

Edward Harrington
Controller

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Deputy Controller

February 8, 2005

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 2004-05 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 that is based on sources of funds received and uses of funds from July 1, 2004 through December 31, 2004. The purpose of the report is to apprise the City's policy makers of the current and projected budgetary status of the General Fund and other key operating funds.

I. OVERVIEW

We project a surplus of \$71.58 million for the General Fund balance by the end of the fiscal year 2004-2005 (FY 2004-05). This surplus is primarily attributed to the additional fund balance available from the prior year, which was higher than previously assumed because of the timing of vehicle license fee remittances from the State. While this is good news for FY 2004-05, it did not impact our three-year projection as these receipts were already assumed for August 2006. In addition to the prior-year resources, most of the remaining surplus is related to expenditure savings, which also appears to be largely driven by the Mayor's mid-year savings plan. This plan was implemented beginning in January and included layoffs and program reductions to bridge the shortfall related to the failure of Propositions J (¼% sales tax) and K (temporary 1/10th of 1% gross receipts business tax) in the November 2004 election. For comparison purposes, the City ended FY 2003-04 with a \$55.01 million available fund balance, of which \$26.27 million was already assumed in the City's adopted budget.

The projected year-end balance is based on current revenue patterns as well as planned savings and current 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. Key assumptions are: 1) that projected savings, largely due to the mid-year savings reductions related to the failure of Propositions J and K, are realized by departments by year-end, 2) that the gradual economic recovery continues, 3) that no further deterioration occurs in our Business Tax revenues, and 4) that no subsequent Health & Welfare Realignment revenue growth allocation adjustments are made by the State.** We will update information in the Controller's Nine-Month Report.

Chart A: Six-Month General Fund Budget Summary – FY 2004-05 (millions)

	AAO Original Budget	Revised Budget	Year-End Projection	Savings / (Shortfall)
SOURCES:				
General Fund Beginning Balance	\$ 26.27	\$ 26.27	\$ 55.01	\$ 28.74
Prior-Year Reserves	\$ 36.56	\$ 36.56	\$ 37.16	\$ 0.60
Subtotal Sources - Prior Years	\$ 62.83	\$ 62.83	\$ 92.16	\$ 29.33
Current Revenues	\$ 2,137.28	\$ 2,141.52	\$ 2,143.52	\$ 2.00
Transfers, net	\$ 136.23	\$ 136.23	\$ 136.37	\$ 0.14
Subtotal Sources - Current Year	\$ 2,273.51	\$ 2,277.75	\$ 2,279.89	\$ 2.14
Carryforwards & Transfers, net	\$ -	\$ 91.97	\$ 91.97	\$ -
Total Sources	\$ 2,336.34	\$ 2,432.55	\$ 2,464.02	\$ 31.47
USES:				
Operating Expenditures, net	\$ 1,873.05	\$ 1,958.04	\$ 1,945.91	\$ 12.14
Projects, Capital, Facilities Maintenance	\$ 106.99	\$ 116.89	\$ 116.89	\$ -
Subtotal	\$ 1,980.04	\$ 2,074.93	\$ 2,062.79	\$ 12.14
General Fund Contribution Transfers	\$ 289.89	\$ 297.06	\$ 292.92	\$ 4.14
Subtotal	\$ 2,269.93	\$ 2,371.99	\$ 2,355.71	\$ 16.28
Reserves	\$ 36.40	\$ 31.31	\$ 31.31	\$ -
Required Set-Asides - Budget Savings			\$ 2.00	\$ (2.00)
Assumed Supplemental Appropriations			\$ 3.42	\$ (3.42)
Total Uses	\$ 2,306.34	\$ 2,403.30	\$ 2,392.45	\$ 10.86
GENERAL FUND ENDING BALANCE	\$ 30.00	\$ 29.25	\$ 71.58	\$ 42.33

General Fund Beginning Balance & Prior Year Reserves

At the time the budget for FY 2004-05 was prepared, we anticipated starting the current fiscal year with a General Fund Beginning Balance of \$26.27 million and Prior-Year Reserves of \$36.56 million. When the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004 was completed in December 2004, we confirmed that the ending balance from the previous fiscal year was \$55.01 million, along with Prior-Year Reserve balances of \$37.16 million. As a result, there is an additional \$29.33 million of prior-year sources available from FY 2003-04 that was not anticipated for FY 2003-04. However, these resources (related primarily to vehicle license fee remittances from the State) were already assumed in the City's most recent 3-Year Projection, though they have been received earlier than previously assumed. (See page 18, Note 20, for a complete explanation and reconciliation.)

Current Revenues and Transfers In

We project revenues and transfers to be \$2.14 million better than the revised FY 2004-05 budget. Revenue surplus is primarily due to higher real property transfer tax, property tax, hotel room tax, health and welfare realignment, and sales tax revenues. Offsetting shortfalls to this good news include weakness in payroll tax, the defeat of Propositions J (¼% sales tax) and K (temporary 1/10th of 1% gross receipts business tax), property sale delays, and delays in anticipated court penalty revenues. Our revenue projections are based on realized revenues through the first six months of FY 2004-05, posted January 2005 activity-to-date, discussions with industry and department experts, and analyses of key economic indicators and forecasts. Section II (Chart C) provides the revenue and transfer detail. An abbreviated summary table highlighting key revenue changes is also provided below.

sort order

	FY 2003-04	FY 2004-05	FY 2004-05	
Revenues & Transfers-In, US\$ Millions	Actuals	Revised Budget	6-Month Projection	Surplus / (Shortfall)
Real Property Transfer Tax	\$ 78.85	\$ 70.00	\$ 93.58	\$ 23.58
Property Tax	\$ 546.81	\$ 645.50	\$ 660.50	\$ 15.00
Hotel Room Tax	\$ 98.46	\$ 94.42	\$ 105.65	\$ 11.23
Health & Welfare Realignment	\$ 137.70	\$ 145.09	\$ 156.11	\$ 11.02
Sales Tax	\$ 120.64	\$ 90.93	\$ 96.46	\$ 5.53
Subtotal - Key Surpluses	\$ 982.46	\$ 1,045.94	\$ 1,112.29	\$ 66.36
Fines, Forfeitures & Penalties	\$ 29.73	\$ 12.11	\$ 6.56	\$ (5.55)
Property Sales	\$ 11.76	\$ 20.98	\$ 12.98	\$ (8.00)
Other Local Taxes (Prop J & K)	\$ -	\$ 25.00	\$ -	\$ (25.00)
Business Payroll Tax	\$ 264.35	\$ 295.23	\$ 268.42	\$ (26.81)
Subtotal - Key Shortfalls	\$ 305.84	\$ 353.32	\$ 287.96	\$ (65.36)
All Other Sources	\$ 903.57	\$ 897.42	\$ 898.57	\$ 1.15
Total Current Year Sources	\$ 2,191.87	\$ 2,296.68	\$ 2,298.82	\$ 2.14

At this point in our fiscal year, *key projection uncertainty* is still present for Payroll Tax and Health & Welfare Realignment revenue. Uncertainty exists in Payroll Tax as annual tax returns will not be in until the end of February 2005. Additionally, any meaningful pick-up will require stronger local job growth. As for Realignment, the State appears to have significant prior-year growth allocations in their realignment remittances for FY 2004-05. While the State has reassured us that their projections are on track given statewide sales and vehicle license fee growth; nevertheless, occasionally the State is known to issue revised schedules. We will track these issues closely and report more in the Controller’s 9-Month Report.

Current Operating Expenditures & Transfers Out

Based on current spending patterns, we project overall department expenditures and transfers to result in \$16.28 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, while others have deficits. 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 2004-05. To a large degree, departmental savings reported in this report are a reflection of the Mayor's \$97 million, 18-month savings plan, which was enacted following voters disapproval of Propositions J (¼% sales tax) and K (temporary 1/10th of 1% gross receipts business tax).

Net Shortfall Departments

US\$ millions	<i>Sort Order</i>			Mayor's \$97M 18-Mo. Savings Plan, FY 04-05
	SOURCES	USES	NET	
	Surplus / (Short) Budget	Under / (Over) Budget	Savings / (Shortfall)	
City Attorney	\$ (2.00)	0.00	(2.00)	-
District Attorney	(2.00)	0.30	(1.70)	0.35
Sheriff	(1.50)	0.40	(1.10)	0.40
Elections	-	(0.54)	(0.54)	0.00
Human Resources	-	(0.40)	(0.40)	-
Public Defender	(0.39)	0.01	(0.38)	0.20
Trial Courts	-	(0.34)	(0.34)	0.08
Recreation & Park	(2.21)	1.96	(0.25)	2.53
Human Rights Commission	-	(0.10)	(0.10)	0.08
Ethics Commission	-	(0.09)	(0.09)	-
Board of Appeals	(0.08)	-	(0.08)	-
Adult Probation	-	(0.03)	(0.03)	0.03
Total Net Projected Shortfall	\$ (8.18)	1.18	(7.00)	3.65

Net Surplus Departments

	<i>Sort Order</i>			Mayor's \$97M Savings Plan
	SOURCES	USES	NET	
	Surplus / (Short) Budget	Under / (Over) Budget	Savings / (Shortfall)	
Human Services	\$ 3.70	1.00	4.70	1.65
Public Health (DPH, SFGH, LHH)	1.45	3.21	4.66	3.50
Fire Department	(1.20)	3.10	1.90	3.10
General City Responsibilities	-	1.07	1.07	2.60
Economic & Workforce Development	-	0.95	0.95	0.95
Treasurer / Tax Collector	-	0.60	0.60	0.60
Children, Youth & Their Families	-	0.58	0.58	0.60
Administration Services	-	0.44	0.44	0.60
City Planning	-	0.41	0.41	-
Public Works	(1.22)	1.53	0.31	1.00
Mayor	-	0.28	0.28	0.30
Juvenile Probation	0.20	0.00	0.20	0.55
Controller	-	0.20	0.20	0.20
Assessor/Recorder	-	0.20	0.20	0.20
Commission on the Status of Women	-	0.11	0.11	0.15
Asian Art Museum	-	0.10	0.10	0.10
Fine Art Museum	-	0.10	0.10	0.10
Telecommunication & Info. Svcs.	-	0.06	0.06	0.18
Law Library	-	0.06	0.06	0.06
Total Net Projected Savings	\$ 2.93	13.97	16.91	16.43
General Reserve			15.00	15.00
Citywide & General Tax Revenues	7.39	-	7.39	8.05
Baselines - Muni		0.75	0.75	1.62
Baselines - Parking & Traffic		0.18	0.18	0.58
Baselines - Library		0.20	0.20	0.53
Net Savings	\$ 2.14	16.28	33.42	45.85

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 will have a net surplus of \$5.04 million while Laguna Honda Hospital will experience a net deficit of \$2.02 million.

Contribution Transfers Out – Baselines (Revenue Impacted): 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.

After considering changes in discretionary revenues, **Children’s Services** is currently projected to be funded \$3.06 million more than the required baseline level (absent any mid-year reductions). After factoring in the mid-year reductions, the Children’s Services is approximately **\$2.39 million surplus funded**. **This surplus funding of the Children’s Services Baseline is assumed in our year-end balance projection, though not required.** The Library, MUNI and Parking & Traffic baselines reflect the need for lowering contributions of \$0.20 million, \$0.75 million and \$0.18 million, respectively. Lower required contributions are primarily due to the defeat of Propositions J and K, which have been partially offset by other discretionary revenues discussed below.

Chart B: Baselines

FY 2004-05				
Baseline	AAO Original Budget General Fund Appropriation	Estimated Requirement as of the 6-Month Report	Estimated Excess/(Deficit) as of the 6-Month Report	After Including Mid-Year Departmental Reductions
Children's Services	\$76.03	\$72.80	\$3.06	\$2.39
Library Preservation	\$31.99	\$31.79	\$0.20	not applicable
Municipal Railway	\$98.86	\$98.11	\$0.75	not applicable
Parking & Traffic	\$35.11	\$34.93	\$0.18	not applicable

State Budget Impact: The FY 2004-05 Adopted State Budget included discretionary revenue reductions of \$28.71 million related to the Governor’s two-year, local government budget agreement and provision outlined in Proposition 1A. The resulting impact on the City is summarized below and shows that actual reductions were slightly better than assumed in our budget overall given the final allocation formulas calculated by the State. The additional \$5.25 million is included in the revenue schedule below and the respective revenue line item on Section II (Chart C), as well as being captured in the year-end projected fund balance.

	Budgeted Increase or (Decrease)	Actual Increase or (Decrease) per State Controller	Better or (Worse) due to State Shifts & Flips
State Revenue Shifts & Flips			
Property Tax - County Allocation	\$ 131.43	\$ 131.43	\$ -
Property Tax - ERAF III Diversion *	(28.71)	(25.17)	3.54
Subtotal - Property Tax	102.72	106.26	3.54
Sales Tax	(30.68)	(27.20)	3.48
Vehicle License Fees	(100.75)	(102.52)	(1.77)
Subtotal - Discretionary Revenues	\$ (28.71)	\$ (23.46)	\$ 5.25

* Educational Revenue Augmentation Fund, i.e. Property Taxes shifted to backfill State obligation.

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 to be 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 \$75,000 of the General Reserve. Additionally, anticipated or pending supplemental appropriation requests that include the use of the General Reserve or otherwise reduce the projected year-end balance total \$3.42 million. Currently active and anticipated supplemental appropriation requests are summarized 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, 2005. For projection purposes, this report assumes that all of these Board reserves are released and expended. To the degree that 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 \$71.58 million – in a net positive balance position. This represents a \$16.57 million increase from our actual FY 2004-05 beginning fund balance of \$55.01 million.

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

GENERAL FUND (US\$ millions)	FY 2003-04	FISCAL YEAR 2004-05 (Current Year, CY)				Surplus / (Shortfall) from Revised	
	Prior Year (PY) Actuals	Original Budget	Revised Budget	6 -Month Projection			
PROPERTY TAXES	\$ 546.81	\$ 645.50	\$ 645.50	\$ 660.50	\$ 15.00	(1)	
BUSINESS TAXES:							
Business Registration Tax	\$ 8.05	\$ 6.99	\$ 6.99	\$ 6.99	\$ -	(2)	
Payroll Tax	\$ 256.30	\$ 288.24	\$ 288.24	\$ 261.43	\$ (26.81)	(3)	
Total Business Taxes	\$ 264.35	\$ 295.23	\$ 295.23	\$ 268.42	\$ (26.81)		
OTHER LOCAL TAXES:							
Sales Tax	\$ 120.64	\$ 90.93	\$ 90.93	\$ 96.46	\$ 5.53	(4)	
Hotel Room Tax	\$ 98.46	\$ 94.42	\$ 94.42	\$ 105.65	\$ 11.23	(5)	
Utility Users Tax	\$ 70.94	\$ 66.29	\$ 66.29	\$ 69.16	\$ 2.87	(6)	
Parking Tax	\$ 31.99	\$ 32.13	\$ 32.13	\$ 32.13	\$ -	(7)	
Real Property Transfer Tax	\$ 78.85	\$ 70.00	\$ 70.00	\$ 93.58	\$ 23.58	(8)	
Admission Tax	\$ 2.67	\$ 2.67	\$ 2.67	\$ 2.58	\$ (0.09)	(9)	
Other Local Taxes		\$ 25.00	\$ 25.00	\$ -	\$ (25.00)	(10)	
Total Other Local Taxes	\$ 403.55	\$ 381.45	\$ 381.45	\$ 399.56	\$ 18.12		
LICENSES, PERMITS & FRANCHISES							
Licenses & Permits	\$ 5.41	\$ 5.84	\$ 5.84	\$ 5.72	\$ (0.12)	(11)	
Franchise Tax	\$ 12.09	\$ 10.29	\$ 10.29	\$ 10.64	\$ 0.35	(12)	
Total Licenses, Permits & Franchises	\$ 17.50	\$ 16.13	\$ 16.13	\$ 16.36	\$ 0.23		
FINES, FORFEITURES & PENALTIES	\$ 29.73	\$ 12.11	\$ 12.11	\$ 6.56	\$ (5.55)	(13)	
INTEREST & INVESTMENT INCOME	\$ 7.59	\$ 6.30	\$ 6.40	\$ 6.75	\$ 0.35	(14)	
RENTS & CONCESSIONS							
Garages - Rec/Park	\$ 6.98	\$ 7.79	\$ 7.79	\$ 7.26	\$ (0.53)	(15)	
Rents and Concessions - Rec/Park	\$ 10.20	\$ 12.59	\$ 12.59	\$ 12.08	\$ (0.51)	(16)	
Other Rents and Concessions	\$ 0.32	\$ 1.48	\$ 1.48	\$ 1.48	\$ -		
Total Rents and Concessions	\$ 17.50	\$ 21.86	\$ 21.86	\$ 20.82	\$ (1.04)		
INTERGOVERNMENTAL REVENUES							
Federal Government							
Social Service Subventions	\$ 152.37	\$ 172.27	\$ 184.90	\$ 185.10	\$ 0.20	(17)	
Other Grants & Subventions	\$ 10.68	\$ 3.79	\$ 3.79	\$ 3.79	\$ -		
Total Federal Subventions	\$ 163.05	\$ 176.06	\$ 188.69	\$ 188.89	\$ 0.20		
State Government							
Social Service Subventions	\$ 124.98	\$ 120.75	\$ 111.22	\$ 114.92	\$ 3.70	(18)	
Health & Welfare Realignment	\$ 137.70	\$ 145.09	\$ 145.09	\$ 156.11	\$ 11.02	(19)	
Health/Mental Health Subventions	\$ 68.69	\$ 71.71	\$ 71.71	\$ 71.71	\$ -		
Public Safety Sales Tax	\$ 64.16	\$ 62.87	\$ 62.87	\$ 62.87	\$ -		
Motor Vehicle In-Lieu	\$ 84.63	\$ 15.24	\$ 15.24	\$ 13.47	\$ (1.77)	(20)	
Other Grants & Subventions	\$ 17.04	\$ 18.47	\$ 18.60	\$ 18.60	\$ -		
Total State Subventions	\$ 497.20	\$ 434.12	\$ 424.73	\$ 437.68	\$ 12.95		
CHARGES FOR SERVICES:							
General Government Service Charges	\$ 25.17	\$ 22.86	\$ 22.86	\$ 22.39	\$ (0.47)	(21)	
Public Safety Service Charges	\$ 15.07	\$ 17.61	\$ 17.61	\$ 16.11	\$ (1.50)	(22)	
Recreation Charges - Rec/Park	\$ 5.45	\$ 8.39	\$ 8.39	\$ 8.22	\$ (0.17)	(23)	
MediCal, MediCare & Health Service Charges	\$ 33.37	\$ 44.78	\$ 45.20	\$ 46.65	\$ 1.45	(24)	
Other Service Charges	\$ 6.59	\$ 7.94	\$ 8.36	\$ 8.36	\$ -		
Total Charges for Services	\$ 85.64	\$ 101.59	\$ 102.43	\$ 101.74	\$ (0.69)		
RECOVERY OF GEN. GOV'T. COSTS	\$ 9.96	\$ 18.18	\$ 18.18	\$ 18.18	\$ -	(25)	
OTHER REVENUES	\$ 27.47	\$ 28.77	\$ 28.82	\$ 18.07	\$ (10.75)	(26)	
TOTAL REVENUES	\$ 2,070.35	\$ 2,137.28	\$ 2,141.52	\$ 2,143.52	\$ 2.00		
TRANSFERS INTO GENERAL FUND:							
Airport	\$ 26.73	\$ 19.22	\$ 19.22	\$ 20.35	\$ 1.14	(27)	
Other Transfers	\$ 94.78	\$ 135.95	\$ 135.95	\$ 134.95	\$ (1.00)	(28)	
Total Transfers-In	\$ 121.51	\$ 155.16	\$ 155.16	\$ 155.30	\$ 0.14		
TOTAL GENERAL FUND RESOURCES	\$ 2,191.87	\$ 2,292.44	\$ 2,296.68	\$ 2,298.82	\$ 2.14		

Notes to Sources of Funds Schedule:

- (1) **Property Tax** revenues are projected to be \$15.00 million better than budget. This is due to four factors: 1) slightly higher assessed valuation growth, 2) slightly lower State revenue shifts related to ERAF III¹, 3) supplemental tax collections, and 4) assessment appeals experience to date. San Francisco's assessed valuation grew 6.4 percent in FY 2004-05 from FY 2003-04 compared to the 5.3 percent assumed in the budget. ERAF III resulted in shifts of \$25.17 million versus the \$28.71 assumed in the budget. Additionally, supplemental sales activity and corresponding General Fund revenues are also slightly better than budget by approximately \$2.60 million. The projected impact can be summarized in the following chart:

General Fund	\$15.00 M Better than Budget
Children's Fund	\$ 0.79 M Better than Budget
Library Preservation Fund	\$ 0.66 M Better than Budget
Open Space Fund	\$ 0.66 M Better then 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 13,900 deeds in queue have been estimated by the Assessor to have up to \$0.90 billion in incremental roll value. Additionally, 8,000 construction permits may also yield up to \$0.90 billion in incremental roll value. The table on the next page summarizes the backlog and assumes a 45 percent adjustment factor for processing deeds and a 50 percent adjustment factor for new construction permit activity, because 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 2004-05, the value to various funds would be approximately \$5.52 million, which includes a \$4.84 million increase to the General Fund. The current backlog levels of 21,900 with the Assessor's Estimate of Incremental Roll Value of \$1.80 billion reflect improvement over FY 2003-04 when the Controller's 9-Month Report showed a backlog of 17,800 with the Estimated Value at \$3.50 billion. While the count is higher, due mainly to the continued surge in mortgage refinancing, the estimated incremental value has been worked down. The Department reports that a backlog of approximately 7,000 deeds represents a typical 2-3 month processing time.

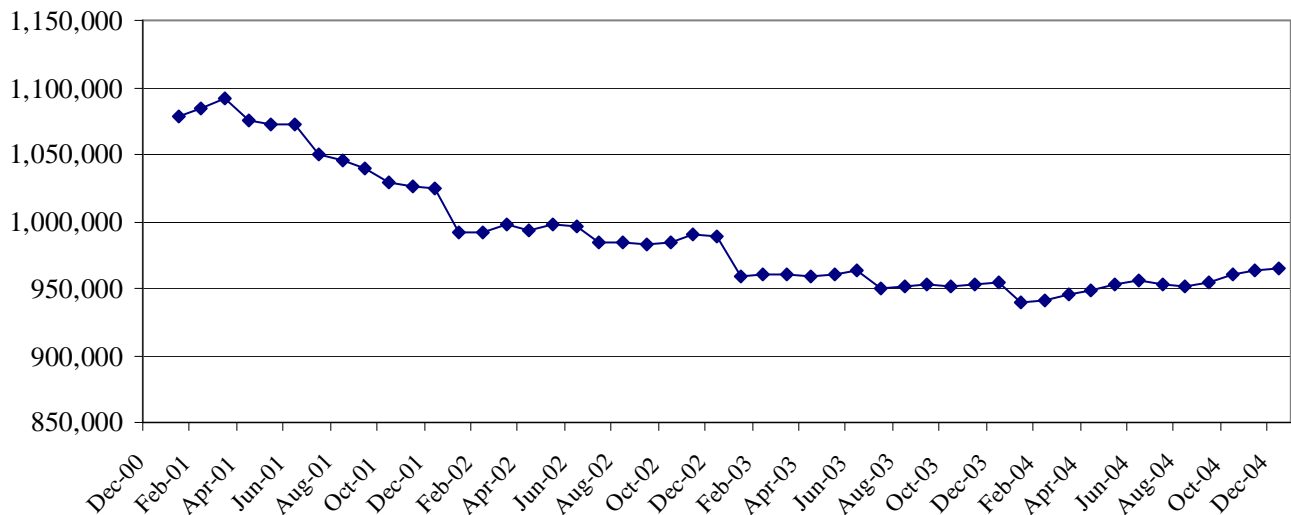
¹ ERAF III – Educational Revenue Augmentation Fund, per California State Budget, FY 2004-05.

Backlog Type	Count	Assessor's Estimate of Incremental Roll Value (millions)	Assessor's Estimate of Revenue Yield	Adjusted Estimate of Incremental Roll Value (millions)
Deed Processing	13,900	\$ 900	45%	\$ 405
New Construction - Permit Activity	8,000	\$ 900	50%	\$ 450
Total	21,900	\$ 1,800		\$ 855

Potential Incremental Property Tax Revenue (in millions)	
General Fund	\$ 4.84
Children's Fund	\$ 0.26
Library Fund	\$ 0.21
Open Space Fund	\$ 0.21
Total - Above Funds	\$ 5.52

- (2) **Business Registration** revenues are projected to be on budget based on business formations and renewals to date.
- (3) **Payroll Tax** revenues are projected to be \$26.81 million under budget currently. The budget assumed slow growth in employment with moderate wage increases. However, since prior-year actuals were so far under budget, a lower starting point on top of continued labor weakness in 2004 foreshadows continued weakness for the current year's budget. For the 2004 calendar year, average job growth continued to be negative overall for our region, although some growth did occur in the latter half of the year. Nevertheless, the average for the year showed shrinkage of 0.4%. Since the payroll tax is calculated using calendar year results, this will hurt revenues. 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 does not appear to have materialized. Our projection assumed limited average wage inflation of 2.0% percent over the prior year.

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



Fiscal Year	Business Taxes ** Revenue (million)	\$ Change from Prior Year	% Change from Prior Year
FY 1982-83	\$ 96.83		
FY 1983-84	\$ 99.08	\$ 2.25	2.3%
FY 1984-85	\$ 95.73	\$ (3.35)	-3.4%
FY 1985-86	\$ 112.36	\$ 16.63	17.4%
FY 1986-87	\$ 113.72	\$ 1.36	1.2%
FY 1987-88	\$ 120.64	\$ 6.93	6.1%
FY 1988-89	\$ 143.52	\$ 22.87	19.0%
FY 1989-90	\$ 153.00	\$ 9.48	6.6%
FY 1990-91	\$ 157.21	\$ 4.22	2.8%
FY 1991-92	\$ 142.57	\$ (14.64)	-9.3%
FY 1992-93	\$ 154.28	\$ 11.71	8.2%
FY 1993-94	\$ 164.34	\$ 10.06	6.5%
FY 1994-95	\$ 167.67	\$ 3.33	2.0%
FY 1995-96	\$ 175.31	\$ 7.64	4.6%
FY 1996-97	\$ 200.92	\$ 25.61	14.6%
FY 1997-98	\$ 222.90	\$ 21.98	10.9%
FY 1998-99	\$ 229.17	\$ 6.27	2.8%
FY 1999-00	\$ 267.20	\$ 38.03	16.6%
FY 2000-01	\$ 277.09	\$ 9.90	3.7%
FY 2001-02	\$ 274.13	\$ (2.97)	-1.1%
FY 2002-03	\$ 276.13	\$ 2.00	0.7%
FY 2003-04	\$ 264.35	\$ (11.77)	-4.3%
FY 2004-05 Budget	\$ 295.23	\$ 30.88	11.7%
FY 2004-05 Projection	\$ 268.42	\$ 4.07	1.5%

** Business Taxes include Business Registration, Payroll Tax, and Gross Receipts Tax which was repealed in April 2001.

- (4) **Sales Tax** revenues are projected to be \$5.53 million better than original budget. As illustrated in the table below, San Francisco sales activity finally turned positive for the 1st three quarters of 2004, whereas the 9-County Bay Area region had been positive since the 4th Quarter 2003, and California average since 3rd Quarter 2002. The current projection assumes average 2.5 percent growth for the entire fiscal year plus the better than expected \$3.48 million difference in the State revenue shift (i.e. the *Triple Flip*) assumed in the budget. [See State Budget section above for further details on overall State impact.] San Francisco’s sales tax revenue continues to be more dependent on tourism than most other cities in California, any sustained increase in this revenue will be dependent on both tourism and jobs growth.

Sales Tax Activity Positive in San Francisco, Bay Area, and California

Fiscal Year	Calendar Quarter	San Francisco	9 County Bay Area	California
FY 2004-05	3rd Quarter 2004	0.78%	1.67%	4.93%
FY 2003-04	2nd Quarter 2004	8.39%	6.61%	7.68%
	1st Quarter 2004*	3.00%	8.00%	10.19%
	4th Quarter 2003*	-0.84%	2.84%	4.23%
	3rd Quarter 2003	-1.55%	-1.40%	2.52%
FY 2002-03	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%
FY 2001-02	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%
FY 2000-01	2nd Quarter 2001	-8.70%	-5.00%	0.00%

Notes: * SF growth reflects adjustment for prior CA BOE allocations.
Source: CA BOE, HdL

- (5) **Hotel Room Tax** revenues allocated to the General Fund are projected to be approximately \$11.23 million better than original budget. Overall, while hotel room tax revenues are projected to be approximately 4.1 percent above prior-year levels (\$148.23 M) (all funds), we ended the prior year substantially better than expected – making the starting base higher for the current year. This coupled with some signs of recovery bode well for this tax revenue. Hotel occupancy rates significantly strengthened in the early part of the fiscal year, and room rates stabilized. The tables on page 14 summarize Occupancy and Average Daily Room Rates (ADRs) by month.

Our projection is based on realized revenue collections-to-date and interviews with hotel industry professionals, and assumes gradual economic strengthening and a slight increase in average daily room rates for FY 2004-05. Our current forecast assumes average annual occupancy rates of 72 percent and average annual daily room rates (ADRs) of \$143. Hotel room tax revenues fluctuate primarily based on these two variables.

Fiscal Year	Hotel Tax Revenue All Funds (million)	\$ Change from Prior Year	% Change from Prior Year	Hotel Tax Rate	Notes
FY 1978-79	\$ 19.01			8.00%	(1)
FY 1979-80	\$ 23.82	\$ 4.80	25.3%	8.00%	
FY 1980-81	\$ 32.56	\$ 8.74	36.7%	9.75%	(2)
FY 1981-82	\$ 36.86	\$ 4.30	13.2%	9.75%	
FY 1982-83	\$ 35.27	\$ (1.59)	-4.3%	9.75%	
FY 1983-84	\$ 38.32	\$ 3.05	8.7%	9.75%	
FY 1984-85	\$ 44.71	\$ 6.39	16.7%	9.75%	
FY 1985-86	\$ 47.98	\$ 3.27	7.3%	9.75%	
FY 1986-87	\$ 53.10	\$ 5.12	10.7%	9.75%	
FY 1987-88	\$ 60.92	\$ 7.82	14.7%	11.00%	(3)
FY 1988-89	\$ 67.10	\$ 6.18	10.1%	11.00%	
FY 1989-90	\$ 63.41	\$ (3.69)	-5.5%	11.00%	
FY 1990-91	\$ 69.56	\$ 6.14	9.7%	11.00%	
FY 1991-92	\$ 72.03	\$ 2.47	3.6%	11.00%	
FY 1992-93	\$ 76.25	\$ 4.21	5.9%	11.00%	
FY 1993-94	\$ 86.48	\$ 10.23	13.4%	12.00%	(4)
FY 1994-95	\$ 94.10	\$ 7.62	8.8%	12.00%	
FY 1995-96	\$ 102.96	\$ 8.86	9.4%	12.00%	
FY 1996-97	\$ 137.65	\$ 34.69	33.7%	14.00%	(5)
FY 1997-98	\$ 150.16	\$ 12.51	9.1%	14.00%	
FY 1998-99	\$ 161.52	\$ 11.36	7.6%	14.00%	
FY 1999-00	\$ 182.10	\$ 20.58	12.7%	14.00%	
FY 2000-01	\$ 188.38	\$ 6.28	3.4%	14.00%	
FY 2001-02	\$ 132.23	\$ (56.15)	-29.8%	14.00%	
FY 2002-03	\$ 128.59	\$ (3.64)	-2.7%	14.00%	
FY 2003-04	\$ 148.23	\$ 19.64	15.3%	14.00%	
FY 2004-05 Budget	\$ 143.12	\$ (5.11)	-3.4%	14.00%	
FY 2004-05 Projection	\$ 154.35	\$ 6.12	4.1%	14.00%	

- Notes: (1) 8 % from July 1978 to June 1980, and 6 % prior to June 1978.
(2) 9.75% from July 1980 to December 1986
(3) 11 % from January 1987 to August 14,1993
(4) 12 % from August 15, 1993 to July 31, 1996
(5) 14 % since August 1, 1996

HOTEL OCCUPANCY RATES

MONTH	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
July	88.0%	87.5%	75.4%	68.7%	77.0%	80.9%
August	81.3%	90.2%	80.8%	74.7%	83.5%	81.1%
September	86.9%	88.5%	58.3%	68.1%	75.0%	81.3%
October	82.7%	87.9%	61.1%	73.7%	76.1%	83.0%
November	74.1%	72.7%	53.9%	60.9%	69.8%	64.0%
December	62.1%	64.4%	50.0%	55.6%	55.9%	57.9%
January	67.0%	63.5%	50.3%	51.3%	54.3%	55.9%
February	79.7%	70.4%	56.9%	57.9%	63.6%	64.0%
March	88.6%	72.9%	60.7%	59.4%	71.2%	68.5%
April	84.7%	70.7%	67.8%	62.8%	70.2%	72.1%
May	84.4%	76.9%	65.7%	68.7%	78.6%	76.3%
June	91.7%	80.0%	74.5%	72.9%	80.1%	81.6%
AVG. OCCUPANCY RATE	80.9%	77.1%	63.0%	64.6%	71.3%	72.2%
Occ. % Rate Chg from PY	1.1%	-3.8%	-14.2%	1.6%	6.7%	0.9%
% Change from PY	1.4%	-4.7%	-18.4%	2.6%	10.4%	1.3%

Fiscal Year Peak

Recovery Taking Hold

Some Strengthening
 ... then Weaker
Estimated

Significant Strengthening in SF Market by Fiscal Year End

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

AVERAGE DAILY ROOM RATES (ADRs)

MONTH	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
July	\$ 154.98	\$ 175.56	\$ 156.14	\$ 140.65	\$ 136.72	\$ 138.35
August	\$ 150.06	\$ 165.89	\$ 159.01	\$ 134.34	\$ 133.63	\$ 136.73
September	\$ 158.09	\$ 180.33	\$ 157.35	\$ 140.18	\$ 141.04	\$ 145.14
October	\$ 153.22	\$ 191.46	\$ 166.56	\$ 156.21	\$ 158.28	\$ 161.71
November	\$ 148.02	\$ 169.40	\$ 151.08	\$ 140.01	\$ 141.82	\$ 138.50
December	\$ 146.22	\$ 162.24	\$ 136.65	\$ 129.56	\$ 123.62	\$ 128.62
January	\$ 153.17	\$ 174.24	\$ 146.41	\$ 140.60	\$ 134.37	\$ 139.07
February	\$ 156.25	\$ 181.78	\$ 146.09	\$ 143.65	\$ 135.45	\$ 140.37
March	\$ 164.96	\$ 179.18	\$ 143.95	\$ 138.06	\$ 150.83	\$ 143.05
April	\$ 164.39	\$ 168.79	\$ 156.06	\$ 140.30	\$ 139.73	\$ 143.80
May	\$ 168.41	\$ 191.63	\$ 152.38	\$ 149.66	\$ 150.39	\$ 149.46
June	\$ 175.50	\$ 173.72	\$ 160.85	\$ 135.91	\$ 145.69	\$ 150.00
AVERAGE ADR	\$ 157.77	\$ 176.19	\$ 152.71	\$ 140.76	\$ 140.96	\$ 142.90
ADR \$ Change from PY	\$ 10.25	\$ 18.41	\$ (23.47)	\$ (11.95)	\$ 0.20	\$ 1.94
% Change from PY	6.9%	11.7%	-13.3%	-7.8%	0.1%	1.4%

Fiscal Year Peak

Prices Firming
 ... then Weaker
Estimated

Year-over-Year Pricing Pressure Continued During Much of the Fiscal Year
 ... then, Improvement

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 \$2.87 million better than budget at this time. This is due to higher natural gas commodity prices than assumed in the budget, which resulted in additional tax revenue from commercial customers.
- (7) **Parking Tax** revenues are projected to be on budget. On a related note, effective in FY 2004-05, the Human Services Agency's Aging & Adult Services no longer receives a parking tax revenue allocation, but is instead backfilled by a like amount of General Fund Support.
- (8) **Real Property Transfer Tax** revenues are projected to be \$23.58 million better than budget. The rate and volume of commercial building sales is unprecedented. Since this is good one-time news for the current year, these revenue levels are not sustainable over the long run. 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; however, the likelihood of rising interest rates by mid-2005 is also providing additional incentive for real estate transactions to occur sooner than later.

Fiscal Year	Property Transfer Tax Revenue (million)	\$ Change from Prior Year	% Change from Prior Year
FY 1982-83	\$ 11.85		
FY 1983-84	\$ 12.96	\$ 1.11	9.3%
FY 1984-85	\$ 13.87	\$ 0.92	7.1%
FY 1985-86	\$ 18.79	\$ 4.91	35.4%
FY 1986-87	\$ 19.06	\$ 0.27	1.4%
FY 1987-88	\$ 19.19	\$ 0.13	0.7%
FY 1988-89	\$ 24.79	\$ 5.60	29.2%
FY 1989-90	\$ 20.72	\$ (4.07)	-16.4%
FY 1990-91	\$ 13.70	\$ (7.02)	-33.9%
FY 1991-92	\$ 13.80	\$ 0.10	0.8%
FY 1992-93	\$ 13.07	\$ (0.73)	-5.3%
FY 1993-94	\$ 15.86	\$ 2.79	21.4%
FY 1994-95	\$ 20.04	\$ 4.18	26.4%
FY 1995-96	\$ 22.97	\$ 2.93	14.6%
FY 1996-97	\$ 33.57	\$ 10.61	46.2%
FY 1997-98	\$ 44.01	\$ 10.43	31.1%
FY 1998-99	\$ 56.13	\$ 12.13	27.6%
FY 1999-00	\$ 69.88	\$ 13.75	24.5%
FY 2000-01	\$ 62.34	\$ (7.55)	-10.8%
FY 2001-02	\$ 47.27	\$ (15.07)	-24.2%
FY 2002-03	\$ 51.48	\$ 4.21	8.9%
FY 2003-04	\$ 78.85	\$ 27.37	53.2%
FY 2004-05 Budget	\$ 70.00	\$ (8.85)	-11.2%
FY 2004-05 Actual YTD	\$ 72.04	\$ 2.04	2.9%
FY 2004-05 Projection	\$ 93.58	\$ 14.73	18.7%

Note: FY 2004-05 actual year-to-date exceeds budget by \$2.04 M.

- (9) **Admission Tax** revenues are projected to be \$0.09 million under budget due to slightly lower game ticket sales for the 49^{ers}.
- (10) **Other Local Taxes** revenue will not be realized as budgeted due to the voters disapproval of Propositions J (1/4% sales tax) and K (temporary 1/10th of 1% gross receipts business tax) in the November 2004 election. These two revenues were budgeted at \$25.00 million in FY 2004-05. Immediately following the election, the Mayor's Office implemented spending reductions to bridge the shortfall created by the voters disapproving these two propositions.
- (11) **Licenses and Permit** revenues are projected to be on \$0.12 million under budget due to lower newsrack fee revenue at Public Works.
- (12) **Franchise Tax** revenues are projected to be \$0.35 million better than budget. Higher natural gas commodity prices discussed above in the Utility Users Tax section also impact this revenue.
- (13) **Fines, Forfeitures and Penalty** revenue is projected to be under budget by \$5.55 million due to \$4.00 million in weakness related to the continued appeal of the Old Republic case (City Attorney's Office and District Attorney's Office), \$1.50 million in lower liquidated damage penalties assumed in the Sheriff's Department budget, and \$0.05 million in weakness related to the collection of fines written by Environmental Control Officers (ECO) in Public Works.
- (14) **Interest** Income is projected to be \$0.35 million better than budget. Since last June, the Fed has raised short-term interest rates six times. This measured increase in short-term rates has resulted in slightly higher interest revenues for the City. Higher rates are good news for our interest revenues, but eventually can also put downward pressure on others like the real property transfer tax. Higher short-term rates often translate into increasing longer-term rates over time, which in turn makes mortgage debt service more costly.
- (15) **Recreation & Parks Garage** revenues are projected to be \$0.53 million under budget as previously assumed project reserve close-outs will not be realized at the Sutter Stockton Garage.
- (16) **Rents and Concessions** revenues are projected to be \$0.51 million under budget due to weakness in park rentals, including Monster Park rentals and other special events.
- (17) **Federal Social Service** Subvention revenues are projected to be \$0.20 million more than budget due to higher reimbursement claims than assumed in the budget.
- (18) **State Social Service** Subvention revenues are projected to be \$3.70 million better than budget due to higher Department of Human Services revenues. This includes an estimated \$2.00 million in IHSS waiver revenues (that is, the Federal government's paying part of the state and local portion of IHSS costs), \$1.30 million in prior-year adjustments, \$0.40 million in Medi-Cal revenues, as well as offsetting CalWORKS State II childcare revenue weakness and other programmatic revenue increases.

- (19) **Health & Welfare Realignment** revenue is projected to be \$11.02 million more than budget due to stronger prior-year revenue growth allocations to the County than previously assumed in the budget. Statewide sales and vehicle license fee growth have continued to be strong – much stronger than our local region in fact. This has benefited the City given the Realignment allocation formulated by the State.
- (20) **Motor Vehicle in Lieu (MVL-VLF)** revenues are projected to be \$1.77 million under budget due to lower State shifts than assumed in the budget. (See State Budget section above for further details on overall State impact.)

Given the number of shifts and adjustments made by the State in VLF revenue allocations over the last couple of years, we have also provided a table below that summarizes those key changes in the context of our 3-Year Projection. Of particular note is the ‘Adjustments for State Shifts’ portion of the table. The line that shows *Actual Better / (Worse) than Estimated* principally explains why the City had surplus fund balance at the end of FY 2003-04 (as discussed previously in this report). However, the net impact to our 3-Year Projection is a net of zero, as only the timing of cash receipts changes, not the underlying growth factors.

Vehicle License Fees (VLF) - Summary of 3-Year Impact

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
City & County Base VLF	\$ 109.32	\$ 112.60	\$ 115.20	\$ 119.80
City & County Growth	\$ 3.28	\$ 2.60	\$ 4.60	\$ 4.80
Estimated VLF Absent State Shifts	\$ 112.60	\$ 115.20	\$ 119.80	\$ 124.60

Adjustments for State Shifts					
Backfill Gap 'Loan' & Realignment Shifts - Estimated	\$ (58.78)	n/a	n/a	\$ 58.78	} Nets to '0' over Projection Period
Backfill Gap 'Loan' & Realignment Shifts - Actual	\$ (29.74)	n/a	n/a	\$ 29.74	
Actual Better / (Worse) than Estimated →	\$ 29.04			\$ (29.04)	
Permanent Rollback of VLF		n/a	\$ (102.52)	\$ (102.52)	
Offset by Reduction to ERAF, increased Property Taxes		n/a	\$ 102.52	\$ 102.52	

- (21) **Service Charges – General Government** revenues are projected to be \$0.47 million under budget due to \$0.39 million weakness in indigent fees at the Public Defender, and \$0.08 million lower surcharge fees at the Board of Appeals. On a related note, City Planning fees are coming in stronger than budget; however, we are still in the process of undertaking a department fee study to assess recovery rates and will provide an update in the 9-Month Report.
- (22) **Service Charges - Public Safety** revenue is projected to be \$1.50 million under budget due to \$0.45 million weakness in false alarm response fee collection at the Fire Department and \$1.05 million in lower asphalt plant revenues the Department of Public Works. On a related note for the asphalt plant, even with the revenue shortfall, the overall operation is projected to recover slightly more than costs this year.
- (23) **Recreation Charges – Rec/Park** revenues are projected to be \$0.17 million under budget due to lower fee collections at Camp Mather.

- (24) **Service Charges – MediCal, Medicare, & Health Services** revenue is projected to be \$1.45 million better than budget due to higher revenue patient and targeted case management revenues in Primary Care. (A summary of all Public Health operations is included in the expenditure section below, Note 21 on page 24.)
- (25) **Recoveries** are projected to be on budget.
- (26) **Other Revenues are projected to be \$10.75 million under budget due to the followings:**
- \$8.00 million in delayed property sales related to PUC parcels,
 - \$2.00 million in lower salary contributions from high-earners, and
 - \$0.75 million in property sales assumed in the Fire Department’s budget.
- (27) **Transfers In – Airport.** The General Fund 15% share of concession revenues at San Francisco International Airport is projected to be \$1.14 million better than budget due to overall higher concession spending and slightly better than budgeted air traffic.

San Francisco International Airport Enplanements (in millions)

Fiscal Year	Total	% Change	Domestic	% Change	International	% Change
FY 1999-00	20.16		16.37		3.79	
FY 2000-01	19.44	-3.6%	15.32	-6.4%	4.12	8.8%
FY 2001-02	15.53	-20.1%	11.92	-22.2%	3.61	-12.4%
FY 2002-03	14.62	-5.9%	11.25	-5.6%	3.37	-6.8%
FY 2003-04	15.40	5.3%	11.71	4.0%	3.69	9.6%
Budget FY 2004-05	15.73	2.2%	11.93	1.9%	3.80	3.0%
Projection FY 2004-05	15.96	3.7%	12.10	3.4%	3.86	4.5%

- (28) **Transfers In – Other Transfers.** Other Transfers In are projected to be \$1.00 million under budget due to lower gift revenues assumed by Recreation & Park which appear not to be realizable as previously assumed.

III. Uses of Funds, Chart D

GENERAL FUND (US\$ millions)	FY 2003-04		FY 2004-05		Surplus / (Shortfall)	
	Actuals	Original Budget	Revised Budget	Projected Year-End		
PUBLIC PROTECTION						
Adult Probation	\$ 9.02	\$ 9.38	\$ 9.41	\$ 9.44	\$ (0.03)	1
Courts - Trial Courts	34.27	33.74	33.97	34.31	(0.34)	2
District Attorney	24.07	23.90	24.44	24.14	0.30	3
Emergency Communications	23.55	32.81	35.17	35.17	-	4
Fire Department	198.27	190.34	193.97	190.87	3.10	5
Juvenile Probation	29.45	29.10	30.00	30.00	-	6
Public Defender	15.26	16.34	16.71	16.70	0.01	7
Police Department	253.82	251.81	253.79	253.79	-	8
Sheriff	94.24	128.66	130.99	130.59	0.40	9
Total Public Protection	\$ 681.95	\$ 716.07	\$ 728.46	\$ 725.01	\$ 3.44	
PUBLIC WORKS, TRANSPORTATION & COMMERCE						
Board of Appeals	\$ 0.42	\$ 0.47	\$ 0.47	\$ 0.47	\$ -	10
Economic & Workforce Development	1.59	1.91	2.70	1.75	0.95	11
Municipal Transportation Agency	0.04	-	0.05	0.05	-	12
Public Utilities Commission	0.20	0.20	0.24	0.24	-	13
Public Works	30.18	24.86	31.58	30.06	1.53	14
Telecommunications & Info. Services	1.49	1.32	2.14	2.08	0.06	15
Total Public Works, etc.	\$ 33.91	\$ 28.75	\$ 37.17	\$ 34.64	\$ 2.54	
HUMAN WELFARE AND NEIGHBORHOOD DEVELOPMENT						
Children, Youth & Their Families	\$ 11.06	\$ 11.57	\$ 12.79	\$ 12.21	\$ 0.58	16
Human Services (include Aging & Adult Services)	471.19	508.47	525.53	524.53	1.00	17
Environment	2.71	0.86	6.01	6.01	-	18
Human Rights Commission	1.67	1.18	1.34	1.44	(0.10)	19
County Educational Office	0.07	0.07	0.07	0.07	-	
Comm. on the Status of Women	2.34	2.11	2.28	2.17	0.11	20
Total Human Welfare, etc.	\$ 489.04	\$ 524.26	\$ 548.02	\$ 546.43	\$ 1.59	
COMMUNITY HEALTH						
Public Health	\$ 413.70	\$ 426.04	\$ 447.57	\$ 447.37	\$ 0.20	21
CULTURE AND RECREATION						
Asian Art Museum	\$ 6.03	\$ 5.84	\$ 6.01	\$ 5.91	\$ 0.10	22
Arts Commission	5.81	5.77	7.97	7.97	-	
Fine Arts Museum	4.62	5.07	5.08	4.98	0.10	23
Law Library	0.49	0.52	0.54	0.48	0.06	24
Recreation and Park	58.83	62.94	64.66	62.70	1.96	25
Academy of Sciences	1.86	1.67	1.67	1.67	-	
Total Culture & Recreation	\$ 77.62	\$ 81.82	\$ 85.92	\$ 83.71	\$ 2.22	
GENERAL ADMINISTRATION & FINANCE						
Administration Services	\$ 34.43	\$ 33.93	\$ 35.85	\$ 35.42	\$ 0.44	26
Assessor/Recorder	8.31	9.24	9.63	9.43	0.20	27
Board of Supervisors	8.74	9.32	9.99	9.99	-	28
City Attorney	8.23	6.45	6.16	6.16	-	29
Controller	19.57	18.42	21.15	20.95	0.20	30
City Planning	12.27	15.62	16.05	15.64	0.41	31
Civil Service	0.54	0.55	0.60	0.60	-	
Ethics Commission	0.87	1.72	1.74	1.83	(0.09)	32
Human Resources	17.16	15.69	17.35	17.75	(0.40)	33
Mayor	7.63	6.88	9.68	9.41	0.28	34
Elections	15.20	7.11	10.36	10.89	(0.54)	35
Retirement	0.39	0.34	0.92	0.92	-	
Treasurer/Tax Collector	17.48	18.46	19.30	18.70	0.60	36
General City Responsibility	83.31	59.37	69.01	67.94	1.07	37
Total General Admin. & Finance	\$ 234.14	\$ 203.10	\$ 227.79	\$ 225.63	\$ 2.16	
TOTAL GENERAL FUND EXPS.						
	\$ 1,930.37	\$ 1,980.04	\$ 2,074.93	\$ 2,062.79	\$ 12.14	
Baseline Transfer to MUNI (Municipal Railway)	\$ 99.26	\$ 98.86	\$ 98.86	\$ 98.11	\$ 0.75	38
Baseline Transfer Parking and Traffic	34.45	35.11	35.11	34.93	0.18	39
Baseline Transfer Library	29.35	31.99	31.99	31.79	0.20	40
Operating Transfer to SFGH (General Hospital)	62.16	83.61	88.90	83.86	5.04	41
Operating Transfer LHH (Laguna Honda Hospital)	31.29	35.05	36.93	38.95	(2.02)	42
Operating Transfer to Gas Tax Fund	4.58	5.28	5.28	5.28	-	
TOTAL TRANSFERS OUT	\$ 261.09	\$ 289.89	\$ 297.06	\$ 292.92	\$ 4.14	
Reserves	0.00	66.40	60.57	60.57	-	
TOTAL GENERAL FUND USES	\$ 2,191.46	\$ 2,336.34	\$ 2,432.55	\$ 2,416.28	\$ 16.28	

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

Notes to Uses of Funds Schedule:

Most departments are managing their operations closely to budget; however, a number of departments warrant further discussion. Key issues are summarized below by Major Service Area. All projections highlighted in the table on the previous page are based on current spending patterns and identified savings plans when noted.

Public Protection Departments

- (1) **Adult Probation** is projected to end the year \$0.03 million over budget. Higher workers' compensation projected costs is the main reason and is only being partially offset by salary and benefits savings. The department does not appear likely to meet the Mayor's \$0.03 million mid-year savings target.
- (2) The **Trial Courts** is projected to be \$0.34 million over budget due to higher indigent defense costs and does not appear likely to meet the Mayor's mid-year savings target of \$0.08 million. A supplemental appropriation request will be required from this department.
- (3) The **District Attorney** is projected to have a surplus of \$0.30 million. This is principally attributed to savings in salaries and fringes resulting from expenditure shifts to grants (i.e. General Fund Investigator positions), abatement of General Funding salary expenses to an eligible DPH work order, and various other operating savings. The Mayor's mid-year savings target was \$0.35 million for this department. The department has a projected revenue shortfall of \$2.00 million related to the Old Republic case, for a net shortfall of \$1.70 million. The department is working with the Mayor's Office to develop a plan to bridge its revenue shortfall.
- (4) The **Emergency Communications** is projected to be within its appropriation budget by year-end. No planned expenditure savings was anticipated in the Mayor's mid-year savings plan.
- (5) The **Fire Department** is projected to have a surplus of \$3.10 million. This projected savings is due to lower training, professional services and other non-labor expenditure costs, along with salary savings and overtime cost management. However, the department has a projected revenue shortfall of \$1.20 million related to false alarm fees and property sales, for a net surplus of \$1.90 million. The department would still need to realize an additional \$1.20 million in savings to make up for its revenue shortfall in order to meet the Mayor's \$3.10 million mid-year savings target.
- (6) The **Juvenile Probation** department is projected to be within its appropriation budget by year-end, but not meeting the full \$0.55 million assumed in the Mayor's mid-year savings plan. Coming in at budget on the expenditure side is predicated upon an aggressive cost management plan, including 4 layoffs, overtime cost management, workers' compensation savings, lease purchase savings and work order savings. Absent this plan, the department would have a \$1.17 million expenditure shortfall by fiscal year-end. To date, three of four layoffs have occurred (effective January 15). This department is projected to have an additional \$0.20 million in revenues by fiscal year-end. This department is planning to request a release of reserves in February.

- (7) The **Public Defender** is projected to have \$0.01 million in savings due to hiring delays. However, the department has a projected revenue shortfall of \$0.39 million, for a net shortfall of \$0.38 million. The department is working with the Mayor's Office to develop a plan to bridge its revenue shortfall and to meet the Mayor's \$0.20 million mid-year savings target.
- (8) The **Police** department is projected to end the year within its appropriation budget pending adherence to its departmental savings plan. Absent this departmental savings plan, a \$2.94 million shortfall is projected due to higher personnel costs. These higher costs are principally related to uniform salaries and overtime. Savings to cover the projected cost overruns include workers' compensation savings as well as charging grant programs for eligible costs.
- (9) The **Sheriff** is projected to have a \$0.40 million savings related to the projected savings from the jail food program. However, the department has a projected revenue shortfall of \$1.50 million, for a net shortfall of \$1.10 million. The Mayor's mid-year savings target was \$0.40 million for the Department, so Sheriff staff continues to work with the Mayor's Office to develop a plan to bridge the revenue shortfall.

Public Works, Transportation & Neighborhood Development Departments

- (10) The **Board of Appeals** is projected to end the year within its appropriation budget. However, the department has a projected revenue shortfall of \$0.08 million due to weakness in surcharge fees.
- (11) The **Economic and Workforce Development** is projected to end the year with \$0.95 million in savings related \$0.40 million from the suspension of the historic resource survey and \$0.55 million from the suspension/reduction of various economic development proposals and small business grants. The Mayor's mid-year savings target is \$0.95 million. While the department has a number of unfilled positions, these associated savings are offset by lower work order recoveries since the department cannot bill customer departments for staff they have not hired.
- (12) The **Municipal Transportation Agency's** remaining \$0.05 million of prior-year carryforward budget is projected to be expended by fiscal year-end. All new appropriation authority is consolidated in the MTA fund as designated by the voters.
- (13) The **Public Utilities Commission's** budget is projected to be fully expended and on budget by fiscal year-end. While most PUC appropriation is budgeted in their enterprise funds, the Earl P. Mills facility costs are shown here and are covered by the General Fund.
- (14) The **Department of Public Works** is projected to end the year with a savings of \$1.53 million. This is due to savings in salaries and benefits, lower asphalt plant costs (with offsetting revenues), savings in services of other departments, and higher recoveries from the Department of the Environment, less a partially offsetting shortfall in the Gas Tax Fund. The department also has a projected revenue shortfall of \$1.22 million, for a net surplus of \$0.31 million. The Mayor's mid-year savings target is \$1.00 million.

- (15) The **Telecommunication & Information Systems Department** is projected to end the year \$0.06 million under budget by year-end for its General Fund operations due to reductions in television staffing costs (2 layoffs, effective January 15). The Mayor's mid-year savings target is \$0.18 million.

Human Welfare & Neighborhood Development Departments

- (16) **Children, Youth & Their Families** is projected to end the year with \$0.58 million in expenditure savings related to the closing out of unexpended prior-year grant program balances. The Mayor's mid-year savings target was \$0.60 million for this department by fiscal year-end.
- (17) The **Human Services Agency** (including both Human Services and Aging & Adult Services) is projected to end the year with a \$1.00 million expenditure savings due to lower Stage II Childcare expenses, which is matched by lower revenues in the same program. Additionally, \$2.9 M of Aid savings related to the Human Services Care Fund is assumed to be automatically re-appropriated as authorized under Administrative Code Section 10.100-77 for care services. Other Human Service revenues are coming in better than budget by \$3.70 million overall. (See page 17, Note 18, in the revenue section, for further details.) The department also has a pending supplemental in the Mayor's Office for \$3.00 million for the new CALWIN system implementation. The net result for both revenues and expenditures is \$4.70 million in net savings. However, if the \$3.00 million supplemental is approved, a net savings of \$1.70 million is projected. The Mayor's mid-year savings target is \$1.65 million for this department.
- (18) The **Environment** department is projected to be on budget by year-end. The department has reduced recycling expenditures by \$0.40 million in the Impound Account and transferred these savings (through a work order increase) to Public Works. This has the effect of increasing work order recoveries for Public Works and therefore creating a \$0.40 million in savings in the General Fund. See also Public Works, Note 14 above.
- (19) The **Human Rights Commission** is projected to end the year \$0.10 million above budget due to projected salaries and fringe costs being over budget.
- (20) The **Commission on the Status of Women** is projected to end the year with \$0.11 million under budget due to savings in salaries and reductions in non-personal services, grants and work orders.

Public Health Departments

(21) The **Department of Public Health** is projected to end the year with an appropriation surplus of \$0.20 million in the General Fund, along with appropriation shortfalls of \$7.52 million at the General Hospital and \$0.50 million at Laguna Honda. After factoring in revenue surpluses of \$1.45 million in the General Fund and \$12.55 million at the General Hospital, less a partially offsetting \$1.53 million shortfall at Laguna Honda, the net result for the department is a projected \$4.66 million surplus. This is slightly better than the Mayor’s \$3.50 million mid-year savings target for this department. Our projection assumes that the department will request and receive a supplemental appropriation by year-end, which appropriates surplus revenue to cover related cost overruns at the hospitals.

<u>PUBLIC HEALTH</u>	<u>SOURCES</u>			<u>USES</u>			<u>NET</u>
	Revised Budget	Projected	Surplus/ (Shortfall)	Revised Budget	Projected	Savings / (Shortfall)	Department Savings / (Shortfall)
US\$ Millions							
S.F. General Hospital [^]	\$ 543.45	\$ 556.01	\$ 12.55	\$ 543.45	\$ 550.97	\$ (7.52)	\$ 5.04
Laguna Honda Hospital	154.27	152.74	(1.53)	154.27	154.76	(0.50)	(2.02)
Primary Care	42.19	44.23	2.04	42.19	42.20	(0.01)	2.03
Health at Home	7.67	7.48	(0.19)	7.67	7.24	0.43	0.24
Jail Health	21.69	21.59	(0.10)	21.69	22.17	(0.48)	(0.58)
Public Health	90.52	90.22	(0.30)	90.52	89.62	0.90	0.60
Mental Health	172.01	172.01	-	172.01	173.01	(1.00)	(1.00)
Substance Abuse	65.11	65.11	-	65.11	64.76	0.35	0.35
Subtotal - General Fund	\$ 399.18	\$ 400.63	\$ 1.45	\$ 399.18	\$ 398.98	\$ 0.20	\$ 1.65
Department Total - All Funds [^]	\$ 1,096.90	\$ 1,109.38	\$ 12.48	\$ 1,096.90	\$ 1,104.71	\$ (7.82)	\$ 4.66

[^] Includes SB 855 - IGT appropriation at budget. Any variance from budget is offsetting for both sources and uses.

Culture & Recreation Departments

(22) The **Asian Art Museum** is projected to end the year with a savings of \$0.10 million. This is due to savings in salaries, as well as facilities maintenance.

(23) The **Fine Arts Museum** is projected to end the year with a savings of \$0.10 million. This is primarily due to savings in salaries and benefits, as well as work order savings.

(24) The **Law Library** is projected to end the year with a savings of \$0.06 million. This is due to rent credits provided by the War Memorial as outlined in the Mayor’s \$0.08 million mid-year savings plan for which \$0.06 was assumed to benefit the Law Library and the remaining \$0.02 million the Mayor’s Office on Disability.

(25) **Recreation and Park** is projected to end the year with a savings of \$1.96 million primarily related to salary and benefits costs being charged to the Open Space fund (which is projected to have \$2.00 million in debt service savings due to the delay in the revenue bond program) along with the planned savings related to closing recreation centers one day a week. The department has a projected revenue shortfall of \$2.21 million, for a net shortfall of \$0.25 million. This compares to the Mayor’s \$2.53 million mid-year savings target.

General Administration & Finance Departments

- (26) The **Administration Services** department is projected to end the year with a savings of \$0.44 million in personnel and projects. The Mayor's mid-year savings target is \$0.60 million.
- (27) The **Assessor/Recorder** is projected to end the year with a savings of \$0.20 million in salaries and fringes more than enough to offset deficits in telephone services and workers' compensation. The Mayor's mid-year savings target is \$0.20 million.
- (28) The **Board of Supervisors** is projected to end the year within appropriation. The Mayor's mid-year savings plan did not assume any savings by the Board.
- (29) The **City Attorney** intends to end the year within appropriation assuming it can bill and recover for all provided service. After reviewing the attorney's billings, outstanding accounts receivable and projected uncollectible accounts, the department appears likely to end the year on budget if the level of litigation costs are held in check. However, the department has a projected revenue shortfall of \$2.00 million in delayed penalty collections, as the recently reported Old Republic judgment is likely to be appealed.
- (30) The **Controller** is projected to end the year with a surplus of \$0.20 million in salary savings. This is commensurate with the Mayor's mid-year savings plan.
- (31) The **City Planning** department is projected to have a savings of \$0.41 million in salaries and fringes.
- (32) **Ethics Commission** is projected to end the year \$0.09 million over budget due to higher public campaign funding costs. A supplemental is pending the Board.
- (33) The **Human Resources** department is projected to be \$0.40 million over budget by year-end due to labor relations costs. The Department is working with the Mayor's Office and other customer departments to determine what increased work order recovery options are available to cover the projected shortfall. A supplemental appropriation appears likely. The Mayor's mid-year savings target was to meet budget by fiscal year-end.
- (34) The **Mayor** is projected to have \$0.28 million in savings due to salary savings and project close-outs by fiscal year-end. This is consistent with the Mayor's mid-year savings target.
- (35) The **Department of Elections** is projected to end the year \$0.54 million over budget in salaries and fringes after reduction in other non-personal services. A supplemental request is likely from this department.
- (36) The **Treasurer/Tax Collector** is projected to have a savings of \$550,000 in salaries and fringes. This compares to the \$600,000 assumed in the Mayor's mid-year savings target.
- (37) **General City Responsibility** is projected to have a savings of \$1.07 million due to project closeouts assumed in the Mayor's mid-year savings plan, less some small department retiree health subsidy costs.

Transfers Out

- (38) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to MUNI** is projected to be \$0.75 million lower than budgeted due to the change in projected discretionary revenue, including the shortfall from failure of the two tax initiatives (Propositions J & K).
- (39) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to Parking & Traffic** is projected to be \$0.18 million lower than budgeted due to the change in projected discretionary revenue, including the shortfall from failure of the two tax initiatives (Propositions J & K).
- (40) Pursuant to the Baseline Requirements, outlined on page 5, the **Transfer Out – Contribution to the Library** is projected to be \$0.20 million lower than budgeted due to the change in projected discretionary revenue, including the shortfall from failure of the two tax initiatives (Propositions J & K) and State Library Funding.
- (41) The **Transfer Out – Contribution to SFGH** is projected to be \$5.04 million less than budget due to a net surplus in the San Francisco General Hospital's budget. This results in a net General Fund savings. See also Note #21 above – Department of Public Health.
- (42) The **Transfer Out – Contribution to LHH** is projected to be \$2.02 million more than budget due to a net deficit in Laguna Honda Hospital's budget. This results in a net General Fund cost. See also Note #21 above – Department of Public Health.

Workers' Compensation Summary

Workers' compensation reforms are starting to take hold. Overall, the City's FY 2004-05 workers' compensation costs are projected to be just slightly lower than FY 2003-04 actuals and 7.9 percent less than budget. General Fund Supported departments are doing even better than the citywide average (which includes MUNI). These declines are explained by lower numbers of reported claims as well as significant reductions in medical costs. New claims are responsible for about 20 percent of costs, compared to existing claims, which constitute the remainder, about 80 percent. This cost breakdown speaks to the importance of medical cost management as well as aggressive return to work programs – two areas the Workers Compensation Council and Human Resources Workers' Compensation Division have focused their attention.

Savings this year is a stark contrast to the 14.2 percent growth in FY 2003-04, 4.3 percent growth in FY 2002-03 and 6.2 percent growth in FY 2001-02. Previous cost increases were mainly due to medical cost inflation as well as increasing benefit payments as mandated by the State. The estimates are based on six-month actuals as well as prior-year spending patterns.

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

<u>Fund/Service Area</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>		
	<u>Actual</u>	<u>Original Budget</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>
<u>GENERAL FUND</u>				
			<i>sort order</i>	
Police Department	\$8,979	\$11,223	\$8,466	2,757
Fire Department	7,965	8,671	7,678	993
Recreation & Park	2,763	2,922	2,618	304
Sheriff	2,120	2,244	2,147	97
Human Services Agency (DSS & AGE)	2,421	1,876	2,169	(293)
Public Health	2,007	1,930	1,810	120
Juvenile	1,416	1,518	1,383	135
Assessor/Recorder	258	242	273	(31)
City Attorney	199	154	210	(56)
Treasurer/Tax Collector	165	147	184	(37)
Fine Arts Museum	67	168	93	75
Asian Art Museum	26	14	28	(14)
Economic & Workforce Development	-	3	4	(1)
Human Resources w/ All Other Small Depts.	2,101	1,838	1,897	(59)
Subtotal General Fund (GF)	30,487	32,950	28,959	3,991
<u>GENERAL FUND SUBSIDIZED</u>				
Community Health				
SF General Hospital	4,974	\$6,330	\$5,279	\$1,051
Laguna Honda Hospital	3,327	3,592	3,167	426
Subtotal General Fund Subsidized	8,301	9,922	8,446	1,477
Subtotal General Fund & Subsidized	\$38,788	\$42,872	\$37,405	\$5,467
% Change from FY 2003-04 Actuals			-3.6%	
% Change from FY 2004-05 Original Budget			-12.8%	
<u>Fund/Service Area</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>		
	<u>Actual</u>	<u>Original Budget</u>	<u>Current Projection</u>	<u>Surplus/ (Deficit)</u>
<u>OTHER FUNDS</u>				
			<i>sort order</i>	
MTA - MUNI and Parking & Traffic	\$23,303	\$23,420	\$23,094	\$326
Public Works	2,952	3,094	3,437	(344)
Public Utilities Commission	3,290	4,238	3,424	814
Airport Commission	1,695	1,799	1,974	(175)
Public Library	701	764	919	(155)
Police Department (Airport)	731	570	537	33
War Memorial	359	364	404	(41)
Telecommunications & Info Svcs	293	375	330	45
Sheriff**	226	213	239	(25)
Administration Services	159	143	203	(60)
Child Support Services	105	104	121	(18)
Retirement System	52	49	59	(10)
Other Small Departments	1,194	1,535	1,083	452
Subtotal Non-General Fund	35,059	36,667	35,823	844
GRAND TOTAL ***	\$73,847	\$79,539	\$73,228	\$6,311
% Change from FY 2003-04 Actuals			-0.8%	
% Change from FY 2004-05 Original Budget			-7.9%	

* The Municipal Railway contracts out its own Workers Compensation program with a third party administrator.

** FY 2003-04 Actuals are based on a General Fund / Non-General Fund ratio determined by the department.

*** Trial Court actuals and budget are excluded from all years.

Energy – Natural Gas

While higher natural gas prices helped on the sources or revenue-side of the budget, it also has resulted in higher heating costs for a number of City facilities. 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 2004-05, overall General Fund Supported departments are projected to be \$0.65 million over budgeted energy levels principally due to higher natural gas costs. This compares to \$3.22 million in additional Utility User Tax and Franchise Fee revenues related to higher commodity prices, for a net of \$2.57 million.

IV. OTHER FUND HIGHLIGHTS

While this report has traditionally focused on the General Fund, we have summarized for policy makers key issues in other funds in the table below.

Fund	Sources Higher / (Lower)	Uses Savings / (Shortfall)	Net Surplus / (Shortfall)	Description
Governmental				
911 Fund	\$0.48 M	\$0.00 M	\$0.48 M	Available fund balance was \$0.48 M more than assumed in the budget. We are still evaluating the impact of the 911 fee increase (effective November 2004), as any surplus could be used to cover eligible costs budgeted in the General Fund.
Convention Facilities Fund (incl. Low-Income Housing, Yerba Buena)	(\$3.17 M)	\$0.00M	(\$3.17 M)	Overall, available fund balance was \$3.17 M less than assumed in the budget. This shortfall is related to Low-Income Housing commitments being made at unrealized, prior year budget allocation levels. As for convention operations, concession and service charge revenue may be as much as \$2.0 to \$2.5 M better than budget. We are still working with the department to confirm this surplus. The Mayor’s Office of Housing is currently working with the Mayor’s Budget Office to bridge their fund balance shortfall.

Fund	Sources Higher / (Lower)	Uses Savings / (Shortfall)	Net Surplus / (Shortfall)	Description
Children's Fund	\$0.79 M	\$0.00 M	\$0.79 M	Higher property tax revenues are projected to result in a net surplus of \$0.79 million by fiscal year-end.
Gas Tax Fund	(\$0.62 M)	\$0.00 M	(\$0.62 M)	Available fund balance was \$0.62 M less than assumed in the budget, resulting in a net shortfall of like amount. Public Works is currently working with the Mayor's Office to determine which projects will be delayed.
Golf Fund	(\$0.36 M)	\$0.00 M	(\$0.36 M)	Weakness of \$0.36 M in golf fees, at Lincoln and Sharp particularly, is projected to result in net shortfall of like amount by fiscal year-end.
Library Fund	\$0.66 M	\$0.26 M	\$0.92 M	Higher property tax revenues and expenditure savings projections result in a net surplus of \$0.92 M by fiscal year-end.
Neighborhood Beautification Fund	(\$0.33 M)	\$0.33 M	\$0.00 M	Available fund balance was \$0.04 M less than assumed in the budget, and Payroll Taxes are projected to be \$0.29 M less than budget. A \$0.25 M reserve remains in force on expenditures to mitigate this projected revenue weakness. In order to end the year in balance, Public Works did not authorize any new grant awards for FY 2004-05.
Open Space Fund	\$0.66 M	\$0.00 M	\$0.66 M	This fund is benefiting from higher property tax revenues. On the expenditure side, \$2.00 M in debt service savings is being offset by a like amount of General Fund budgeted costs being charged to Open Space. This savings is discussed above in Rec & Park, Note 25 on page 24). The result is a projected net surplus of \$0.66 M by fiscal year-end.

Fund	Sources Higher / (Lower)	Uses Savings / (Shortfall)	Net Surplus / (Shortfall)	Description
Enterprises				
Airport Operations Fund	\$0.73 M	\$18.18 M	\$18.91 M	Increased air travel has resulted in slightly better non-aviation revenues (including parking & concessions). This is coupled with \$18.18 M in projected expenditure savings due largely to debt service savings and personnel cost savings, which in turns results in a projected net operating surplus of \$18.91 M for fiscal year-end.
MTA, MUNI Fund	(\$6.10 M)	(\$4.70 M)	(\$10.80 m)	Revenue weakness (mainly Parking Fines, Fares and the failure of Propositions J & K), absence of budgeted service reductions, platform overruns and higher fuel costs all contributed to MUNI's projected \$24.1 M shortfall for FY 2004-05, which is partially offset by other savings and revenue surplus for a net budgetary shortfall of \$10.80 M for fiscal year-end. They have assumed increased use of one-time lease financing funding (often referred to as Breda). A supplemental appropriation request is anticipated.
MTA, Parking &Traffic Fund	(\$3.19 M)	\$3.19 M	\$0.00 M	Revenues are projected to be \$3.19 M lower than budget due mainly to lower garage and towing revenues, a lower baseline transfer due to the failure of Prop J & K, and lower transfers from MUNI. This is being offset by expenditure reductions, for a net balanced year-end projection.
Port Fund	\$2.50 M	\$0.96 M	\$3.46 M	Revenues are better in percentage rent and parking categories. Additionally approximately \$0.96 million of expenditure savings is projected, for a net surplus of \$3.46 M by fiscal year-end.

Fund	Sources Higher / (Lower)	Uses Savings / (Shortfall)	Net Surplus / (Shortfall)	Description
Enterprises (continued)				
PUC – Clean Water Fund	\$0.00 M	\$0.78 M	\$0.78 M	Clean Water is projected to end the year with approximately \$0.78 M in salary savings.
PUC – Hetch Hetchy Fund	(\$5.52 M)	\$0.00 M	(\$5.52 M)	Revenues are projected to be \$5.52 M less than budget primarily due to: 1) a \$1 M credit to Moscone for refund of higher enterprise rates charged in the prior year; 2) a \$3 M reduction related to lower PG&E rates [Hetchy's billing rate is linked]; and 3) \$1 M in lower revenues from Turlock Irrigation. On the uses side, we are still reviewing power purchase assumptions with the department. At this time, the projected net budgetary shortfall is \$5.52 M by fiscal year-end.
PUC – Water Fund	\$0.00 M	(\$2.42 M)	(\$2.42 M)	Higher personnel costs are projected to result in a net budgetary shortfall of \$2.42 M by fiscal year-end. We anticipate the PUC will request a supplemental appropriation in the second half of the fiscal year for Water personnel cost overruns.
Internal Services				
Telecomm. & Information Systems Fund	\$0.00 M	(\$0.68 M)	(\$0.68 M)	Overall, the fund is projected to under-recover indirect costs in the current fiscal year by approximately \$0.68 M, which must be built into the subsequent year rates.

V. CONCLUSION

Funds available are sufficient to carry the City through the remainder of the fiscal year and result in a projected year-end General Fund balance of \$71.58 million. While we have outlined the projected impact of key uncertainties and our assumptions, it is also critical that, at a minimum, a gradual economic recovery continues and that departments adhere to current savings plans.

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,

ED HARRINGTON
Controller

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

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

**APPENDIX A: Status of Supplemental Appropriations
FY 2004-05
As of January 31, 2005**

<u>GENERAL FUND SUPPLEMENTALS</u>	<u>APPROVED CHANGES</u>	<u>PENDING / POTENTIAL CHANGES</u>
<u>Approved Supplementals</u>		
DSS - Substitution of Parking Tax Revenue for GF Support	\$ 10,710,000	
DSS - Fund CalWorks, IHSS and MediCal Programs	5,988,448	
REG - Ethnic Community Outreach (used General Reserve)*	75,000 *	
Total Changes Approved	<u>\$ 16,773,448</u>	
* Total Changes Approved, Where General Reserve Was Used	<u>\$ 75,000</u>	
<u>Supplementals Pending at the Board</u>		
DPH - Re-appropriate prior ECN fund to Public Health Nursing		\$ 168,621
ECN - De-appropriate Funds to Workforce & Economic Development		(168,621)
ETH - Public Financing of All Eligible ETH Commission Candidates (use of General Reserve) ** (expected to be reduced to \$88,000 by the Mayor's Office)		423,750 **
Total Supplementals Pending at the Board - General Fund Only		<u>\$ 423,750</u>
<u>Additional Anticipated General Fund Supported Supplementals</u>		
DPW - Re-appropriate Earthquake Safety Bond funds and appropriate interest from Fire Bond		\$ 8,250,201
DPH - SF General & Laguna Honda Hospitals (assumed use of higher revenues to offset higher costs)		\$ 8,014,000
DSS - CalWIN System Implementation (assumed use of surplus DSS revenue) **		\$ 3,000,000 **
REG - Elections, projected personnel over-expenditure (use of General Reserve)		\$ 538,527
CRT - Trial Courts, Indigent Defense (use of General Reserve)		\$ 336,877
REC - Reappropriation of Bond Funds Among Capital Projects		TBD
Total Additional Anticipated Supplementals - General Fund Only		<u>\$ 20,139,605</u>

Notes: * Approved and included the use of the General Reserve.

** Pending or anticipated and either use the General Reserve and/or otherwise reduce year-end balance.

**APPENDIX A: Status of Supplemental Appropriations
 FY 2004-05
 As of January 31, 2005**

<u>NON-GENERAL FUND SUPPLEMENTALS</u>	<u>APPROVED CHANGES</u>	<u>PENDING / POTENTIAL CHANGES</u>
Approved Supplementals		
PRT - Illinois Street Bridge Project	\$ 9,998,139	
PRT - Pier 35 Security Enhancement Project	980,849	
PUC - Electrical Reliability Power Project	2,666,667	
REC - 2000 Academy of Science Bond - Capital Improvement	8,075,000	
REC - GO & Lease Revenue Bonds, with Project Reappropriation	98,588,973	
Total Changes Approved - Non General Fund Only	<u>\$ 120,309,628</u>	
Supplementals Pending at the Board		
MTA - Purchase and Modify 45 AC Transit Coaches		\$ 4,100,000
DBI - Surplus revenue to fund additional positions and equipment		3,043,920
Supplementals Pending in the Mayor's Office		
PUC - Funding for SFPUC's Capital Improvement Program		23,687,000
Total Supplementals Pending - Non-General Fund Only		<u>\$ 30,830,920</u>
Additional Anticipated Supplementals		
PUC - Water Department		TBD
MTA - Municipal Railway		TBD
Total Additional Anticipated Supplementals - Non General Fund Only		<u>\$ -</u>

**APPENDIX B: Status of Board Reserves
As of January 31, 2005**

GENERAL FUND RESERVES	BEGINNING BALANCE	RELEASED	REMAINING BALANCE
Children Youth & Families			
Children's Emergency Services (pending expenditure plan)	\$ 1,752,000	\$ 1,752,000	\$ -
Controller			
Salaries - pending City Services Auditor hiring plan	263,509	-	263,509
Department of Public Health			
Salaries for 6 months of administrative positions	331,363	331,363	-
Department of Human Services			
Senior Services Programs - pending expenditure plan	750,000	750,000	-
Economic & Workforce Development			
Econ Development Proj. - 7 months of funding	823,367	-	823,367
Historic Preservation - pending expenditure plan	400,000	-	400,000
Environment			
Rents & Leases - pending new lease information	131,363	-	131,363
Fire			
Personnel Costs - pending hiring plan	1,500,000	-	1,500,000
General Fund			
Justice Tracking Info System (JUSTIS) Project	1,470,058	-	1,470,058
Human Resources			
Salaries for six months -- HR Director / Deputy Director	167,960	167,960	-
Juvenile Probation			
Five months of Administration	2,381,927	-	2,381,927
Salaries for Position Add-Backs	172,676	-	172,676
Mayor			
Violence Prevention for High Risk Areas Project	1,000,000	500,000	500,000
Recreation & Park			
Naming Rights Revenue - personnel costs and project appropriation	3,000,000	-	3,000,000
Telecommunication & Information Services			
Salaries for 9 months of Deputy Director III	116,462	-	116,462
TOTAL GENERAL FUND RESERVES	\$ 14,260,685	\$ 3,501,323	\$ 10,759,362

APPENDIX B: Status of Board Reserves (continued)
As of January 31, 2005

NON-GENERAL FUND RESERVES	BEGINNING BALANCE	CHANGES	REMAINING BALANCE
Building Inspection			
Equipment - Permit Tracking System	\$ 509,250	\$ -	\$ 509,250
Environment			
Rents & Leases - pending new lease information	106,500	-	106,500
Library			
Radio Frequency Identification Project	300,000	-	300,000
Salaries for 9 months of Deputy Librarian & Librarian IV	200,695	-	200,695
Port Commission			
Salaries for 6 months of Chief Stationary Engineer & Deputy Director	107,674	-	107,674
Public Health			
Salaries for 6 months of administrative positions	190,281	190,281	-
Public Works			
Youth Employment & Environmental Services Project	300,000	300,000	-
Neighborhood Beautification Fund	225,000	-	225,000
PUC - Clean Water			
Personnel Costs to CWP regarding sewer service rates	7,000,000	-	7,000,000
Flood Mitigation Project - pending project expenditure plan	1,971,000	1,971,000	-
Youth Employment & Environmental Services Project	600,000	600,000	-
Broadband Infrastructure	72,000	-	72,000
PUC - Hetch Hetchy			
Solar Power Project	1,520,000	-	1,520,000
Youth Employment & Environmental Services Project	274,000	143,581	130,419
Broadband Infrastructure	33,000	-	33,000
PG&E Electricity Reliability Program - pending 1 plant closures...	1	-	1
PUC - Water Department			
Youth Employment & Environmental Services Project	1,626,000	1,626,000	-
Broadband Infrastructure	195,000	-	195,000
Recreation & Park			
Capital Projects funded through Revenue Bonds	2,000,000	2,000,000	-
TOTAL NON-GENERAL FUND RESERVES	\$ 17,230,401	\$ 6,830,862	\$ 10,399,539
TOTAL BOARD RESERVES	\$ 31,491,086	\$ 10,332,185	\$ 21,158,901