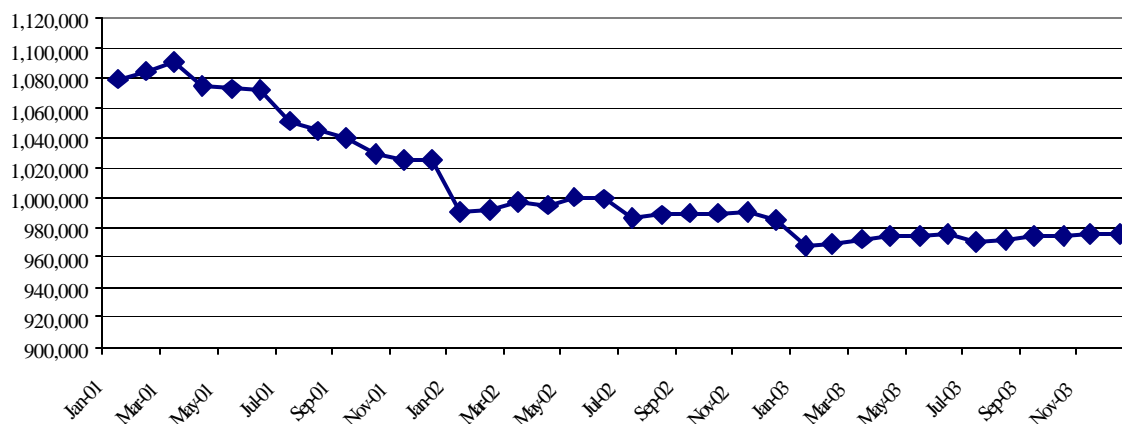
Assessment Backlog: Some additional opportunity for revenue enhancement exists by tackling the assessment backlog, in particular regarding the processing of the new construction backlog. The Assessor reports that the department currently has a significant processing backlog, mostly related to new construction. Backlogs have significant potential revenue implications as the 9,800 deeds in queue have been estimated by the Assessor to have up to \$0.8 billion in incremental roll value. Additionally, 8,500 construction permits may also yield up to \$2.6 billion in incremental roll value. The table below summarizes the backlog and assumes a 50 percent adjustment factor since not all items in the backlog will yield an actual incremental assessment. The table shows that if the backlog were processed, including assessment, billing and collection in FY 2003-04, the value to various funds would be approximately \$11.0 million, which includes a \$9.6 million increase to the General Fund. The current backlog levels of 18,300 with the Assessor's Estimate of Incremental Roll Value of \$3.39 billion reflect improvement over FY 2002-03 when the Controller's 9-Month Report showed a backlog of 20,900 with the Estimated Value at \$4.00 billion. The Department reports that a backlog of approximately 7,000 deeds represents a typical 2-3 month processing time.

Backlog Type	Count	Assessor's Estimate of Incremental Roll Value (millions)	Revenue Yield Adjustment Factor	Adjusted Estimate of Incremental Roll Value (millions)
Deed Processing	9,800	\$ 775	50%	\$ 388
New Construction - Permit Activity	8,500	\$ 2,616	50%	\$ 1,308
Total	18,300	\$ 3,391		\$ 1,696

Results In Additional Property Tax Revenue (in millions)	
General Fund	\$ 9.6
Children's Fund	\$ 0.5
Library Fund	\$ 0.4
Open Space Fund	\$ 0.4
Total - Above Funds	\$ 11.0

- (2) **Business Registration** revenues are projected to be on budget. The year-over-year change from FY 2002-03 reflects a decline because the FY 2002-03 revenue level was representative of a year and half worth of revenue due to the change in Business Registration moving from a calendar year basis to a fiscal year basis. This was a one-time revenue boost for FY 2002-03.
- (3) **Payroll Tax** revenues are projected to be on budget at this time. The budget assumed a modest increase in employment growth with limited wage inflation. The chart below shows the employment levels for the San Francisco Primary Metropolitan Statistical Area (i.e. the PMSA which includes San Francisco, Marin and San Mateo counties) and is the most focused geographical area for which current data is available. The labor growth that was assumed in the budget for the latter part of 2003 does not appear to have materialized, and we do not have solid data on local wage inflation through 2003. However, Business Tax Year 2003 tax returns are not due until the end of February 2004, so we are not changing our estimate at this time, but will report additional information in the Nine-Month Report.

Total Employment for the San Francisco PMSA (Marin, San Francisco, San Mateo)



- (4) **Sales Tax** revenues are projected to be \$4.50 million under budget. A lagging recovery and continued weakness in the business-related components of sales activity are putting downward pressure on this revenue. Nationally, retailers ended 2003 with a 6.7 percent surge in December 2003 sales activity as compared to December 2002 levels – bolstered in part by year-end car sales.² As illustrated in the table below, statewide sales activity has been positive since the middle of 2002, but only due to strength outside of the Bay Area. Sales activity over the last several quarters, shows that San Francisco has been performing worse than the 9-County Bay Area region and the statewide average. The rate of decline has been slowing generally for San Francisco and the Bay Area – but San Francisco, San Mateo and Santa Clara in particular continue to be pulling down the Bay Area average. For 3rd Quarter 2003, the most recent quarter with available actuals data, San Francisco's sales tax revenues were off 1.55 percent for July through September (i.e. the 3rd calendar quarter of 2003) as compared to that same quarter in 2002.

² Wall Street Journal, January 16, 2004.

Sales Tax Activity Still Negative in Bay Area, Positive in California

Calendar Quarter	San Francisco	9 County Bay Area	California
3rd Quarter 2003	-1.55%	-1.40%	2.52%
2nd Quarter 2003	-3.30%	-2.30%	5.00%
1st Quarter 2003	-1.98%	-3.01%	4.61%
4th Quarter 2002	-1.70%	-4.40%	0.80%
3rd Quarter 2002	-5.00%	-3.10%	3.10%
2nd Quarter 2002	-9.70%	-8.40%	-1.30%
1st Quarter 2002	-17.80%	-12.70%	-3.70%
4th Quarter 2001	-17.00%	-13.50%	-2.00%
3rd Quarter 2001	-20.30%	-11.50%	-1.20%
2nd Quarter 2001	-8.70%	-5.00%	0.00%

The budget level of \$122.51 million is commensurate with sales tax revenue growth of 6.0 percent over FY 2002-03 actuals, which appears unlikely at this time given the July through September 2003 weakness. The current projection assumes 2.1 percent growth for the entire fiscal year. Our current sales tax revenue projection assumes that October through December 2003 will grow 1.0 from the prior year, and that 4.0 to 5.0 percent growth will return in the second half of FY 2003-04. If this upturn does not materialize, further revenue shortfalls would result.

San Francisco's sales tax revenue continues to be more dependent on tourism and business travel than most other cities in California. Any significant recovery in this revenue will only occur if tourism and travel recovers, along with some growth in the business-related components of this revenue. The table below summarizes the major categories of sales activity and the relative contribution to the Sales Tax revenue for FY 2002-03.

Major Categories	% of Total
General Consumer Goods	30.1%
Restaurants & Hotels	19.1%
Business & Industry	14.9%
Autos & Transportation	6.1%
Food & Durables	6.0%
Building & Construction	4.6%
Fuel & Service Station	3.5%
County & State Pool	15.7%
Total	100.0%

- (5) **Hotel Room Tax** revenues allocated to the General Fund are projected to be approximately \$2.20 million under budget. A portion of this projected shortfall pertains to dedicated funding for the Arts. To the degree departments, with dedicated hotel room tax revenues, reduce spending to cover their respective shortfalls, the impact of the projected \$2.20 million shortfall is mitigated. Projected departmental expenditure savings are show in Section III.

Overall, hotel room tax revenues are projected to be approximately 5 percent above prior year levels; however, we ended FY 2002-03 lower than the FY 2003-04 budget assumed. This yields a lower starting point and results in the revenue weakness reported here. Overall, the recovery in hotel room tax revenue has been constrained due to aggressive price discounting by hoteliers. While occupancy gains are present, average daily room rates continue to put downward pressure on total revenues. The tables below summarize Occupancy and Average Daily Room Rates by month based on survey.

Our projection is based on realized revenue collections to date, interviews with hotel industry professionals, and assumes economic strengthening and an increase in average daily room rates during the first half of 2004. Our current forecast assumes average annual occupancy rates of 68-69 percent and average annual daily room rates (ADRs) of \$140. If these rates are not realized, additional downward revision will be required for this revenue.

HOTEL OCCUPANCY RATES

MONTH	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
July	82.8%	88.0%	87.5%	75.4%	68.7%	76.9%
August	80.1%	81.3%	90.2%	80.8%	74.7%	83.1%
September	88.4%	86.9%	88.5%	58.3%	68.1%	74.6%
October	90.9%	82.7%	87.9%	61.1%	73.7%	75.0%
November	79.9%	74.1%	72.7%	53.9%	60.9%	68.2%
December	66.2%	62.1%	64.4%	50.0%	56.7%	57.0%
January	64.1%	67.0%	63.5%	50.3%	53.5%	54.0%
February	74.5%	79.7%	70.4%	56.9%	61.7%	63.0%
March	80.6%	88.6%	72.9%	60.7%	60.6%	62.0%
April	81.5%	84.7%	70.7%	67.8%	63.6%	65.0%
May	80.8%	84.4%	76.9%	65.7%	68.1%	70.0%
June	88.4%	91.7%	80.0%	74.5%	74.0%	76.0%
AVG. OCCUPANCY RATE	79.9%	80.9%	77.1%	63.0%	65.4%	68.7%
Occ. % Rate Chg from PY		1.1%	-3.8%	-14.2%	2.4%	3.4%
% Change from PY		1.4%	-4.7%	-18.4%	3.8%	5.2%

Fiscal Year Peak

Estimated

Estimated

AVERAGE DAILY ROOM RATES (ADRs)

MONTH	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
July	\$ 141.56	\$ 154.98	\$ 175.56	\$ 156.14	\$ 140.65	\$ 136.13
August	\$ 142.14	\$ 150.06	\$ 165.89	\$ 159.01	\$ 134.34	\$ 130.41
September	\$ 152.57	\$ 158.09	\$ 180.33	\$ 157.35	\$ 140.18	\$ 137.24
October	\$ 158.92	\$ 153.22	\$ 191.46	\$ 166.56	\$ 156.21	\$ 152.82
November	\$ 146.31	\$ 148.02	\$ 169.40	\$ 151.08	\$ 140.01	\$ 135.47
December	\$ 132.16	\$ 146.22	\$ 162.24	\$ 136.65	\$ 128.96	\$ 130.00
January	\$ 144.06	\$ 153.17	\$ 174.24	\$ 146.41	\$ 140.02	\$ 130.00
February	\$ 147.10	\$ 156.25	\$ 181.78	\$ 146.09	\$ 143.28	\$ 144.00
March	\$ 146.99	\$ 164.96	\$ 179.18	\$ 143.95	\$ 135.90	\$ 144.00
April	\$ 155.57	\$ 164.39	\$ 168.79	\$ 156.06	\$ 138.47	\$ 145.00
May	\$ 148.68	\$ 168.41	\$ 191.63	\$ 152.38	\$ 147.53	\$ 147.00
June	\$ 154.27	\$ 175.50	\$ 173.72	\$ 160.85	\$ 135.23	\$ 148.00
AVERAGE ADR	\$ 147.53	\$ 157.77	\$ 176.19	\$ 152.71	\$ 140.07	\$ 140.01
ADR \$ Change from PY		\$ 10.25	\$ 18.41	\$ (23.47)	\$ (12.65)	\$ (0.06)
% Change from PY		6.9%	11.7%	-13.3%	-8.3%	0.0%

Fiscal Year Peak

Estimated

Estimated

NOTE: Actuals based on a PKF industry sample representing 70-80% of all rooms and revenue.

- (6) **Utility User Tax** revenues are projected to be slightly better than budget by \$0.50 million due to higher natural gas prices.
- (7) **Parking Tax** revenues are projected to be \$1.16 million under budget. The delay in jobs growth means that the growth assumed in parking services will also be weaker than originally assumed in the budget. The **Department of Aging & Adult Services** receives one-third of parking tax revenues accruing to the General Fund.
- (8) **Real Property Transfer Tax** revenues are projected to be \$6.00 million better than budget. This revenue is one of the more volatile and is highly impacted by economic cycles and interest rates. Low mortgage rates have helped this revenue. The likelihood of rising interest rates by mid-2004 may also be providing additional incentive for real estate transactions to occur sooner than later.
- (9) **Licenses and Permit** revenues are projected to be \$0.95 million under budget due to revenue shortfalls in the Department of Public Works. Revenue weakness is related to delays in fee increases that were assumed in the budget. This includes fee increases for Café Tables & Chairs, Sidewalk Displays, and Underground Utility Vaults, as well as some weakness in News Rack Fees revenues due to manufacturing delays.
- (10) **Franchise Tax** revenues are projected to be on budget. The higher natural gas commodity prices mentioned in Utility Users Tax are projected to impact this revenue in FY 2004-05 as this energy-related franchise tax revenues are based on calendar year consumption.
- (11) **Fines, Forfeitures and Penalties** are projected to be under budget by \$0.13 million due to \$0.45 million in weakness in the collection of fines written by Environmental Control Officers (ECO) in Public Works, and \$0.32 million in higher consumer protection penalties by the District Attorney's Office. To date the collection rate for ECO citations written is only about 35 percent. The Department of Public Works is initiating delinquent revenue collection for fines not paid in a timely manner. Should this action result in additional collections, we will update this shortfall projection in the Nine-Month Report.
- (12) **Interest Income** is projected to be on budget at this time. If, however, the Fed continues to keep interest rates low through the remainder of the fiscal year this revenue may end the year under budget. We will provide an update in the Nine-Month Report.
- (13) **Social Service Subvention** revenues are projected to be \$5.72 million less than budget due to a \$5.38 million shortfall primarily related to reduced caseloads at the **Department of Human Services** in Foster Care Aid, IHSS Contracts (hours of service provided), and CalWorks Childcare. This revenue shortfall is more than offset by expenditure savings reported below (see Note #14, Department of Human Services on page 18). Additionally, the Juvenile Probation Department is projected to have a \$0.34 million shortfall in TANF and Peace Office Training funding.

- (14) **Health & Welfare Realignment** revenue is projected to be \$1.31 million more than budgeted due to stronger prior-year revenue growth allocations to the City & County than previously assumed.
- (15) **Motor Vehicle in Lieu (MVL-VLF)** revenues are projected to be \$56.00 million less than budget due to the State not backfilling local government for the reduction in the vehicle license fee (VLF). VLF also provides funding for Health & Welfare Realignment programs, and the State effectively made 'whole' Realignment by shifting MVL-VLF subvention revenues. A net shortfall of \$26.00 million is reflected here as the \$30.00 million State Revenue Loss Reserve is shown to offset part of the total MVL-VLF revenue loss.
- (16) **Other Grants & Subvention** revenue is projected to be \$7.81 million under budget due to two events: 1) \$3.79 million related to the State's deferral of SB 90 State Mandated Reimbursements for FY 2003-04, and 2) \$4.02 million of possible State audit disallowances of previously recognized revenue related to SB 90 claims for the Police Office Bill of Rights program. The POBAR claims audit is currently underway, and a status update will be provided in the Controller's Nine-Month Report.
- (17) **Service Charges – General Government** revenues are projected to be \$1.76 million less than budget due to the following:
- -\$1.44 million less in City Planning revenues primarily related to fee increases having not been realized, and
 - -\$0.32 million less in Police Service 10B Overhead Charges as the budget assumed a higher overhead rate than is actually being charged by the Police Department.
- (18) **Service Charges - Public Safety** revenue is projected to be \$0.30 million less than budget due to the following:
- -\$0.50 million less due to lower State Probation Board fees in the Sheriff's Department, and
 - +\$0.20 million better than budget due to slightly higher inspection permit revenues at the Fire Department.
- (19) **Service Charges – MediCal, Medicare, & Health Services** revenue is projected to be \$0.60 million better than budget due to higher EMS fee revenue than assumed in the budget.
- (20) **Recoveries** are projected \$6.34 million better than budget due to a \$3.96 million reimbursement for prior-year costs incurred by the General Fund for the Foster Care Program, a \$1.80 million reimbursement from FEMA for expenses incurred by the Public Health Department during the February 1998 storm, and \$0.58 million for recoveries from bond-funded capital projects related to Fire facilities.
- (21) **Transfers In – Airport**. The General Fund share of **concession revenue** at San Francisco International Airport is projected to be on budget at this time.
- (22) **Transfers In – Other Transfers**. Other Transfers In are projected to be on budget.

III. Uses of Funds, Chart D

	FY 2002-03	FY 2003-04					
	Actuals	Original Budget	Revised Budget*	6-Month Projection	Expenditure Savings / (Shortfall)	Dept. Revenue Surplus / (Shortfall)	Net Surplus / (Shortfall)
GENERAL FUND (in thousands)							
PUBLIC PROTECTION							
Adult Probation	9,267	8,863	8,895	8,895	-	-	- (1)
Medical Examiner	4,244	4,140	4,143	4,143	-	-	- (1)
Trial Courts	34,516	33,654	33,686	34,206	(520)	-	(520) (2)
District Attorney	22,389	21,139	21,167	22,332	(1,165)	315	(850) (3)
Emergency Communications	24,920	26,083	27,657	26,787	870	-	870 (4)
Fire Department	204,974	195,194	196,299	199,699	(3,400)	1,379	(2,021) (5)
Juvenile Probation	25,420	24,743	25,682	25,682	-	(340)	(340) (6)
Public Defender	13,211	15,455	15,493	15,057	436	-	436 (7)
Police Department	263,693	244,197	246,012	246,012	-	(320)	(320) (8)
Sheriff	96,850	92,099	93,079	94,680	(1,601)	(500)	(2,101) (9)
Total Public Protection	699,485	665,566	672,113	677,494	(5,381)	534	(4,847)
PUBLIC WORKS, TRANSPORTATION & COMMERCE							
Clean Water	222	196	236	236	-	-	- (1)
Public Works	18,817	21,093	21,232	20,989	243	(1,400)	(1,157) (10)
Public Finance and Business Affairs	2,715	1,366	2,065	1,940	126	-	126 (11)
Board of Appeals	418	455	457	457	-	-	- (1)
Telecommunications & Info. Services	1,090	1,211	1,522	1,407	115	-	115 (12)
Total Public Works, etc.	23,263	24,322	25,513	25,029	484	(1,400)	(916)
HUMAN WELFARE AND NEIGHBORHOOD DEVELOPMENT							
Aging and Adult Services	20,561	21,542	22,514	22,219	295	(385)	(90) (13)
Children, Youth & Their Families	8,256	8,360	8,933	8,933	-	-	- (1)
Human Services	444,792	451,920	460,068	446,173	13,895	(4,074)	9,821 (14)
Environment	212	454	498	454	45	-	45 (15)
Human Rights Commission	1,825	1,572	1,573	1,535	39	-	39 (16)
Comm. on the Status of Women	2,268	2,415	2,562	2,562	-	-	- (1)
Total Human Welfare, etc.	477,914	486,264	496,148	481,874	14,274	(4,459)	9,814
COMMUNITY HEALTH							
Public Health	404,529	426,576	437,825	438,102	(277)	-	(277) (17)
Total Community Health	404,529	426,576	437,825	438,102	(277)	-	(277)

* Revised Budget includes approved supplemental appropriations, transfers and carryforwards of prior year encumbrances.

III. Uses of Funds, Chart D (continued)

	FY 2002-03	FY 2003-04					
	Actuals	Original Budget	Revised Budget*	6-Month Projection	Expenditure Savings / (Shortfall)	Dept. Revenue Surplus / (Shortfall)	Net Surplus / (Shortfall)
GENERAL FUND (in thousands)							
CULTURE AND RECREATION							
Asian Art Museum	5,080	6,006	6,011	5,753	258	(50)	208 (18)
Arts Commission	949	766	780	680	100	(100)	- (19)
Convention Facilities	218	-	202	202	-	-	- (1)
Fine Arts Museum	4,330	4,515	4,515	4,390	125	(125)	- (20)
Law Library	495	513	529	529	-	-	- (1)
Recreation and Park	53,964	49,917	50,517	50,517	-	-	- (1)
Academy of Sciences	1,940	1,849	1,849	1,888	(39)	-	(39) (21)
County Educational Office	69	68	68	68	-	-	- (1)
Total Culture, etc.	67,044	63,635	64,473	64,029	444	(274)	169
GENERAL ADMINISTRATION & FINANCE							
Administration Services	16,106	29,040	28,955	28,450	505	(406)	100 (22)
Assessor/Recorder	9,040	8,512	8,710	8,360	350	-	350 (23)
Board of Supervisors	8,400	8,570	8,875	8,842	33	-	33 (24)
City Attorney	5,472	5,013	5,443	5,443	-	-	- (1)
Controller	18,178	19,161	21,835	21,587	248	-	248 (25)
City Planning	12,075	11,431	11,462	10,945	517	(1,436)	(919) (26)
Civil Service	675	524	584	584	-	-	- (1)
Ethics Commission	731	750	752	752	-	-	- (1)
Human Resources	14,385	13,711	14,706	14,706	-	-	- (27)
Mayor	20,380	5,574	7,270	7,122	148	-	148 (28)
Elections	7,392	13,444	16,737	16,737	-	-	- (29)
Treasurer/Tax Collector	17,401	17,792	18,416	18,362	54	(4)	50 (30)
General City Responsibility	52,137	45,088	54,187	55,187	(1,000)	-	(1,000) (31)
Total General Admin.	182,372	178,610	197,933	197,078	855	(1,845)	(991)
TOTAL GENERAL FUND EXPS.	1,854,606	1,844,972	1,894,003	1,883,605	10,398	(7,445)	2,953
TRANSFERS OUT OF GENERAL FUND:							
Contribution to MUNI	100,792	95,415	95,415	95,850	(435)		(32)
Contribution to SFGH	78,016	80,811	80,811	79,247	1,564		(33)
Contribution to LHH	32,477	31,294	31,294	30,739	555		(34)
Contribution to Library	28,764	29,481	29,481	30,362	(881)		(35)
Contribution to Parking and Traffic	36,341	33,608	33,608	34,320	(712)		(36)
Other Transfers	20,124	4,580	4,580	4,580	-		
TOTAL TRANSFERS OUT	296,513	275,189	275,189	275,097	91	-	-
Projects, Capital & Facilities Maintenance	94,443	86,171	124,750	124,750	-		
Reserves		13,412	13,412	13,412	-		
TOTAL PROJECTS & RESERVES	94,443	99,583	138,162	138,162	-	-	-
TOTAL GENERAL FUND USES	2,245,562	2,219,743	2,307,354	2,296,864	10,489	(7,445)	2,953

* Revised Budget includes approved supplemental appropriations, transfers and carryforwards of prior year encumbrances.

Notes to Uses of Funds Schedule:

- (1) Based on current spending patterns, these departments are projected to end the year on budget and have no departmental revenue shortfalls.
- (2) The **Trial Courts** is projected to end the year \$0.52 million over budget. The department is projected to have overspending related to Indigent Defense costs of approximately \$0.60 million and salary savings of \$0.08 million, for a net shortfall of \$0.52 million. Additionally, the Trial Court has a \$3.60 million reserve pending Board release related to Indigent Defense, which is assumed released for projection purposes.
- (3) The **District Attorney** is projected to go \$1.17 million over its appropriation budget. This is due to a \$0.80 million projected over-expenditure in their work order with Police, \$0.18 million in salary over-expenditure, a shortfall of \$0.32 million in State grant funding (which will mean a like amount of additional General Fund costs that were previously assumed covered by grant funding), and \$0.13 million in other work order savings. The work order with Police relates to court overtime costs. During FY 2002-03, the Police Department billed \$2.80 million in costs related to court overtime; however, for FY 2003-04 only \$2.00 million was budgeted by the District Attorney. The department is projected to have surplus revenue related to consumer protection fines \$0.32 million, for a net departmental shortfall of \$0.85 million. The department would need to have the Board approve a supplemental appropriation if it is proposing to use the projected \$0.32 million in revenue to cover a portion of its projected over-expenditure. The department is working with the Mayor's Office on a spending plan to reduce the projected shortfall.
- (4) The **Emergency Communications** is projected to have a surplus of \$0.87 million due to salary savings.
- (5) The **Fire Department** is projected to end the year \$3.40 million over its appropriation budget. The principal factors include over expenditure in personnel costs, mainly overtime, energy costs and information service costs. On the revenue side, the department is projected to generate an additional \$1.38 million in EMS and permit revenue and recoveries, for a net departmental shortfall of \$2.02 million. The department is working with the Mayor's Office on a plan to cover the projected shortfall. Additionally, the department would also need to have the Board approve a supplemental appropriation if it is proposing to use the projected \$1.38 million in revenue to cover a portion of its projected over-expenditure. Finally, the Fire Department has a \$1.54 million reserve pending Board release related to training costs, which is assumed released for projection purposes.

- (6) The **Juvenile Probation** department is projected to be within its appropriation budget by year-end after assuming the complete implementation of its savings plan. This department's plan is principally comprised of staff reductions of six positions (including 1844 Sr. Mgmt. Asst., 1840 Jr. Mgmt. Asst., 1932 Asst. Storekeeper, two 1426 Sr. Clerk Typists, and a 7524 Institutional Utility Worker), a 4 percent reduction to most Community Based Organization (CBO) contracts, and increased work order billings. Layoff notices were issued January 5, 2004 for a March 4, 2004 effective date. Additionally, the department is working toward bridging its departmental revenue shortfall by deferring maintenance expenditures and limiting overtime costs.
- (7) The **Public Defender** is projected to have \$0.44 million in savings due to hiring delays. The department hired additional staff in October 2003 and again January 2004, so given the mid-year hiring, salary savings are projected. The FY 2003-04 budget included a number of new positions for the department, including 9 paralegals, 2 investigators, 6 attorneys and one information technology position.
- (8) The **Police** department is projected to end the year within its appropriation budget assuming the complete implementation of their savings plan. Absent their savings plan, the department would show a projected over expenditure of \$1.90 million due to workers' compensation and sick pay costs for uniformed personnel. The department has outlined a savings plan that includes a hiring freeze since the start of the fiscal year, cancellation of equipment purchases, cancellation of promotional examinations, increased billings to work orders and billings to special revenue funds. Additionally, the Police 10B Administrative Overhead Fee Recovery revenues are projected to be \$0.32 million short because of an overhead rate that was recalculated by the department after the budget had passed. The budget had assumed an overhead rate of 25.71 percent; however, the rate was recalculated by the department and subsequently billed out at 14.7 percent.
- (9) The **Sheriff** is projected to end the year \$1.60 million over its budget. The department also has a projected revenue shortfall of \$0.50 million, for a gross shortfall of \$2.10 million. The department is working with the Mayor's Office to structure a savings plan to bridge the shortfall.
- (10) The **Department of Public Works** is projected to end the year with a savings of \$0.24 million. However, the department has a projected revenue shortfall of \$1.40 million, for a net shortfall of \$1.16 million. The department is working with the Mayor's Office to develop a plan to bridge its revenue shortfall.
- (11) The **Public Finance and Business Affairs** department is projected to end the year \$0.13 million under budget by using Bond issuance proceeds to offset salaries deficit.
- (12) The **Telecommunications and Information Services** department is projected to end the year \$0.12 million under the budget due to salary and fringe benefit savings.
- (13) The **Aging and Adult Services** department is projected to be \$0.30 million under its budget due to salary savings. However, the department's parking tax allocation is also projected to be \$0.39 million short, for a net departmental shortfall of \$0.09 million.

- (14) The **Human Services** department is projected to end the year with \$13.90 million in savings. As noted above in the Sources of Funds (Note # 13, Social Services Subventions, page 12), the Department's revenues are also projected to be off \$4.07 million. The net result is that the Department is providing \$9.82 million in savings to the General Fund.
- (15) The **Environment** department is projected to end the year \$0.05 million under budget due to salary and fringe benefit savings.
- (16) The **Human Rights Commission** is projected to end the year \$0.04 million under budget due to annual capital project savings.
- (17) The **Department of Public Health** is projected to end the year with an appropriation shortfall of \$0.28 million in the non-hospital portions of the department. However, across all funds, including SF General Hospital and Laguna Honda Hospital, the department will end the year with a net surplus of \$1.84 million accruing to the General Fund.

Total expenditures are projected to exceed appropriations by \$7.12 million, whereas total revenues are projected to exceed budget by \$8.96 million, yielding a net surplus of \$1.84 million. A supplemental appropriation, funded by departmental revenues, may be required to adjust appropriations to projected spending. See also Notes #33 and #34 below regarding the Contribution Transfers to San Francisco General Hospital and Laguna Honda Hospital.

PUBLIC HEALTH	SOURCES			USES			Department
	Revised Budget	Projected	Surplus/ (Shortfall)	Revised Budget	Projected	Savings / (Shortfall)	Savings / (Shortfall)
Thousands \$							
S.F. General Hospital	\$ 502,324	\$ 510,042	\$ 7,718	\$ 502,324	\$ 508,478	\$ (6,154)	\$ 1,564
Laguna Honda Hospital	148,096	149,335	1,239	148,096	148,780	(684)	555
Primary Care	45,830	45,830	0	45,830	46,253	(423)	(423)
Health at Home	4,586	4,586	0	4,586	4,951	(365)	(365)
Jail Health	22,207	22,207	0	22,207	24,758	(2,551)	(2,551)
Public Health	91,151	91,151	0	91,151	89,158	1,993	1,993
Mental Health	170,304	170,304	0	170,304	169,988	316	316
Substance Abuse	64,610	64,610	0	64,610	63,857	753	753
Department Total - All Funds	\$1,049,108	\$1,058,065	\$ 8,957	\$ 1,049,108	\$1,056,223	\$ (7,115)	\$ 1,842

- (18) The **Asian Art Museum** is projected to be under its budget by \$0.26 million. However, the hotel room tax allocation is also projected to be \$0.05 million less than budget, resulting in a net departmental surplus of \$0.21 million.
- (19) The **Arts Commission** is projected to be under its budget by \$0.10 million offset by a like amount of revenue shortfall related to the hotel room tax allocation.
- (20) The **Fine Arts Museum** is projected to be under its budget by \$0.13 million offset by a like amount of revenue shortfall related to the hotel room tax allocation.
- (21) The **Academy of Sciences** is projected to end the year with \$0.04 million over budget due to overspending in salaries and information services. We are awaiting a plan to correct this.

- (22) The **Administration Services** department is projected to be under its budget by \$0.51 million. Additionally, the department is projected to have a revenue shortfall of \$0.41 million due to weakness in hotel room tax revenues. The net result is a surplus of \$0.10 million for the department overall.
- (23) The **Assessor/Recorder** is projected to end the year with a saving of \$0.35 million on salaries and benefits.
- (24) The **Board of Supervisors** is projected to be under budget by \$0.03 million due to systems project savings.
- (25) The **Controller** is projected to end the year with a surplus of \$0.25 million in salary savings.
- (26) The **City Planning** department is projected to have forced savings of \$0.52 million, assuming the \$1.38 million of Board reserves pertaining to salary appropriation is released. Additionally, the department is projected to be \$1.44 million short on revenue, for a net departmental shortfall of \$0.92 million. The \$1.38 million was put on reserve pending proposed fee changes, which the department had assumed in their budget. To date the department has not brought before the Board any proposed fee package. Given this delay in fee legislation, the Controller's Office has instituted a freeze on \$0.52 million in unencumbered professional services appropriation and other operating expenses. This will prove to be difficult for department operations. Therefore, with a net shortfall of \$0.92 million, the department must immediately consider layoff notices and/or fee legislation. We will provide details in the Controller's Nine-Month Report outlining the steps the department is taking to come into balance.
- (27) The **Human Resources** is projected to be on budget by year-end.
- (28) The **Mayor** is projected to end the year \$0.15 million under budget due to salary savings.
- (29) The **Department of Elections** is projected to end on budget. Currently, a supplemental appropriation is pending before the Board related to the December run-off election; however, this pending supplemental does not appear to be needed given the department's experience to date, including lower than originally anticipated ballot card, canvassing and voter information pamphlet costs.
- (30) The **Treasurer/Tax Collector** is projected to end the year with a surplus of \$0.05 million in salary savings.
- (31) **General City Responsibility** is projected to be \$1.00 million over budget due to a lower projected work order recovery from the Port. A total recovery of \$2.00 million was assumed in the budget. Based on recent actual levels for the last two fiscal years, only a \$1.00 million recovery is expected this year.

- (32) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to MUNI** is projected to be \$0.44 million greater than budgeted. The amount of the transfer out is dependent upon aggregate city discretionary revenue.
- (33) The **Transfer Out – Contribution to SFGH** is projected to be \$1.56 million less than budget due to a net surplus in the San Francisco General Hospital's budget. See also Note #17 above – Department of Public Health.
- (34) The **Transfer Out – Contribution to LHH** is projected to be \$0.56 less than budget due to a net surplus in Laguna Honda Hospital's budget. See also Note #17 above – Department of Public Health.
- (35) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to the Library** is projected to be \$0.88 million more than originally budgeted. The amount of the transfer out is dependent upon aggregate city discretionary revenue and State Library Funding.
- (36) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to Parking & Traffic** is projected to be \$0.71 million more than originally budgeted. The amount of the transfer out is dependent upon aggregate city discretionary revenue.

Workers' Compensation Summary

Overall, the City's workers' compensation costs are projected to be 14.2 percent greater in FY 2003-04 than the FY 2002-03 actuals. This is in contrast to 4.3 percent growth in FY 2002-03 and 6.2 percent growth in FY 2001-02. The increase is mainly due to medical cost inflation. The estimates are based on six-month actuals as well as prior year spending patterns.

Departments with workers' compensation deficits are projected, at this time, to be able to absorb these increases within their existing appropriation budget.

Chart E: Worker's Compensation Summary
(in thousands)

	<u>FY 2002-03</u>	<u>FY 2003-04</u>				
<u>Fund/Service Area</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>6-Month Actual</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>
<u>GENERAL FUND</u>						
Public Protection						
Fire Department	\$7445	\$8,229	\$8,229	\$4,052	\$8,008	221
Police Department	8,136	8,138	8,138	5,028	9,619	(\$1481)
Sheriff	1,699	2,362	2,362	943	1,787	575
Juvenile	973	943	943	811	1,475	(\$532)
Other GF Departments	575	520	520	345	672	(\$152)
Public Works, Transportation & Commerce						
Public Finance and Business Affairs	3	3	3	0	1	2
Human Welfare and Neighborhood Development						
Aging & Adult Services	133	224	224	87	159	65
Human Services	1,831	1,800	1,800	881	1,844	(\$44)
Other GF Departments	39	-		36	72	(\$72)
Community Health						
Public Health	1,257	1,541	1,541	973	1,788	(\$247)
Culture & Recreation						
Asian Art Museum	12	7	7	6	13	(\$6)
Convention Facilities	0.03	-	-	0	0	(\$0)
Fine Arts Museum	75	112	112	31	59	53
Recreation & Park	2,311	2,384	2,384	1,404	2,624	(\$240)
Other GF Departments	137	-	-	73	128	(\$128)
General Administration & Finance						
Assessor/Recorder	244	279	279	115	232	47
City Attorney	131	164	164	79	147	17
Human Resources	377	873	873	18	35	838
Treasurer/Tax Collector	150	165	165	71	141	24
Other GF Departments	305	105	105	553	1,018	(\$913)
Subtotal General Fund (GF)	25,834	27,849	27,849	15,507	29,822	(1,973)
<u>GENERAL FUND SUBSIDIZED</u>						
Community Health						
SF General Hospital	4,979	4,316	4,316	2,917	5,794	(1,478)
Laguna Honda Hospital	3,154	3,203	3,203	1,657	3,185	18
Subtotal General Fund Subsidized	8,133	7,519	7,519	4,574	8,979	(1,460)
Subtotal General Fund & Subsidized	\$33,968	\$35,369	\$35,369	\$20,081	\$38,801	(\$3,433)

Energy – Natural Gas

Natural gas prices spiked in the first half of the fiscal year, in part pushed up by cold weather in the East. This adversely impacts a number of departments who are larger users of natural gas, including General Fund Supported departments like Public Health and the City Museums. The expenditure projections in Section III, Chart D reflect the impact for various General Fund Supported departments. Unless commodity prices drop appreciably in the second half of FY 2003-04, overall General Fund Supported departments are projected to be \$1.53 million (or 33 percent) over budgeted levels.

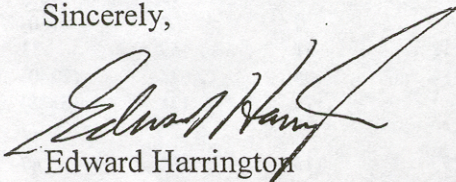
IV. CONCLUSION

Funds available appear to be nearly sufficient to carry the City through the remainder of the fiscal year and result in a projected year-end fund balance of (\$1.26) million – a shortfall that must be balanced to zero by year-end. Additionally, two key areas of uncertainty are still present: 1) the State Budget crisis, and 2) the continued possibility of a lagging recovery.

We have also outlined the projected impact of key uncertainties and our assumption that the beginning of a recovery must take hold in the second half for FY 2003-04 for these revenue projections to hold true. Additionally, it is critical that departments adhere to current savings plans in order to achieve projected operating savings.

My staff and I are available to respond to any comments or questions you may have at this time. We will update all current year projections during the upcoming Nine-Month Report, which will be released in late-April.

Sincerely,



Edward Harrington
Controller

Attachments: Appendix A: Status of Supplemental Appropriations
Appendix B: Status of General Fund Board Reserves

CC: Department Heads
Ben Rosenfield, Mayor's Budget Office
Harvey Rose, Budget Analyst

APPENDIX A: Status of Supplemental Appropriations
FY 2003-04
As of January 31, 2004

	APPROVED CHANGES	PENDING / POTENTIAL CHANGES
<u>Approved Supplementals</u>		
Art Commission - Municipal Symphony Funding	\$ 23,273	
Elections - October 2003 Recall Election	3,232,983	
Recreation & Park - Loss of Parking Revenue in GGP	700,000	
Human Services - CalWorks, Medi-Cal, IHSS and Foster Care	2,399,795	
Total Changes Approved	<u>\$ 6,356,051</u>	
Total Changes Approved, Where General Reserve Was Used	\$ 3,582,983	
<u>Supplementals Pending at the Board</u>		
Elections - December Run-Off		\$ 2,016,330
<u>Supplementals Pending in the Mayor's Office</u>		
		\$ -
Total Supplementals Pending - General Fund Only		<u>\$ 2,016,330</u>

APPENDIX A: Status of Supplemental Appropriations (continued)
FY 2003-04
As of January 31, 2004

NON-GENERAL FUND SUPPLEMENTALS	APPROVED CHANGES	PENDING / POTENTIAL CHANGES
Approved Supplementals		
Brannan St. Wharf and Pier 30-32 Cruise Terminal Project	\$ 29,700,000	
Department of Public Works - Land Sale/Lease Octavia Blvd.	14,010,630	
Unified School District - Appropriation of Bond Proceeds	29,480,000	
Dept of Human Services - Zygmunt Arendt Fund	3,800,000	
Total Changes Approved	<u>\$ 76,990,630</u>	
Supplementals Pending at the Board		
Court - Courthouse Construction Fund		\$ 1,782,000
Community College District - Education Facilities Bond		4,400,000
Laguna Honda Replacement Program		211,539,481
Supplementals Pending in the Mayor's Office		
PUC - Irrigation and Mitigation of the Sunol Golf Course		2,500,000
PUC - EBMUD, PEIR, CIP Continuation		16,719,301
PUC - Capital Improvement Program (WIP)		7,000,000
PUC - Electrical Reliability Power Project		2,666,667
Total Supplementals Pending - Non-General Fund Only		<u>\$ 246,607,449</u>

APPENDIX B: Status of Board Reserves
As of January 31, 2004

GENERAL FUND RESERVES	BEGINNING BALANCE	CHANGES As of 1/31/2004	REMAINING BALANCE
City Planning Commission			
Salaries (pending approval of revenues)	\$ 1,375,000	\$ -	\$ 1,375,000
Trial Courts			
Conflict Council (6 Months of Contract)	3,597,426	-	3,597,426
Emergency Communications Department			
False Alarm Salaries (6 Month Pending Program Operation)	48,959	24,480	24,479
Elections			
Sheriff's Security Services	135,000	-	135,000
Fire			
Training	3,903,139	2,360,000	1,543,139
TOTAL GENERAL FUND	\$ 9,059,524	\$ 2,384,480	\$ 6,675,044
NON-GENERAL FUND RESERVES	BEGINNING BALANCE	CHANGES As of 1/31/2004	REMAINING BALANCE
Children, Youth and Their Families	\$ 37,500	\$ -	\$ 37,500
Community Based Organization			
Department Building Inspection			
Salaries	269,281	-	269,281
PUC - Hetch Hetchy			
Power for Resale Budget to Supplement Hetch Hetchy Generation (10%)	4,392,200	-	4,392,200
Port Commission			
Environmental Justice	412,549	-	412,549
TOTAL NON-GENERAL FUND	\$ 5,111,530	\$ -	\$ 5,111,530
TOTAL BOARD RESERVES	\$ 14,171,054	\$ 2,384,480	\$ 11,786,574